

BALLOT PROPOSITION #200

Payday Loan Reform Act

FISCAL ANALYSIS

Description

Proposition 200 would amend current statute to remove the July 1, 2010 program termination date for the deferred presentment (payday lending) program and makes changes to Arizona payday lender regulations. It would require those licensed as payday lenders to have greater cash reserves and limit the fee that can be charged for services. The proposition would also prohibit charging fees for loan renewals and instead allow borrowers to enter into repayment plans. Prior to entering into a payday loan, the proposition would require the licensee, or payday lender, to verify that the borrower does not have any outstanding repayment plans with other payday lenders through a repayment plan database. The proposition would require the Department of Financial Institutions to certify a commercially available repayment plan database.

Estimated Impact

By continuing to regulate payday lenders, Proposition 200 would allow the state to continue to collect \$360,000 in fees from payday lenders that are deposited into the General Fund. These monies would otherwise stop being collected on July 1, 2010. The proposition would also require the state to continue to expend funding to oversee payday lenders, which would otherwise end in 2010. Currently, the Department of Financial Institutions spends \$60,000 annually to regulate the industry. The proposition may cause the Department of Financial Institutions' workload to oversee payday lenders to increase.

The Department does not anticipate the increased workload to result in a need for additional resources.

Analysis

Customers may currently go to one of the 757 licensed payday lending locations in Arizona to receive a short term cash advance of \$50 to \$500. In order to receive a loan, customers must present photo identification, their most recent bank statement and their most recent pay stub. In exchange for the loan, the customer writes a check for the loan amount plus a fee of 15% of the face value of the check. For example, if a customer borrows \$100, he writes a check for \$117.65. This amount includes the \$100 principal and the fee of \$17.65 which is 15% of the total amount for which the check is written ($0.15 \times \$117.65 = \17.65). The payday lender cashes the check on the customer's next payday.

Laws 2000, Chapter 141 repeals the regulation of payday lending as of July 1, 2010. By removing this provision, the proposition prevents the Legislature from repealing the program in the future.

If Proposition 200 passes, payday lending institutions will continue to operate, but will have additional requirements that must be followed to maintain a license. Rather than charging a fee of 15% of the face value of the check, payday lenders would only be allowed to charge 15% of the principal borrowed. For example, if a customer borrows \$100, he would pay a \$15 fee ($0.15 \times \$100 = \15) instead of a \$17.65 fee. Customers would not be allowed to take out another payday loan from the lender until one business day after their current payday loan or repayment plan is completed.

Current statute only requires payday lenders to ask whether the customer has any outstanding checks with other payday lenders. In addition to this requirement, Proposition 200 would require a payday lender to certify that the customer does not have an outstanding, incomplete repayment plan using a commercial database approved by the Department of Financial Institutions. Other states that have implemented similar measures contract with private companies to manage the databases and fund the database through a fee paid by payday lending customers.

If the proposition does not pass, payday lenders will no longer be regulated by state after July 1, 2010. If this occurs, \$360,000 in licensing revenue would no longer be deposited into the State General Fund. The Department of Financial Institutions estimates that it spends \$60,000 annually to regulate the industry. This cost would still be incurred if the proposition is enacted.

Proposition 200 contains provisions that may increase the workload for the Department of Financial Institutions. The department would need to incorporate the new regulations into its current examination procedures. The proposition also requires the department to notify licensees by mail once a commercial database is approved.

Local Government Impact

None

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This estimate was prepared by Caitlin Acker (602-926-5491).