



## Analysis of Amendment (Mesnard) to SB 1316 creating Flexible Credit Lenders and authorizing rates rejected by Prop 200 voters that sunset payday lending

### Key Findings

- **Permits triple digit interest rates** – a 17 percent monthly interest rate for a \$2,500 unsecured loan repaid over 24 months has a 204% APR and a 15 percent monthly interest rate for a \$2,500 secured loan repaid over 24 months has a 180% APR (Figure 1).
- **Borrowers will pay back more than 4x what they originally borrowed** for an unsecured loan. A \$2,500 loan repaid made under this proposal will pay back \$7,941 in interest and a total of \$10,441 over two years (Figure 2).
- **Borrowers will pay back more than 3.5x what they originally borrowed** for a secured loan even though the loan is secured by personal property and the lender can charge extra fees to do so (Figure 1). A \$2,500 loan repaid made under this proposal will pay back \$6,826 in interest and a total of \$9,326 over two years (Figure 3).
- **Traps borrowers in long-term debt with little progress towards the outstanding amount borrowed** – For an unsecured loan a borrower would still owe 87 percent of the original amount borrowed after making a year of payments. If this loan was capped at 36 percent interest and a 5 percent administrative fee, that same borrower would only owe 59 percent of what they borrowed after twelve months (Figure 3 and 4).
- **Repayment plan allows lenders to charge interest for three months** – The proposed repayment plan will not stop the debt trap. If a borrower is unable to repay a \$2,500 loan after making two successful payments, they will accrue \$2,083 in additional interest before they are eligible for a repayment plan (Figure 5).

Figure 1. Amendment to Arizona SB 1316 (2016) Flexible Credit Lenders loan definitions

Bill Section	Limits	Amount
6-1801(6)(a)	Principal maximum, global, self-certification	\$2,500
6-1832(A)(1)	Monthly interest, unsecured	17% monthly (204% annual)
6-1832(A)(1)	Monthly interest, secured (excluding real estate)	15% monthly (180% annual)
6-1801(6)(d)	Maximum term	24 months
6-1801(6)(e)	Amortization - substantially equal payments of principal and interest	
6-1833(A)(1)	Delinquency charge	5%
6-1833(A)(2)	Court costs	Unspecified
6-1811(B)(2)(a)	Database charge	Unspecified
6-1833(B)	Personal property handling charge applied to secured loans	Unspecified
6-1834(A)	Eligible for repayment plan after three missed payments	

Source: Amendment (Mesnard) to SB 1316 available at: [http://bit.ly/AZ1316\\_2016\\_amd1](http://bit.ly/AZ1316_2016_amd1)

**Figure 2. Unsecured Flexible Credit Lender Loan of \$2,500 repaid over 24 months at 17% monthly interest rate (204% APR)**

Month	Payment	Interest	Principal	Balance	Percent of Balance
				\$2,500.00	100.0%
1	\$435.05	\$425.00	\$10.05	2,489.95	99.6%
2	435.05	423.29	11.76	2,478.20	99.1%
3	435.05	421.29	13.75	2,464.44	98.6%
4	435.05	418.96	16.09	2,448.35	97.9%
5	435.05	416.22	18.83	2,429.52	97.2%
6	435.05	413.02	22.03	2,407.49	96.3%
7	435.05	409.27	25.77	2,381.72	95.3%
8	435.05	404.89	30.16	2,351.56	94.1%
9	435.05	399.77	35.28	2,316.28	92.7%
10	435.05	393.77	41.28	2,275.00	91.0%
11	435.05	386.75	48.30	2,226.70	89.1%
12	435.05	378.54	56.51	2,170.19	86.8%
13	435.05	368.93	66.12	2,104.07	84.2%
14	435.05	357.69	77.36	2,026.72	81.1%
15	435.05	344.54	90.51	1,936.21	77.4%
16	435.05	329.16	105.89	1,830.32	73.2%
17	435.05	311.15	123.89	1,706.42	68.3%
18	435.05	290.09	144.96	1,561.47	62.5%
19	435.05	265.45	169.60	1,391.87	55.7%
20	435.05	236.62	198.43	1,193.44	47.7%
21	435.05	202.88	232.16	961.28	38.5%
22	435.05	163.42	271.63	689.64	27.6%
23	435.05	117.24	317.81	371.84	14.9%
24	\$435.05	\$50.68	\$337.89	-	0.0%
<b>Total</b>	\$10,441.15	\$7,941.15	\$2,500.00		
<b>Multiplier</b>	4.18	3.18			

