

# Protecting Arizona Military Families from Predatory Lending

Military Saves Week

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# What Makes Loans Predatory?

- Extreme high cost.
- Risk to key family assets, bank account.
- Debt trap lending without determining borrower's ability to repay. Rely on "ability to get paid."
- Asset-based lending: Title loans based on value of car, not ability to pay without repossession.
- Unaffordable repayment terms: Due on next payday; interest only payments with final balloon payment; payments too large for family budgets.

# Payday Loans

- Payday loans are cash loans secured by the borrower's check held for future deposit and due on the next payday. Payday installment loans have longer terms, payments on pay dates.
- Payday loans cost almost 400 percent APR or more.
- Typical loans are for up to \$500, depending on state laws. At \$15 per \$100, a \$500 loan costs \$75 for just two weeks at 390% APR.
- Failure to pay results in bounced checks, multiple NSF fees, and loss of bank accounts.

# Payday Loan Debt Trap

- Installment Payday Loans: 25% of loans default. 37% are refinanced (CFPB).
  - Single Payment Payday Loans: 82% of loans are rolled over or followed by another loan within 14 days. Half of all loans are in sequences of 10 or more loans, while 62% of loans are in sequences of 7 or more loans.
  - Average payday loan borrower in debt over half the year.
- \*\*\*Payday Loans: Easy to Get, Hard to Pay Off \*\*\*

# Payday Loans are Illegal in Arizona – Title Loans are Legal

- In 2008 AZ voters rejected the payday loan industry's Prop 200 by a 60 to 40% vote.
- In mid-2010 the Arizona payday loan law sunset. Title loan law not impacted by Prop 200 vote.
- Most payday lenders got title loan licenses and make title-secured loans.
- Licensees make loans at stores or via websites.
- Title loan licensees in same neighborhoods as payday lenders were prior to 2010.



# Title Lending in Arizona

- 100 companies with 633 licensed locations in 2015
- Loans secured by borrower's vehicles cost 120% up to 204% APR in Arizona.
- No limit on size or length of title loans. Balloon payment loans not prohibited.
- Lenders can repossess and sell vehicle if default.
- Lenders can sue for nonpayment, add court costs and attorney fees.
- Lenders can sue for deficiency if sale of repossessed vehicle does not cover the amount owed.

# AZ Title Lenders offer “Payday” Type Loans

- Former payday lenders accounted for 40% of title loan locations in 2015.
- Use weak law to make loans “secured” by vehicles consumers do not own.
- “Registration” loans made by 20 licensees with almost half title loan locations.
- “Registration” loans look a lot like payday loans, requiring access to a bank account, payments due on pay dates, triple-digit rates.



# Car Title Loan Debt Trap

- Over 4 in 5 single-payment title loans are not repaid in a single payment.
- Over 2/3 of title loans go to consumers who get 6 or more loans in a 12 month period.
- 1 in 5 title installment loans is refinanced.
- Loans are based on value of vehicle, not the borrower's ability to repay the loan successfully.
- A \$500 loan at 204% APR renewed 8 times costs \$765 in finance charges for total payment of \$1,265 over nine months.

# Repo Risk of Title Loans

- Over 1 in 5 title installment loans default and 1 in 3 loan sequences end in default.
- 8% of loans and 11% of title installment loan sequences end in repossession.
- 1 in 5 borrowers with single payment loans lose vehicles to repossession.
- If Arizona typical of other states, 190,000 to 285,000 AZ consumers use title loans per year. If all used installment title loans, as many as 31,350 consumers had vehicles repossessed (11% of 285,000 borrowers).

# Predatory Lending and the Military

- DoD Report to Congress: Harm to readiness and morale due to predatory lending.
- 2006 Military Lending Act enacted by Congress. Initial rules September 2007 applied MLA to some payday, title and tax refund loans. Loopholes exploited.
- Expanded MLA rules October 2016. Credit cards covered October 2017. Covers all credit per TILA.
- Credit excluded by statute: Residential mortgages, loans for purchase of personal goods and vehicles secured by those items.

