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CFPB Proposal to Stop the Payday Lending Debt Trap Is On the Right Track But Contains Dangerous Loophole

(Columbus, Ohio) -- Earlier today the Consumer Financial Protection Bureau released a proposal to rein in abusive low-dollar lending schemes such as payday, auto title and installment lending. The draft, presented at a field hearing in Richmond, Va., would require lenders to verify before making a loan that borrowers can pay it back on time, without re-borrowing, and still cover their basic necessities like rent, food and utilities.

But, lenders could chose to ignore this requirement because of loopholes that still allow for abusive practices. For example, under this rule short-term lenders could make up to six unaffordable loans to the same borrower with interest rates that average 400 percent.

Back-to-back loans are a standard business practice of the payday industry. Payday lenders market their products as short-term quick fixes, but the average borrower winds up taking out nine loans, each with a new fee and a triple-digit interest rate.

Policy Matters Ohio, Ohio Poverty Law Center, the Coalition on Homelessness and Housing in Ohio (COHHIO) and Neighborhood Housing Services of Greater Cleveland are a part of the national Stop the Debt Trap Campaign, which is fighting for an end to abusive lending. In Ohio, payday loans typically carry a triple-digit interest rates, including some over 700 percent APR.

Ohio advocates made the following statements on the proposal:

> "The proposal unveiled today by the Consumer Financial Protection Bureau takes an important step toward restricting in a wide range of abusive lending products," said Kalitha Williams, policy liaison at Policy Matters Ohio. "Unfortunately, it also includes a gaping loophole that in essence puts a government stamp of approval on

unaffordable back-to-back loans with interest rates that average near 400 percent. We urge the CFPB and Director Cordray to reconsider and leave this loophole out of the rule."

"The scope of the CFPB's proposals is forward-looking and recognizes that this industry easily morphs into evasive new products," said Linda Cook, senior staff attorney at the Ohio Poverty Law Center. "I applaud the CFPB for asking this industry to do what any responsible lender should do - consider the borrower's ability to repay. This should not be an industry choice, rather an industry mandate. "

"We're glad to finally see action on the federal level to rein in predatory payday lending. There are good points to the recently released proposed CFPB rules, including making sure the borrowers can actually afford to repay these loans, which would prevent payday lenders from knowingly making loans to people who cannot afford to pay them back. It's the first step to stopping the debt trap," said Bill Faith, executive director of the Coalition on Homelessness and Housing in Ohio.

"There are points that need to be strengthened, such as making the ability to repay standard mandatory. As we've seen in Ohio, payday lenders have found many ways around laws meant to regulate them, so federal rules must have the tightest reins possible. We look forward to working with the CFBP to continue the process of strengthening protection for all small loan borrowers."

"Kudos to the Consumer Financial Protection Bureau for allowing research to be their guide and recognizing that payday lending reform is in desperate need," said David Rothstein director of resource development and public affairs at Neighborhood Housing Services of Greater Cleveland. "Every day, we see clients being dragged down by the anchor of payday loans. As a lender, we value strict underwriting for our borrowers and our organization. Thus, allowing lenders the choice to opt-out of looking at a borrower's ability to repay in favor of back-to-back transactions is unacceptable. We know what their choice will be. For 6 years, payday lenders in Ohio took it upon themselves to use every lending law but the one approved by a bi-partisan General Assembly and 2/3 of Ohio voters."