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Report: Arkansas Payday Lenders Escape Regulation

By The Associated Press

7/16/2008 11:30:01 AM

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LITTLE ROCK (AP) _ A third of the payday lenders that Attorney General Dustin McDaniel ordered to shut down or face the possibility of lawsuits have remained open and restructured their businesses to avoid state regulation, an advocacy group said in a report released Wednesday.

The report by Arkansans Against Abusive Payday Lending shows that 55 of the 156 payday lenders McDaniel targeted with cease-and-desist letters earlier this year are still open.

The report says the lenders "have developed new business models in an attempt to avoid even the minimal regulations of the Check Cashers Act and, more significantly, the recent crackdown by the Attorney General."

McDaniel had told the payday lenders they would face lawsuits if they did not shut down by April 4, and 101 lenders closed in response to the cease-and-desist letters. The attorney general in May filed lawsuits against 20 payday lenders that he said were violating the state's constitution by charging high-interest loans.

The group said that the total number of payday lenders operating in Arkansas has dropped from 237 in March to 136 this month. McDaniel's office has said he focused on companies that offer "deferred presentment loans" where the businesses not only exchange cash for a check but also agree to delay the depositing of the check for a specific time.

In payday lending, typically someone wanting a loan goes to a check cashing company and writes a check for a certain amount. The company then agrees



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not to cash the check for a specific time - often waiting until the check-writer's payday, when money can be deposited to cover the amount of the check.

Through a payday loan in Arkansas, a customer writing a check for \$400, for example, typically would receive \$350. The lender would keep the customer's check for about two weeks without cashing it, thereby allowing the customer time to buy back the check.

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The \$50 charge on the \$350 loan for 14 days is the equivalent of interest at a rate of 371 percent a year, well above Arkansas' 17 percent limit set out in the state's constitution.

The advocacy group said that the majority of payday lenders targeted by McDaniel but still open are now operating what they call a "money order" model where payday loans are offered at an interest rate of 8.98 percent annually. The loan is issued in a corporate check or money order. The borrower is asked to endorse the corporate check and it is cashed for an additional fee of 10 percent of the check's amount.

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