Consumer Federation of America

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CONSUMER FINANCIAL PROTECTION BUREAU FINDS PAYDAY BORROWERS FREQUENTLY TRAPPED IN LONG-TERM DEBT, UNABLE TO PAY DOWN ORIGINAL LOAN PRINCIPAL

Washington, D.C.—The Consumer Financial Protection Bureau's recently released report on payday loans provides an in-depth look at the frequency of back-to-back borrowing and finds that 80 percent of all payday loans are rolled over or renewed within 14 days. The report expands on previous research released last year that showed that the average payday borrower was in debt to a payday lender 196 days, or 54 percent of the year.

"Repeat borrowing is a symptom of a borrower's fundamental inability to repay a payday loan," said Tom Feltner, director of financial services at the Consumer Federation of America. "We need the CFPB to issue a strong rule to ensure that short-term credit doesn't become a long-term problem."

The report also found that the original loan principal is unlikely to be paid down during these back-to-back loan cycles and that states that require short breaks between loans have similar repeat borrowing patterns as those states that do not. In addition, the report found that 15 percent of new loans result in a cycle of debt at least ten loans long.

Payday lenders rely on an unprecedented ability to collect loan payments using post-dated checks or electronic access to bank account, rather than examining a borrower's income and expenses or existing debt burden. With little or no consideration of a borrower's ability to repay, many consumers lack sufficient income to repay the loan in full and often resort to taking out multiple loans or refinancing the original loan and incurring additional interest charges.

As states continue to crack down on short-term balloon payment loans, some lenders have shifted to longer-term loans or open-end lines of credit at triple digit interest rates to avoid many consumer protections.

"Regardless of the term or structure of a payday loan, if back-to-back usage is frequent and lenders direct access to a bank account, borrowers are at risk," said Feltner. "Ability to repay, not the ability to collect, should be the standard going forward."

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