Source: Consumer Federation of America calculations

**Figure 3. Secured Flexible Credit Lender Loan of \$2,500 repaid over 24 months at 15% monthly interest rate (180% APR)**

Month	Payment	Interest	Principal	Balance	Percent of Balance
				\$2,500.00	100%
1	\$388.57	\$375.00	\$13.57	2,486.43	99%
2	388.57	372.96	15.61	2,470.81	99%
3	388.57	370.62	17.95	2,452.86	98%
4	388.57	367.93	20.65	2,432.22	97%
5	388.57	364.83	23.74	2,408.48	96%
6	388.57	361.27	27.30	2,381.17	95%
7	388.57	357.18	31.40	2,349.77	94%
8	388.57	352.47	36.11	2,313.66	93%
9	388.57	347.05	41.52	2,272.14	91%
10	388.57	340.82	47.75	2,224.39	89%
11	388.57	333.66	54.92	2,169.47	87%
12	388.57	325.42	63.15	2,106.31	84%
13	388.57	315.95	72.63	2,033.69	81%
14	388.57	305.05	83.52	1,950.17	78%
15	388.57	292.52	96.05	1,854.12	74%
16	388.57	278.12	110.46	1,743.66	70%
17	388.57	261.55	127.03	1,616.63	65%
18	388.57	242.49	146.08	1,470.55	59%
19	388.57	220.58	167.99	1,302.56	52%
20	388.57	195.38	193.19	1,109.37	44%
21	388.57	166.41	222.17	887.20	35%
22	388.57	133.08	255.49	631.71	25%
23	388.57	94.76	293.82	337.89	14%
24	388.57	50.68	337.89	-	0%
<b>Total</b>	9,326	6,826	2,500		
<b>Multiplier</b>	3.73	2.73			

Source: Consumer Federation of America calculations

**Figure 4. \$2,500 loan with a 5 percent administrative fee repaid over 24 months at 36% annual interest rate (39.6% APR)**

Month	Payment	Interest	Principal	Balance	Percent of Balance
				\$2,625.00	100%
1	\$155.00	\$78.75	\$76.25	2,548.75	97%
2	155.00	76.46	78.54	2,470.21	94%
3	155.00	74.11	80.89	2,389.32	91%
4	155.00	71.68	83.32	2,306.00	88%
5	155.00	69.18	85.82	2,220.18	85%
6	155.00	66.61	88.39	2,131.79	81%
7	155.00	63.95	91.05	2,040.74	78%
8	155.00	61.22	93.78	1,946.96	74%
9	155.00	58.41	96.59	1,850.37	70%
10	155.00	55.51	99.49	1,750.89	67%
11	155.00	52.53	102.47	1,648.41	63%
12	155.00	49.45	105.55	1,542.87	59%
13	155.00	46.29	108.71	1,434.15	55%
14	155.00	43.02	111.97	1,322.18	50%
15	155.00	39.67	115.33	1,206.84	46%
16	155.00	36.21	118.79	1,088.05	41%
17	155.00	32.64	122.36	965.69	37%
18	155.00	28.97	126.03	839.66	32%
19	155.00	25.19	129.81	709.85	27%
20	155.00	21.30	133.70	576.15	22%
21	155.00	17.28	137.72	438.43	17%
22	155.00	13.15	141.85	296.59	11%
23	155.00	8.90	146.10	150.48	6%
24	\$155.00	\$4.51	\$150.48	-	0%
Total	\$3,720	\$1,095	\$2,625		
Multiplier	1.42	0.42			

Source: Consumer Federation of America calculations

**Figure 5. \$2,500 loan with two on-time payments and three missed payments before borrower is payment plan eligible**

Month	Status	Payment	Interest	Principal	Delinquency Fee	Balance	Percent of Balance
0						\$2,500.00	100%
1	Paid	\$435.05	\$425.00	\$10.05	-	2,489.95	100%
2	Paid	435.05	423.29	11.76	-	2,478.20	99%
3	Missed	-	418.96	-	\$21.75	2,918.90	116.8%
4	Missed	-	416.22	-	21.75	3,356.88	134.3%
5	Missed	-	\$413.02	-	\$21.75	\$3,791.65	151.7%
-							Payment plan eligible

Source: Consumer Federation of America calculations

Contact Tom Feltner, Director of Financial Services at Consumer Federation of America at [tfeltner@consumerfed.org](mailto:tfeltner@consumerfed.org) or 202/618-0310.