



Prop 200: No reform at all!

A discussion of the measures in the payday lenders' Arizona ballot proposition

The payday lending industry is hoping that with one quick check at the ballot box, Arizonans will vote to subject themselves to triple digit interest rates indefinitely. With the help of vague ballot language most people won't even realize that their vote for "reform" is anything but.

Conspicuously absent from Proposition 200 and its summary are any mention of the repeal of the payday loan sunset provision in the current statute, which is set to return payday lenders in 2010 to the 36% rate cap applicable to other consumer lenders in Arizona. This key point is hidden in legalese and vague references to section numbers. Reading the ballot language itself does not make it apparent that the core impact of the initiative would be to *permanently* legalize payday lending at 391% interest on a typical two-week loan.

In bundling together half a dozen inconsequential "reforms," the payday lending industry aims to divert attention from the real issue – the indefinite perpetuation of interest rates at 400%. The proposed "reforms," which really amount to no more than smoke and mirrors, include:

- *Capping the Maximum Loan Term at 35 Days.* While the provision would cap the maximum loan duration at 35 days, it fails to lengthen the minimum term of 5 days. Thus, payday loan products will persist at 391% APR or worse.
- *Limit to One Loan Outstanding with a Twenty Four Hour Cooling Off Period.* Even with these loan rationing terms in place, a payday lender could make as many as 24 two-week loans to a borrower in a single year. These limits are no limit at all, allowing borrowers to be trapped in a cycle of interest-only payments for the full year. Research from other states that have tried similar "cooling off periods" shows that 91% of payday loans still go to borrowers with five or more transactions in a year; 62% of payday loans still go to borrowers with twelve or more transactions in a year; and 1 in 4 payday loans go to borrowers with 21 or more transactions in a year.
 - *Current Arizona statute already limits borrowers to one outstanding payday loan at a time.* However, this provision is unenforceable and remains so with Proposition 200. Under Proposition 200, payday lenders will still be allowed to look the other way and issue a new loan, even if

they suspect that the borrower has an outstanding obligation with another payday lender.

- *Electronic Access to Borrower Accounts.* While characterized by the industry as offering convenience, in reality this provision would give payday lenders unfettered debit access to customer bank accounts and facilitate overcharging through continuous fees. In addition, this provision opens the door to internet payday lending, which is dependent upon electronic funds transfers. This is worse than the current statute.
- *Borrower Database.* Database requirements are of no help when the provisions they are meant to enforce are not meaningful. Borrowers in states like Florida and Oklahoma have remained trapped in payday loans at high rates in spite of strong database requirements. Furthermore, the proposed database requirement in Prop 200 would apply only to those borrowers who opt into a repayment plan. Regulator data across the country indicates that less than 1% of payday loan business is in the form of repayment plans. Ninety nine percent is in new, rolled-over, or renewed loans that must be paid off in full at the next payday.
- *Repayment Plan.* This provision would limit consumers' right to request a repayment plan to once per year. Borrowers are often not told about any possibility of a repayment plan other than the normal requirement to pay off the loan in full on payday or renew it and pay more interest. States that have repayment plans in their statutes do not see a decrease in payday loan flipping. Repayment plans are usually priced so that they are more costly in the short term than loan renewal. For example, the first of four installments for a \$325 loan, including fees, would be \$94, while renewal of the same loan would cost \$49. This is a disincentive to use a repayment plan for a cash-strapped borrower, and the fact that it would be legally available only once per year makes it unhelpful in stopping the loan flipping of 400% interest loans that is the key problem with payday lending.
- *Disclosures in Spanish or English.* This proposal would require that a copy of the written agreement currently required under Arizona law be made available to borrowers in Spanish or English

The proposed reforms in Proposition 200, even when aggregated, are dwarfed by comparison to the cost to consumers associated with 391% interest rates forever. The experience of states introducing similar provisions demonstrates that payday lending reforms short of a two-digit rate cap are ineffective.

To spring the payday loan debt trap Arizonans need more than the mere appearance of responsible lending, they need the Arizona Consumer Loan Act to be upheld for *all* lenders with no further exceptions, capping interest on consumer loans at 36 percent across the board.

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