# VOP VINCENTIANS DEFEAT PREDATORY LENDING IN ARIZONA

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Voice of the Poor (VOP) Vincentians were instrumental in defeating a 2016 bill proposed in the Arizona legislature that would have greatly expanded predatory lending in that state and could have cost the poor and vulnerable an extra $350 million in usurious interest.

On Saturday, May 7 at 5:45 AM, the Arizona Legislature adjourned its 2016 session "sine die" (i.e., indefinitely). During the last few days, a flurry of activity resulted in over 200 bills being voted on, but the leadership of the Senate never brought the predatory lending bill, Senate Bill 1316, to the floor for a vote, well knowing that they did not have the support to pass it.

VOP Vincentians Dan Torrington and Christine Krikliwy from Tucson and Kathy Jorgensen from Phoenix were at the legislature repeatedly during every step of the bill's legislative process, witnessing Legislative Committees actions, testifying, and visiting individual legislators, all with the end result of gaining the trust and the confidence of many.

Half way through the process, Vincentians distributed to every legislator a "Flex Loans Counterproposal" (see attached), which was quoted many times during the legislative debates.


Four Arizonian Voice of the Poor Vincentians sit in the front row closely monitoring legislative deliberations on expanded payday landing. Left to right: Margo Labarr, Christine Krikliwy, Dan Torrington, and Kathy Jorgensen

Their efforts were strengthened by the numerous phone calls and e-mail messages that Vincentians and many others sent to legislators in response to seven action alerts issued since February. These messages gave credibility to the verbal statements of our VOP members during their frequent legislative visits.

This is the second year in a row that proposed legislation authorizing the expansion of predatory lending in Arizona through "Flex Loans", with their usurious interest rates, did not make it, sparing the poor and vulnerable of our state from further hardship.

According to calculations by Dan Torrington, Western Region VOP Chair, this bill would have allowed predatory lending firms to extract and take out of the state an estimated $350,000,000 per year in usurious interest from Arizona's poor and vulnerable. The bill, if passed, would have left the Society of St Vincent de

Paul, other charities and the State of Arizona taxpayers to deal with the financial and emotional damage done to the poor.

To estimate the $350,000,000 in interest, Dan assumed that each of the current 600 predatory Car Title Loans stores in Arizona would also start offering Flex Loans. He further assumed that each store would make 500 loans per year (10 a week) with an average loan amount of $1,000 and an average maturity of 12 months at the allowed interest rate of 15% per month (180% a year).

The predatory lending industry, which has a strong influence on several key legislators, tried every possible trick to get the bill to pass, including:

1. Re-election Campaign Contributions and promises of even larger future contributions were well documented by the press. As an example see: http://www.azcentral.com/story/opinion/op-ed/laurieroberts/2016/03/14/roberts-arizona-legislators-score-payday-flex-loan-bill/81661272/

2. Paying for favorable coverage in the media.

3. Using a parliamentary maneuver (Striker Bill) to revive the proposed legislation after it failed to pass a committee vote in the Senate. Industry friendly legislators re-introduced the same bill at the House, past the deadline, by changing the text of another bill of an entirely different subject, already in the pipeline (Striker).

4. Tacking on non-substantive amendments to the bill, trying to sway legislators to vote in its favor.

5. Maintaining a large number of well-funded lobbyists pushing the bill with deceptive arguments at the legislature.

6. Publically castigating members of the majority, who did not follow the party guidelines and voted against the bill, by sending demeaning messages directly to their constituents and through the media, in general.

We were only able to overcome all of these obstacles because of a strong sustained effort by many.

We collaborated and shared information with over fifty like-minded organizations also opposing Flex Loans. The coalition includes the Center for Responsible Lending, South West Center for Economic Integrity, the Veterans, AARP, Salvation Army, Children Action Alliance, just to name a few.

Results such as this can only happen when many people join forces, get involved and pull in the same direction.

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We have been able to stop Flex Loans in 2015 and 2016, but we expect the industry to try again next year, unless we can encourage the implementation of alternative forms of small loans, at affordable rates and robust enough to discourage the industry from bringing new predatory financial instruments to Arizona.

There are alternatives to predatory lending, such as "The FDIC Small-Dollar Loan Pilot Program" and small loans offered by credit unions. The coalition plans to continue to work together to review existing alternatives and figure out which one is realistically implementable.

# Society of St. Vincent de Paul
## Phoenix Diocesan Council
## Tucson Diocesan Council

**COUNTERPROPOSAL TO FLEX LOANS – SB 1316**

**The Society of St Vincent de Paul asks Arizona State legislators to vote no to SB 1316 and pass into law affordable lending alternatives for those in need.**

Only some of the people currently taking out small dollar loans with triple digits interest rates are doing so because of a temporary liquidity shortage. Most of the other people are in a financially unstable situation requiring external assistance. For them taking out a loan is not a solution. It will only make their situation worse.

## Why Support an Affordable Lending Alternative

The Society of St. Vincent de Paul supports affordable lending alternatives for those people facing a temporary liquidity shortage.

