Arizona Community Action Association
Advocating, Educating and Partnering to Prevent and Alleviate Povert

Center for Economic Integrity

**With HB 2611, Out-of-State Payday Lenders Seek to Subvert Arizona Voters' Mandate**

Millions of Arizona voters have rejected payday lenders' push to enshrine their high-cost predatory loans in Arizona. By rejecting Prop. 200 in 2008, by a 2 to 1 margin, Arizonans affirmed the state's 36% interest rate cap in the state's Consumer Loan Act. HB 2611 goes against the will of the people by authorizing loans with rates far in excess of these protections.

Out-of-state payday lenders are pushing HB 2611 to expand their high-cost lending in Arizona communities and online. Payday lenders supporting HB 2611 include: Community Choice Financial (Ohio), Check into Cash (Tennessee), Check N Go (Ohio), and PLS Financial (Illinois).

**HB 2611 Harms Veterans**

According to the U.S. Department of Defense, predatory loans ""undermine military readiness."[i] Today, financial issues are the number one reason members of the military lose their security clearances.[ii] High-cost predatory loans exacerbate these problems.

The Department is concerned about debt trap high-cost installment loans and has proposed new rules expanding coverage of the Military Lending Act to protect service members from debt trap loans like the ones created by HB 2611.[iii] Hopefully, these rules will be final this year.

However, veterans are not and will not be covered by the Department's rules against predatory lending. If these are dangerous loans for active duty military, they are certainly so for veterans facing reduced income, less stable job prospects, and other challenges in re-entering civilian life.

**How HB 2611 Creates Debt Trap Loans (Just Like Payday Loans)**

Payday lenders seek to weaken the Arizona Consumer Loan Act by proposing a carve-out from the interest and fees already permitted for loans under $3,000. Under existing law, loans up to $3,000 can carry 36%, plus a one-time loan origination fee of 5% up to $150. These loans can be secured or unsecured.

With this carve-out, payday lenders seek a combination of 36% interest and "customary fees" far in excess of existing rates that can be charged repeatedly.[iv] Payday lenders' business model depends on repeatedly refinancing people into long-term debt. HB 2611 does not change that.

Payday lenders will point to 5% required pay down of principal per month; however, this is insufficient to break the cycle of debt. **For example, after one of year of paying on a $3,000 loan, a borrower would have paid back over $4,900 in interest and fees and would still owe more than half the loan.** This conservative estimate doesn't account for refinancing.

Like payday loans, the Flex Loan Plan in HB 2611 will carry effective triple-digit APRs, can be made with no assessment of a borrower's ability to repay, are designed to be rolled over again and again, and will result in thousands of dollars more in fees above the original loan amount.

[i] U.S. Dept. of Defense, 2006, "Report On Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents," (concluding that "predatory lending undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all-volunteer fighting force" and recommending a 36% rate cap, including all fees in connection with the loan, to protect active duty families), www.defense.gov/pubs/pdfs/Report_to_Congress_final.pdf

[ii] Testimony of Hollister K. Petraeus, Director, Office of Servicemember Affairs, Consumer Financial Protection Bureau, Before the U.S. Senate Committee on Homeland Security and Governmental Affairs Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, United States Senate, Hearing on "Financial Literacy: Empowering Americans to Make Informed Financial Decisions", (April 12, 2011), http://www.consumerfinance.gov/newsroom/testimony-of-hollister-k-petraeus-before-the-u-s-senate-committee-on-homeland-security-and-governmental-affairs-subcommittee-on-oversight-of-government-management-the-federal-workforce-and-the-dis/

[iii] U.S. Dept. of Defense, 2014, "Report: Enhancement of Protections on Consumer Credit for Members of the Armed Forces and Their Dependents," www.consumerfed.org/pdfs/140429_DoD_report.pdf

[iv] HB 2611 authorizes "customary" fees of up to one-half of one percent per day to be levied on every payment. These fees cover the ordinary cost of doing business and are by no means "customary" under state small loan laws. The one half of one percent per day fee is five times the amount of the interest rate and represents 65% of the total cost of the loan for the first year.