Consumer Federation of America

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CFA APPLAUDS THE RELEASE OF NEW PROTECTIONS FOR BANK PAYDAY LOANS

Guidance enacts strong standards to protect consumers from cycle of debt associated with bank payday loans

(Washington D.C.) – The Consumer Federation of America applauds the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) for their final guidance designed to reduce the risks associated with payday loans issued by depository institutions.

Bank payday loans, often referred to as deposit advance loans, carry triple-digit interest rates and are repaid from a borrower's next bank account deposit – similar to a payday loan from a storefront lender. A recent study released by the Consumer Financial Protection Bureau found that bank customers who used the product took out a median of 14 loans per year, were in debt 112 days out of the year and were more likely to overdraft than customers that did not use bank payday loans.

"The FDIC and OCC guidance will put in place strong standards that protect consumers from the cycle of debt associated with bank payday loans," said Tom Feltner, CFA's Director of Financial Services. "This action will ensure that banks are extending safe and sustainable credit to their customers and decreases risks to bank safety and soundness."

The guidance requires that banks assess repayment ability based on six months of a consumer's expenses and income. It also requires banks to ensure that borrowers are able to repay a loan without repeated borrowing.

The Federal Reserve Board, which regulates two large banks that issue bank payday loans, released a letter in April identifying the consumer protection challenges with bank payday loans but stopped short of joining the guidance issued by the FDIC and OCC.

"We urge the Federal Reserve Board, which regulates two of the financial institutions currently offering bank payday loans, to issue a similar guidance," said Feltner. "Consistent and coordinated action by all of the federal bank regulators is critical to protecting consumers from the risks posed by banks that offer payday loans."

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The Consumer Federation of America is a nonprofit association of nearly 300 consumer groups that, since 1968, has sought to advance the consumer interest through research, advocacy, and education. www.consumerfed.org