



HB 2161 is NOT Reform

Any “Reform” that Allows 400% Interest Rates is No Reform At All!

None of the industry’s proposed “reforms” in HB2161 change the product. None stop the Payday Loan Debt Trap. As illustrated below, they’ve been tried – and failed – in numerous other states. And, in 2008, voters rejected the authorization of meaningless “reforms” that would allow payday lenders to continue charging 400% interest rates. Arizonans want the Sun to Set on 400%!

The following “reforms” in HB 2161 do NOT stop the payday loan Debt Trap:

Removing the sunset provision in the 2000 authorization of payday lending: Payday lenders’ exemption from the 36% APR small loan rate cap is scheduled to sunset on July 1, 2010. Removing this sunset provision would allow these lenders to maintain their special carve out exemption from the Consumer Loan Act and continue charging triple-digit interest rates.

Lowering the allowable fee from \$17.65 per \$100 borrowed to \$15 per \$100 borrowed: This fee structure reduces the APR on the typical two-week payday loan from 459% to 391%, still *ten times higher* than the interest rate cap for other small-dollar consumer lenders in the state.

Borrower Database: Databases serve only to track the number of loans made, not to stop repeated borrowing. A database is not a substitute for sound underwriting practices, and does not prohibit a borrower from taking out 10, 20, or even thirty payday loans in a year! The database will merely serve as an ineffective regulatory burden for the resource-strapped state and be provided by an additional cost to the borrower. In states with database requirements, 90% of payday loan business is still generated by trapped borrowers with five or more loans per year, and 60% of payday loans still go to borrowers with *12 or more* transactions per year. The database does NOT stop the Payday Loan Debt Trap!

Limit to \$500 in Loans Outstanding: The average payday loan customer ultimately pays \$500 in fees for an original loan of \$300. This bill does nothing to change that. Also, as evidenced in other

states such as Florida and Oklahoma, which already have this provision, the typical borrower still borrows repeatedly – paying off their loan, waiting a short period of time, and then taking out another in a “back-to-back transaction”¹. Nearly 90% of borrowers in these states *take out a subsequent loan within the same two-week pay period* as the original loan. The \$500 limit does NOT stop the Payday Loan Debt Trap.

Repayment Plan: This proposed repayment plan merely gives borrowers the right to ask for a repayment plan, rather than requiring lenders to place them in a plan. Also, this proposal limits customers’ ability to negotiate by limiting the repayment plan option to only once per year. States that collect data on repayment plan usage report that only 1% to 3% of eligible transactions employ this option.² It does NOT stop the Payday Loan Debt Trap.

Licensing and Net Worth Requirements: Licensing does not change the defective product. The loans will still be due in full in two-weeks at 400% APR. Internet lenders already have to follow the same rules as storefront payday lenders. Increasing net worth requirements protects the industry. It forces small lenders to close to make way for the big ones.

Disclosures in English and Spanish: Disclosure is not the problem. Defective products are the problem. Better disclosure does not change the fact that the loans have to be paid back, in full plus interest, in two weeks, resulting in 400% APR. Not matter what size poster you put it on, or in what language, 400% is usury. Period.

Experiences of other states with payday lending “reforms”

As shown in the table below, states that have incorporated similar “reforms” short of a two-digit interest rate cap (at or about 36%) have failed to stop the Payday Loan Debt Trap.

	Payday Loan Regulations	Results
Florida³	<ul style="list-style-type: none"> • \$500 maximum loan amount • No more than one outstanding loan at a time • \$10 per \$100 (plus verification fee) maximum fee • 24 hour cooling off period after each loan • 60 day grace period available, upon declaration of inability to repay • Rollovers prohibited • Database 	<ul style="list-style-type: none"> • 89% of loans go to borrowers with five or more transactions per year • Average of 8 loans per Borrower • Less than one percent of transactions take advantage of the 60 day grace period • 45% of new loans are taken out the day after the previous loan paid off; 88% of new loans are taken out in the same two-week pay period that previous loan is paid off.
Michigan⁴	<ul style="list-style-type: none"> • \$600 maximum loan amount • No more than two loans outstanding at a time (can only have one loan outstanding per lender) • Maximum fee of 15% for 1st \$100 borrowed; 14% for 2nd \$100; 13% for 3rd \$100; 12% for 4th \$100; and 11% for 5th and 6th \$100 • Payment plan option • Rollovers prohibited • Database 	<ul style="list-style-type: none"> • 94% of loans go to borrowers with five or more transactions* • 77% of loans go to borrowers with 12 or more transactions* • Average of 8 loans per borrower • 2% of eligible transactions employ payment plan option
Oklahoma⁵	<ul style="list-style-type: none"> • \$500 maximum loan amount • No more than two outstanding loans at a time • \$15 per \$100 maximum fee on loans up to \$300; \$10 per \$100 maximum fee on loans of \$301-500 • Two-day “cooling off” period after 5th consecutive loan • Payment plan option available 	<ul style="list-style-type: none"> • 91% of loans go to borrowers with five or more transactions/yr. • 64% of loans go to borrowers with 12 or more transactions per year • Average of 9 loans per borrower in a year (from one lender)

	<p>after 3rd consecutive loan</p> <ul style="list-style-type: none"> • Rollovers prohibited • Database 	<ul style="list-style-type: none"> • Less than 2% of eligible transactions employ payment plan • 59% of new loans are taken out the day after the previous loan is paid off; 87% of new loans are taken out in the same two-week pay period that previous loan is paid off.
Washington⁶	<ul style="list-style-type: none"> • Cannot borrow more than \$700 from a single lender at one time • \$15 per \$100 maximum fee on loans up to \$500, then \$10 per \$100 on remaining portion of loan up to \$700 • Payment plan option available after 4th consecutive loan with same company • “Rollovers” prohibited 	<ul style="list-style-type: none"> • 89% of loans go to borrowers with five or more transactions per year • 56% of loans go to borrowers with 12 or more transactions per year • Average of 8 loans per Borrower • Only 1.2% of all transactions employ the payment plan option.

¹ According to the state regulator, nearly half (45%) of repeat payday transactions happen as soon as the 24 hour cooling-off period expires and 88% of transactions are originated before the borrower receives their next paycheck. Data on file with Arizonans for Responsible Lending and summarized in Uriah King and Leslie Parrish, *Springing the Debt Trap*, Center for Responsible Lending (December 13, 2007).

² According to regulator data, 0.42 percent of eligible transactions have employed a grace period in Florida; 2.4 percent of eligible transactions have gone into a payment plan in Michigan, and 1.8 percent of eligible transactions have gone into a payment plan in Oklahoma. See Uriah King and Leslie Parrish, *Springing the Debt Trap*, Center for Responsible Lending (December 13, 2007).

³ Florida Trends in Deferred Presentment, Prepared by Veritec Solutions LLC for the Florida Department of Banking and Finance (August 2007). Summary calculations by the Center for Responsible Lending.

⁴ Michigan Trends in Deferred Presentment, Prepared by Veritec Solutions LLC for the Michigan Office of Financial and Insurance Services (July 31, 2007). Summary calculations by the Center for Responsible Lending.

⁵ *Oklahoma Trends in Deferred Deposit Lending*, prepared by Veritec Solutions LLC for the Oklahoma Department of Consumer Credit (May 2007). Summary calculations by the Center for Responsible Lending.

⁶ Data is based on reporting from 92% of the industry. See 2006 Payday Lending Report. Washington State Department of Financial Institutions (2007). Summary calculations by the Center for Responsible Lending.

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