# MLA Protections

- 36% rate cap including fees and credit insurance. Called MAPR. Covers all payday and title loans, installment loans and credit cards, open-and closed-end credit.
- Prohibits securing high-cost loans with bank accounts and vehicles.
- No prepayment penalties.
- No mandatory arbitration clauses.
- No mandatory loan payment by allotment.

# Who Is Protected by MLA?

- Members of the armed forces who are on active duty for more than 30 days, or on active National Guard and active Reserve Duty.
- Dependents of covered borrowers, including spouses, children under age of 21, and parents or in-laws if they live with the covered member and rely on him or her for half of their support.
- Does not protect veterans or inactive personnel.



# Enforcement of MLA

- Creditor that knowingly violates MLA guilty of misdemeanor, punishable by fine and up to one year in prison.
- Contract that violates MLA is void and unenforceable in court.
- You can sue a creditor that violates MLA.
- Consumer Financial Protection Bureau and the Federal Trade Commission enforce the MLA.
- Some states require licensees to comply with MLA.

# Arizona Credit Products and MLA

- Payday loans are not legal in Arizona.
- Title loans are legal and cost up to 204% APR.
- Title Lenders offer “registration” loans which are similar to payday loans at up to 204% APR.
- Consumer Lender installment loans are capped at 36% annual interest plus a 5% fee. A Consumer Lender loan at maximum rates exceeds the MAPR limit.

# Military Families and Veterans not covered by MLA--

Are exposed to high-cost, risky lending in Arizona:

Title Loans

Registration Loans

Consumer Lender loans at max rates

Online Loans from unlicensed lenders

New forms of credit, such as “flex loans”  
sought by the industry at the AZ Legislature

\*\*\*If credit violates MLA, it is harmful for your family, whether you are covered or not.\*\*\*

# CFPB Office of Servicemember Affairs

- Handled over 70,000 complaints from military families about financial products.
- Secured \$120 million in refunds for military families with financial products.
- Staff visited 145 military installations and units
- Website provides military specific information and complaint portal.

# CFPB Enforcement Cases Protect Service Members


- Cash America lending that violated MLA.
- Freedom Stores, Freedom Acceptance Corp. and Military Credit Services debt collection.
- Rome Finance (Colfax Capital Corp. and Culver Capital, LLC) predatory lending scheme.
- USA Discounters fee scam for SCRA rights.
- Fort Knox National Company, Military Acceptance Company allotment payments.



# Additional Protections

- DoD prohibits use of allotments to pay for items bought on credit, such as cars, electronics, furniture, appliances.
- Service members or family must certify under Code of Military Justice when starting new allotments on MyPay or DD Form 2553 that allotment is not for “the purchase, lease, or rental of personal property or payment toward personal property.”
- Payment by allotment optional for cash loans. Better protections for debit payments from bank.

# Options Instead of High-cost Debt

- Emergency savings best option instead of emergency loan. \$500 or more in emergency savings = less likely to use payday or title loans. Check out MilitarySaves. 
- Financial counseling and coaching
- Military charities offer no-cost emergency loans.
- Budgeting, careful management, help from church or community organizations.

# Military Charity Loan Programs

- Air Force Aid Society Falcon Loan
- Navy-Marine Corps Relief Society Quick Assist Loan
- Army Emergency Relief
- Coast Guard Mutual Assistance Quick Loan Program

# Where to Get Help/Info

- Military Saves: Take the Savings Pledge
- Military One Source for counseling
- CFPB Office of Servicemember Affairs
- Arizona Department of Financial Institutions
- Arizona Attorney General
- CFA PaydayLoanInfo.org

# Speak Up for Credit Rights

- Fight efforts to eliminate/weaken CFPB.
- Support strong CFPB rule on payday/title/installment loans.
- Oppose Arizona legislation to authorize new forms of high-cost credit. 2015 and 2016 Flex Loan bills defeated, opposed by veterans' groups.
- Support MLA-type protections for all consumers, including veterans and non-active military and Guard families, such as a 36% all-in usury cap.