We examined two alternatives, including currently available loans by Credit Union in Arizona and the FDIC Small-Dollar Loan Pilot Program concluded a few years ago. Numerous Arizona employers also offer small loans programs for their employees.

Appendixes to this document include **"Information Collected and Provided by the Mountain West Credit Union Association"** on alternatives currently available at Credit Unions (attachment 1) and a paper from the FDIC quarterly magazine, **"A template for success: The FDIC Small-Dollar Loan Pilot Program"** (attachment 2). The paper outlines with clarity a lending alternative, tested across the country, with a maximum rate of 36%, which would effectively help borrowers to overcome a financial crisis, at an affordable cost.

## Why Reject Flex Loans

- **Flex Loans, as provided by SB 1316, have the following characteristics:**
  - Principal Minimum and Maximum: $500 Minimum, $2,500 Maximum
  - Unsecured Loan Monthly Interest: 17% monthly (204% annual)
  - Secured Loan Monthly Interest: 15% monthly (180% annual)
  - Maximum term: 24 months
  - Amortization: Equal payments of principal and interest
  - Delinquency charge: 5% of Payment

- **Flex Loans target low-income people and those in poverty, with bad or no credit history. These are the people who can least afford triple digit interest rates:**
    - Unsecured Loans - 17 percent monthly interest rate (equal to 204% per year).
    - Secured Loans - 15 percent monthly interest rate (equal to 180% per year).

- **Flex Loans take advantage of financially unstable people, who have no other immediate alternatives**. When people are desperate, because of lack of financial resources, they are more prone to make poor decisions. Low-income people are often financially illiterate and easily lured into high interest loans. Because of the pressure they are experiencing, they are often incapable or unwilling to explore alternatives such as working out a payment plan with a creditor, or borrowing from a friend or a family member.

- Who are the people, who will use Flex Loans?
    - Overwhelmed Single Mothers
    - Laid off Workers
    - Veterans suffering from PTSD
    - Families and Senior Citizens with unexpected medical or car repair bills
    - People needing urgent funds to pay funeral expenses
    - People easily tempted by nonessentials

- **For an unsecured Flex Loans, borrowers will pay back, over two years, more than 4 times the original amount borrowed and for secured Flex Loans more than 3.5 times**, even though loans secured by personal property have a much-reduced risk and lenders can charge extra fees to store the property.

- **Flex Loans trap borrowers in debt, with very slow progress towards paying off the outstanding amount borrowed** – For an unsecured loan a borrower would still owe 87% of the original amount borrowed after making a year of payments.

- **Flex Loans will overburden low-income households** already struggling to survive. When members of the Society of St. Vincent de Paul visit the poor in their homes, they hear firsthand the stories of people caught in debt traps. Often, we find ourselves helping these families with funds that we could have used to assist others with food or rental payments.

- **Triple digits interest rates are unfair** - Comparing the triple digits interest rates proposed by SB 1316 to the rates paid by the middle class (maximum of 18-20% a year on credit card debt), it becomes clear that these rates are applied because people in need perceive that they have no alternatives. **We view this as a form of human exploitation!**

- **In 2008, through proposition 200, millions of Arizona voters rejected, by a 2 to 1 margin**, payday lenders' push to make permanent the practice of high-cost loans in Arizona, in spite of the fact that the industry spent over $15 Million to persuade the voters of the contrary. By their vote, Arizonans affirmed the AZ Consumer Loan Act, which limits the interest rate at 36% per year, with a one-time loan origination fee of 5%, up to $150. Going against the will of the people, in 2015, a group of Arizona

State legislators introduced an early version of Flex Loans, which fortunately did not pass. **Once again, SB 1316 goes against the will of the people**.

- **The Arizona Financial Choice Association, which monetarily supports SB 1316, is made-up entirely of out of state lenders**: (1) Community Choice Financial, Inc., based in Dublin, Ohio. (2) Axcess Financial Services, Inc., based in Cincinnati, Ohio. (3) PLS Financial, Inc. based in Chicago, IL. (4) Check Into Cash, Inc., based in Cleveland, TN.

- **Flex Loan firms, if the bill is approved, will take out of Arizona hefty profits made from exploiting low income people, leaving the state government, the Society of St Vincent de Paul and other charitable organizations to heal the financial and emotional damage done to the poor.** SB 1316 will take $218,000,000/yr. from the pockets of Arizona's poorest citizens and will send the money out of state. Let's do the math. The number of Title Loan stores in Arizona is estimated to range from 300 to 600. Let's conservatively assume that 300 title loan stores will also offer "Flex" loans. Also, lets' conservatively project that each of these stores will make ten "Flex" loans per week (two per day). We now can estimate that the total number of "Flex" loans made in Arizona would be 156,000/year. (10 Loans x 52 wks. X 300 stores). Now assume that the average Flex loan is for $1,000 for a 12 month term at 17%/month. The monthly payment on such a loan is approximately $200 per month. In 12 months, the borrower would repay $2,400 for the $1,000 loan. The gross profit on the loan is $1,400 ($2,400-$1,000). The total annual gross profit for all 300 stores would be $218,000,000 (156,000 Loans x $1,400 Gross Profit).

