

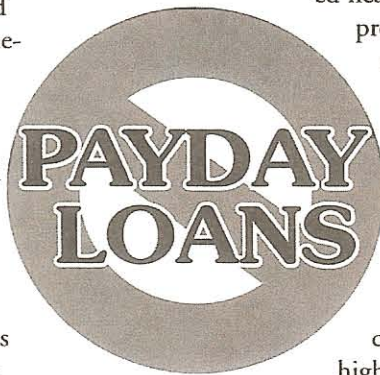
# SGFF Works with Coalition to Stop Abusive Payday Lending

How much is too much for Arkansas consumers to pay in interest on a loan? According to the Arkansas Constitution, the limit is 17 percent a year.

Yet customers of so-called payday lenders are routinely charged 300 percent, 400 percent, 500 percent, 600 percent, 700 percent, 800 percent and even higher in annual interest—thanks to a 1999 law designed to circumvent the Arkansas Constitution’s protections against high-rate interest loans.

Southern Good Faith Fund is a member of Arkansans Against Abusive Payday Lending (AAAPL), a coalition working to remove abusive payday lending from our state. The coalition’s message has been resonating with the public, and state regulators have taken some steps toward better regulation and oversight. But much more remains to be done.

Payday loans are small loans, usually \$100 to \$500, made for an average of 14 days. A 14-day payday loan, if made



Center for Responsible Lending, the average payday borrower pays \$800 to borrow \$325. Research shows that payday lenders are disproportionately located near military bases and disproportionately target customers who are minority or low-income.

The Arkansas Legislature in its upcoming session that convenes January 8, 2007, will have an opportunity to take real steps to protect Arkansas consumers from these high-interest loans.

AAAPL believes that no payday lender should be allowed to make consumer loans with interest rates of more than 17 percent annually. Payday lenders in Arkansas shouldn’t be allowed to partner with out-of-state banks or other companies to evade the 17 percent limit. These

payday lenders also shouldn’t be allowed to disguise their payday loans as other types of transactions to evade the 17 percent limit.

In 1885, President Grover Cleveland refused to support a bill because he believed it was unconstitutional. Timothy J. Campbell, a Congressman and leader of New York’s infamous Tammany Hall political machine, reportedly told President Cleveland: "What's the Constitution between friends?"

As 2007 approaches, Arkansans deserve to have their state’s Constitution taken much more seriously than that. Arkansas is the only state in the nation with a constitutional prohibition against high interest rates on loans. Arkansas consumers should be charged no more than 17 percent in annual interest for payday loans—with no ifs, ands, or buts.

## Payday Loans Don't Pay Various types of credit and the cost

| Type of Credit   | Annual Interest Rate | Borrowing Period | Cost of Borrowing \$1,000 for one year |
|------------------|----------------------|------------------|--|
| Home Mortgage    | 5.43%                | 30 years         | \$56                                   |
| Home Equity Loan | 6.98%                | 5 years          | \$72                                   |
| Car Loan         | 6.24%                | 4 years          | \$64                                   |
| Personal Loan    | 12.51%               | 5 years          | \$133                                  |
| Credit Card      | 18.00%               | 3 years          | \$196                                  |
| "Payday" Loan    | <b>521.42%</b>       | 14 days          | \$5,200                                |

Source: United States Department of Agriculture, University of Arkansas, and County Governments Cooperating  
For more information go to <http://www.stoppaydaypredators.org>

**SGFF is a member of the coalition that is working to stop predatory payday lenders.**

in compliance with the Check Cashers Act of 1999, costs Arkansas borrowers 372 percent to 869 percent annually in interest. Article 19, Section 13 of the Arkansas Constitution limits interest on consumer loans to a maximum of 17 percent annually—and provides that any loan with a higher interest rate “shall be void” for both principal and interest.

How much do these high-interest rates cost payday borrowers? According to the