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CFPB PAYDAY PROPOSAL WILL PROTECT CONSUMERS FROM COMMON ABUSES OF PAYDAY DEBT TRAP

Consumer Federation of America Calls on CFPB to Require a Comprehensive Ability to Repay Standard

Washington, DC – At a field hearing in Richmond, Virginia, the Consumer Financial Protection Bureau issued a working draft of its forthcoming payday loan rule – a critical first step to ensuring that consumers are protected from abusive practices such as poor underwriting, back-to-back lending and abusive access to a borrower's bank account.

As a data-driven regulator committed to improving markets and protecting consumers, the CFPB has well documented the abuses this proposal seeks to address. Last year, the Bureau released a comprehensive analysis of payday loan usage rates and found that over 80 percent of payday loans are followed by another loan within the next 14 days. The Bureau also found that half of all loans are part of a series of ten loans or more.

A strong ability to repay standard is critical to stopping the debt trap

The proposal would require payday, auto title and installment lenders to review a borrowers' ability to repay a loan in full and on time without additional borrowing. The broad scope of the proposal promises to cover most of the high-cost credit market and ensure that lenders do not develop new products to evade a final rule.

"The evidence shows that payday loans are easy to get into and hard to get out of," said Tom Feltner, director of financial services at the Consumer Federation of America. "An objective assessment of a borrower's ability to repay a loan based on their income and expenses promises to end the financial hardship that inevitably follows abusive lending."

Protecting borrowers' bank accounts from abusive collections

The use of post-dated checks and electronic access to a borrowers' bank account has been shown to result in frequent overdrafts and involuntary account closures when a borrower does not have sufficient funds in their account to repay a payday loan. To address these concerns, lenders would be permitted two attempts to collect a payment. This limit would reduce the number of overdrafts caused by repeated collection attempts and level the playing field between payday lenders and other creditors that do not have electronic access to a borrowers' bank account.

The proposed ability to repay standard should not be optional

In addition to the ability to repay requirements for shorter and longer term loans, the proposal also considers other options, such as offering lenders the option to forgo the review of a borrower's income and expenses before making a loan. Of particular concern, the proposal allows lenders to make up to three back-to-back payday loans. This option serves as a stamp of approval for back-to-back lending and could undermine stronger state protections.

"This initial proposal suggests several different paths the Bureau could pursue going forward," said Feltner. "None of this is set in stone, but giving lenders the option to make three loans in a row without requiring a straight-forward, common-sense ability to repay review should not be part of a final rule."

The Consumer Federation of America is an association of more than 250 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. www.consumerfed.org