CLD

CONSUMER LOBBY DAY 2019

PROTECT CONSUMERS FROM PREDATORY LENDING

Oppose the Consumer Financial Protection Bureau's Harmful Proposed

Repeal of Payday Lending Protections

Key Points:

- **Congress should oppose all forms of predatory lending.** High cost payday loans and car title loans trap consumers in cycles of debt. Whether short-term or long-term, offered by banks or nonbanks, unaffordable, predatory loans can leave people unable to meet expenses, lead to vehicle repossession, aggressive debt collection, bank account closures and expensive cycles of re-borrowing.

- **Congress should oppose the CFPB's proposal to roll back payday protections.** The CFPB has proposed to do away with the core requirement of its 2017 rule that requires lenders to determine a borrower's ability to repay. The proposed rollbacks would prevent protections against debt traps from taking effect later this year. The comment deadline on the rollback is May 15th.

- **Congress should adopt a national usury limit, and oppose attempts by high cost lenders to circumvent state rate caps.** The Military Lending Act set a 36% rate cap for a variety of lending products, including payday loans. All Americans could benefit from this common-sense cap, paving the way for affordable loans that consumers can repay.

Congress should protect consumers from predatory lending

- **Payday loans lead to cycles of debt.** The CFPB's own data shows that 75% of all payday loan fees come from victims who wind up taking an average of 10 loans before they can finally pay off their debt. That's the industry's business model – a debt trap. Borrowers who are unable to repay the debt are subject to vehicle repossessions and aggressive debt collection.

- **Bank payday loans are even more destructive.** The CFPB found that two-thirds of fees on bank payday loans (aka "deposit advance products") came from people who on average borrowed 15 or more times per year, many of whom took out loans 10 or more months per year.

- **Long-term payday loans are a deeper, longer debt trap.** Payday lenders are migrating into installment loans and lines of credit at rates of 100% APR and higher. These loans have high default rates, are bigger than short-term payday loans, and are often keep people tied up in unaffordable debt for years.

- **There are less expensive small dollar loan alternatives.** Payday lenders claim they provide needed access to borrowers without another choice, and that regulation would strangle this needed source of funding. In fact, there are several other reasonable options for consumers that are less expensive. While not perfect, credit cards, lower-cost installment loans, early wage access products, and pawnshop credit are better alternatives to predatory loans.

Congress should oppose CFPB's proposal to roll back protections for consumers

- **The Bureau proposes to remove the requirement to assess a consumer's ability to repay.** The Bureau's own data found that 85% of payday loans are reborrowed within 30 days, a clear indication of a lack of ability to repay. Removing this requirement will result in borrowers being saddled with unaffordable loans.

- **The CFPB offers little new evidence for the rule's substantive changes**. The 2017 Final Rule was the product of years of research and public input. The new proposal does little to provide new evidence that would justify changes that will result in harm to consumers.

- **The CFPB is prioritizing industry profits over consumer protection.** The Bureau is proposing to delay the compliance date of its original rule. This delay blatantly harms consumers so that the industry can continue to profit.

Congress should adopt a usury limit and oppose attempts to get around state rate caps

- **Congress should establish a national rate cap.** The Military Lending Act is working for our service members. Congress should extend the Military Lending Act's 36% interest rate cap to all Americans, which could expand access to affordable credit.

- **Congress should protect state rate caps from rent-a-bank schemes.** States have limited interest rates since the founding of our country. Voters have regularly endorsed rate caps, which are the simplest and most effective protection against predatory lending. Yet today, predatory lenders are using rent-a-bank schemes to make 100% to 160% APR loans in states where those rates are illegal. Proposed federal legislation and weak oversight by bank regulators are encouraging the spread of sham bank partnerships. Congress should oppose any loopholes that allow payday lenders to evade protections adopted by state voters and legislatures.

Consumer Lobby Day is a joint project of leading national, state and local consumer groups. For more information about CLD or the policies described on this fact sheet, please contact CLD@consumerfed.org