



Loan Sharks Prey on Arizona College Students

Proposition 200 is No Reform to Payday Lending

Payday lenders hope that in packaging Proposition 200 as industry 'reform' Arizonans will vote to permanently legalize triple-digit interest rates and greater access to borrower bank accounts.

Marketed as a quick fix to financial emergencies, a payday loan is a small loan of up to \$500 secured by a personal check. In Arizona, lenders can currently charge up to \$17.65 per \$100 borrowed, or 459% annual percentage rate (APR) for a loan with a typical two-week term.

In exchange for their continued authorization, the industry-sponsored Proposition 200 would limit payday lenders to 391%. The truth is, without Proposition 200, payday lenders currently charging fees between 391% and 458% will be required to reduce their rates to back to 36% APR in compliance with the cap applicable to all other Arizona lenders.

The industry depends on the combination of exorbitant interest rates and repeat customers. At an industry conference in 2007, the CEO of Cash America Dan Freehan explained, "you've got to get that customer in, work to turn him into a repetitive customer, long-term customer, because that's really where the profitability is."¹

Proposition 200 does nothing to change that core business model. According to Arizona State University Professor David Wells, "Based on the experience of other states, the 'reforms' offered by Proposition 200 do not adequately protect against repeat borrowers. Instead, Proposition 200 will work to generate greater profits for payday lenders."

Payday Lenders Look to College Students to Expand Markets

Historically, payday lenders have clustered in neighborhoods with high numbers of people of color and near military bases, before Congress outlawed their high interest rates for military families. Students may be another target.

University of Arizona Professor Soyeon Shim, Director of the Norton School of Family and Consumer Science, was shocked to see that increasing numbers of college students are falling prey to the payday lending debt trap. Preliminary findings of a longitudinal study revealed that 5 percent of University of Arizona freshman took out a payday loan in the last academic year. The project, Arizona Pathways for University Students Life Success (APLUS) is a longitudinal study funded by National Endowment Financial Education.

Dr. Shim, who is also the mother of a college sophomore, fears that the implications of these findings are far-reaching, "when students are in a bad financial situation, the stress has harmful

¹ Dan Freehan, CEO of Cash America, remarks made at Jefferies Financial Services Conference (June 20, 2007).

cascading effects on their academic performance, relationships with friends and family, and ultimately their future academic planning.”

Though abusive financial practices are not new to college campuses, payday lenders are using particularly egregious practices, in some cases, relying on students’ scholarship and financial aid money as a basis for eligibility.² Marketing tactics include preying on students’ fears that they will not be able to pay for books or financial aid shortfalls. Instead of providing true financial independence, payday lenders offer only a false sense of self-sufficiency and set students on a course of long-term debt.

Furthermore, Proposition 200 will allow payday lenders even greater access to students’ funds by allowing them to take out a payday loan with the swipe of a debit card. As a result, students and those with whom they share checking accounts are left vulnerable to unfettered electronic access and subsequent overcharging through continuous fees.³

Students Around the Country Say No to Payday Lenders

When payday lenders arrived at the University of Illinois at Urbana Champaign, students protested the store’s opening, warning “Do less paperwork, burn your money yourself.”⁴ In Harrisonburg, Virginia, students passed out fliers and carried signs, demanding a cap on interest rates.⁵

With the issue on the ballot in Arizona this November, students across the state are getting engaged in the issue. An October 7, 2008 editorial in the *Daily Wildcat* called readers to action, “By legalizing [payday lending], the Arizona legislature made a serious mistake. It’s time for the voters of Arizona to step in and correct that mistake, and they can do that by voting against Proposition 200.”

Students with the Arizona Public Interest Research Group (Arizona PIRG), who have long been concerned with student debt traps, are campaigning to oppose the false reforms offered by Proposition 200.

Neal Denardi, Arizona PIRG student organizer at the University of Arizona, explained “I am working to oppose Proposition 200 because payday lenders are preying on students. We can’t let these practices go unanswered.” Jason Donofrio, who is a student leading the Arizona PIRG effort at Arizona State University commented, “We are working on campuses to get the word out: Proposition 200 is no reform! A ‘NO’ vote protects our students and our state.”

JOIN US. VOTE NO ON PROPOSITION 200!

Paid for by Arizonans for Responsible Lending, No on 200

Senator Debbie McCune Davis, Chair

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www.200isNoReform.com * (602) 312-1100

² Lucy Lazarony, “The old college try flops for payday lender on campus,” www.bankrate.com, August 27, 1999.

³ Proposition 200, Section 3 amending 6-1251 Arizona Revised Statutes (“‘Check’ means a draft signed by the maker and made payable to a person that is licensed pursuant to this chapter with the name of the mater preprinted on the face of the check *or* an electronic debit agreement...”)

⁴ Lucy Lazarony, “The old college try flops for payday lender on campus,” www.bankrate.com, August 27, 1999.

⁵ Heather Bowser, “Protest Call for Loan Reform,” *The Daily News Record*, December 01, 2007.