## Why the Society of St. Vincent de Paul oppose Flex Loans

- **The Society of St. Vincent de Paul, together with the USCCB, other faith communities and institutions, condemns USURY and seeks federal regulations and state laws that would end predatory practices of the poor and vulnerable.**

  When we visit the poor in their homes, we hear firsthand the stories of people caught in a spiral of debt. We often have to bail out these families with our limited funds.

  Our faith tradition dictates our position. In Exodus, God condemned taking interest for loans to the poor, saying, "If you lend money to my people, the poor among you, you must not be like a money lender; you must not demand interest from them." (Exodus 22:24). More recently, at his general audience on January 29, 2014, Pope Francis denounced the financial challenges of many families: "I hope that institutions will intensify their efforts to help victims of dramatic usury, a social plague. When a family has nothing to eat because they have to pay off loan sharks, it is not Christian! It's not human!"

## Attachment 1 - Information Collected and Provided by the Mountain West Credit Union Association - March 2016

**Credit Union Regulations/Restrictions:**

- Credit Union federal regulator, NCUA caps credit union interest rates at 18% for federally chartered credit unions.
- Under Dodd-Frank, NCUA created Payday alternative loans (PALs) program, which allowed rates up to 28% for these types of products.
  - www.mycreditunion.gov/what-credit-unions-can-do/Pages/payday-loan-alternatives.aspx

**Small Loan Offerings at CUs**

- Nearly every credit union in Arizona, has some form of small dollar loan available to their members. These include signature loans or personal lines of credit that let you borrow as little as a few hundreds. These type of loans require a credit check and rates depend on your score. However, as stated above federal credit unions cannot exceed 18%.
  - www.vantagewest.org/loans-credit/loans/personal-loans/ - Example of a signature loan

- Most credit unions in Arizona offer what is called a "Share-Secured Loan" or also called a "credit builder loan". Below are the loan terms that one credit union listed on their website
  - www.aerofed.net/products/loans/credit-builder-loan/ - Example of credit builder loan
  - www.azcentralcu.org/home/loans/personal_loans/share_secured_loan - Example of share secured loan

- Several Arizona credit unions offer small dollar loans/short term loans. Here is a partial list with links to their programs:
  - Banner FCU - www.bannerfcu.org/signatureloans.html
  - Cochise CU - www.cochisecu.com/loans/unsecured.html
  - First American CU - www.firstamerican.org/loans/personal-loans/ez-loans.html
  - Landings CU - www.landingscu.org/Loans/Consumer-Loans/Personal.aspx
  - MariSol FCU – www.marisolcu.org/loans_personal.html
  - Pinal County FCU - www.pinalcountyfcu.com/Funds_4_Less_82.html
  - Ray FCU - www.rayfcu.org/pdf/BTPDLoanApplication.pdf
  - Rim Country FCU - www.rayfcu.org/pdf/BTPDLoanApplication.pdf
  - San Tan CU – www.santancu.org/loans.html

- There are a couple additional credit unions headquartered out of the state with branches in Arizona that also offer short-term loans such as the ones listed above.
  - Mountain America offers a program that can be found at www.macu.com/services/online-mobile-services/instant-short-term-loans
  - Alaska USA offers a payday line of credit exclusively for military members that can be found at www.alaskausa.org/current/infosheets/info.asp?pid=02619

**Attachment 2 – Key facts about the FDIC Small-Dollar Loan Pilot Program**

- **The FDIC Small-Dollar Loan Pilot Program provided for:**
  - Principal Minimum and Maximum: $2,500 or less
  - Annual Percentage Interest Rate: 36% or less
  - Term: 90 days or more
  - Underwriting: Streamlined approval procedures
  - Fees: Low or none

- **The Small Loan Pilot Program resulted in a positive outcome**. Since the pilot began, the 28 participating banks made more than 34,400 small-dollar loans with a principal balance of $40.2 million. **Overall, small-dollar loan default rates were in line with the default rates for similar types of unsecured loans**.

- **The study resulted in the development of a replicable template, an illustration of a best practices model for safe, affordable and feasible small-dollar loans.** It is simple to implement and does not require any technology or major infrastructure investment. The template helps banks to adhere to existing regulatory guidance on offering alternatives to fee-based overdraft programs. For further details, see the attached paper.

- A key lesson learned was that most pilot bankers use small-dollar loan products as a cornerstone for building or retaining long-term banking relationships. In addition, the pilot program found that long-term support from a bank's board and senior management was the most important element for programmatic success. **Almost all of the pilot bankers indicated that small-dollar lending is a useful business strategy and that they will continue their small-dollar loan programs beyond the pilot.**

- A Template for Success: The FDIC's Small-Dollar Loan Pilot Program article follows.