SUPREME COURT OF ALABAMA

Alternative Financial Solutions, LLC v. Colburn; Money Service Centers, LLC v. Harris

821 So. 2d 981 (Ala. 2001) · No. 1001285 and 1001493 · Decided November 16, 2001

SUMMARY

The Alabama Supreme Court affirmed orders denying motions to compel arbitration in consolidated payday-loan cases. The court held that the lenders failed to establish that the transactions substantially affected interstate commerce, as required to invoke the Federal Arbitration Act. The court therefore did not reach the parties' other arguments concerning the legality of the transactions or the arbitrability of those issues.

CASE DETAILS

COURT	Supreme Court of Alabama
WRITING FOR THE COURT	Moore, Chief Justice; Houston, Justice; Brown, Justice; Johnstone, Justice; Harwood, Justice; Woodall, Justice; See, Justice; Lyons, Justice
JURISDICTION	Alabama
DECIDED	November 16, 2001
DOCKET	1001285 and 1001493
DISPOSITION	affirmed
PROCEDURAL POSTURE	Consolidated appeals from orders of the Tuscaloosa Circuit Court and Madison Circuit Court denying motions to compel arbitration in payday-loan disputes.
STANDARD OF REVIEW	The party seeking to compel arbitration bears the initial burden of proving the existence of a written arbitration agreement in a transaction substantially affecting interstate commerce. If that burden is not met, the motion to compel must be denied.
PRECEDENTIAL VALUE	Published Alabama Supreme Court opinion; precedential
PARTIES	Alternative Financial Solutions, LLC, Money Service Centers, LLC v. Luna Clifton Colburn, Jr., Colleen C. Harris

TOPICS

arbitration consumer protection contracts appellate procedure civil procedure

PRACTICE AREAS

arbitration contracts consumer protection civil procedure appellate procedure

QUESTIONS PRESENTED

1. Whether the defendants established that the payday-loan transactions substantially affected interstate commerce so as to trigger application of the Federal Arbitration Act.
2. Whether the trial courts properly denied the defendants' motions to compel arbitration.

HOLDINGS

1. The defendants failed to prove that the payday-loan transactions substantially affected interstate commerce. The transactions were primarily intrastate, and the evidence concerning out-of-state ownership, Internet transmission, loan funds, and the mobility of money was insufficient to establish a substantial effect on interstate commerce.

KEY QUOTATIONS

> *"At a trial on the issue whether a dispute is subject to arbitration, the party moving for arbitration has the burden of proving the existence of a contract containing an arbitration clause, in a transaction that substantially affects interstate commerce."* (983)

> *"Based on the record before us, we conclude that the payday-loan transactions did not substantially affect interstate commerce."* (986)

FACTUAL BACKGROUND

Colburn and Harris, Alabama residents, entered into separate payday-loan transactions at local businesses operated by Alternative Financial Solutions, LLC, and Money Service Centers, LLC. They completed loan applications, wrote checks on local banks, received small cash advances of less than $300, and agreed to repay the advances at the local businesses. The defendants relied primarily on the companies' out-of-state organization and ownership and on the transmission of loan-processing information over the Internet to establish an effect on interstate commerce.

PROCEDURAL HISTORY

Colburn sued Alternative Financial Solutions, LLC, in the Tuscaloosa Circuit Court, and Harris sued Money Service Centers, LLC, in the Madison Circuit Court, alleging that their payday-loan transactions violated the Alabama Small Loan Act and were illegal and unenforceable. The defendants moved to compel arbitration under arbitration provisions in the loan contracts. Both trial courts denied the motions, reasoning that the plaintiffs had presented substantial evidence that the contracts were illegal. The defendants appealed, and the appeals were consolidated.

DISPOSITION

affirmed

CASES CITED

- Sisters of the Visitation v. Cochran Plastering Co., 775 So. 2d 759 (Ala. 2000)
- Alabama Catalog Sales v. Harris, 794 So. 2d 312 (Ala. 2000)
- Prima Paint Corp. v. Flood & Conklin Manufacturing Co., 388 U.S. 395 (1967)
- Brown v. Dewitt, Inc., 808 So. 2d 11 (Ala. 2001)
- Ex parte Greenstreet, Inc., 806 So. 2d 1203 (Ala. 2001)
- American General Finance, Inc. v. Branch, 793 So. 2d 738 (Ala. 2000)