Policy Matters Ohio

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Congress looks to rollback payday regulations

A year ago today, after a hard-fought battle between consumer advocates and the financial industry, the Consumer Financial Protection Bureau (CFPB) issued a draft rule aimed at reining in the worst abuses of payday, car title and other high-cost debt trap lending schemes. Now consumer advocates are gearing up for another fight as Congress prepares to unravel regulations that protect millions of Ohioans.

The U.S. House of Representatives is poised to vote on the Financial CHOICE Act. This bill, among other things, specifically bars the CFPB from regulating payday and car title lenders, which drain $500 million dollars in fees from Ohioans each year. Ohio also has some of the highest interest rates for payday lending in the country, averaging nearly 700 percent APR. If the bill passes, the draft rule will never go into effect and the CFPB will be barred from enforcing existing laws.

"This legislation would be better called the Wrong Choice Act," said Kalitha Williams of Policy Matters Ohio. "Instead of protecting consumers, Congress is opening the door for the financial services industry to return to the exploitative practices that wrecked the financial stability of millions of families and nearly destroyed the American economy."

Since its inception, the CFPB has used its enforcement authority to return nearly $12 billion to 29 million consumers from financial companies that broke to the law. More than 17,000 Ohioans have filed complaints with the agency. The CFPB is working to rein in payday and car-title lenders from engaging in the following abusive, or deceptive practices:

- Collecting debts consumers did not legally owe
- Robosigning and illegally overcharging military service members
- Luring borrowers into one unaffordable loan after another
- Car title lenders misleading customers into more expensive loans than they wanted.

"The CFPB has worked tirelessly and effectively to protect working families, people with disabilities, and the elderly," said Linda Cook, Senior Attorney at the Ohio Poverty Law Center. "These citizens are especially vulnerable to the high costs, turnovers and abuses of payday loans. In Ohio, payday loans keep people in a state of perpetual debt and create economic instability in families and communities."

In addition to providing special protections for payday lenders, the Financial CHOICE Act would remove the CFPB's authority to stop other financial services businesses, like credit card companies and mortgage brokers, from pushing abusive products on their customers or tricking them into paying for things they can't use, don't want and don't need.

The House bill would unravel other important consumer protections including:

- Repealing a rule that requires investment advisers to act in the best interest of their clients. The rule would put $17 billion back in the pockets of retirement savers

- Allowing banks to charge more to use a debit card, costing consumers more than $6 billion per year
- Stripping agencies of the power to wind down megabanks that are "too big to fail" without bailouts or inflicting widespread harm on the economy
- Making it easier for companies to win in court when charged with wrongdoing.

"It's been nine years since Ohioans voted to crack down on payday lenders, but these swindlers are more out of control than ever," said Marcus Roth, communications director for the Coalition on Homelessness and Housing in Ohio. "Now Congress could help them trap even more people in endless cycles of debt by gutting the Consumer Financial Protection Bureau — Ohio's only hope for reasonable lending rules. Politicians in Congress need to get out of the way and let the CFPB do its job."

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Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute with offices in Cleveland and Columbus.