Policy Matters Ohio

For immediate release

July 20, 2015

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U.S. Senator Brown, Ohio advocates mark CFPB anniversary by calling for payday lending reforms

Five years after the Consumer Financial Protection Bureau was created as part of the Dodd-Frank financial reform law, consumer activists are encouraging the federal agency to curb abuses of the payday lending industry.

U.S. Senator Sherrod Brown, Policy Matters Ohio, Ohio Poverty Law Center and Neighborhood Housing Services of Cleveland are celebrating this important milestone and the work of the CFPB, but called for stronger efforts to protect consumers.

"Until Congress established the CFPB, there was no federal watchdog responsible for supervising lenders and enforcing regulations in the payday loan market," said Senator Brown. "Since its creation, the CFPB has returned $10.1 billion to the pockets of 17 million wronged consumers. But too many Ohioans are still trapped with a lifetime of debt after taking out payday loans. And for too long, the payday lending industry has dodged rules that would protect consumers. I will continue pushing the CFPB to develop the strongest rules possible to crack down on payday lenders who prey on Ohio families when they are at their most vulnerable."

Senator Brown is one of 101 congressional signers (68 House members and 33 Senators) of letters urging the CFPB to move forward with rules strong and broad enough to end the abusive practices of payday, car-title and other high-cost consumer lenders. Strong rules will keep Americans from getting trapped in the cycle of debt that is too often the result of these triple-digit-interest loans and unaffordable balloon payments.

"Ohioans have been under the thumb of payday lenders for far too long," said Kalitha Williams, Policy Liaison of Policy Matters Ohio. "One in 10 Ohioans has taken out a payday loan. With interest rates of 600 percent or more, it's no wonder we have the third-highest number of consumer complaints to the CFP on payday loans. Ohioans need the CFPB to break through with a strong rule that will protect them from the debt trap."

Ohio has a muddled history in trying to regulate payday lenders. In 2008, the Ohio General Assembly and Ohio voters, through legislation and a statewide ballot initiative, decided to curb payday lending by creating the Ohio Short-Term Loan Act. Last year, the Ohio Supreme Court upheld a loophole in state law allowing payday lenders to operate outside the limits established by the General Assembly and backed by the state's voters. The CFPB has an opportunity to step in where state policymakers have been unsuccessful.

"The booming payday industry in Ohio has opened the door to car title lending," said Linda Cook of the Ohio Poverty Law Center. "These loans put vulnerable consumers even more at risk because one late payment means a family losing their only transportation to work, school and medical appointments."

She said Ohio and the nation need reform and regulation of the lenders who use Ohio to profit from short-term, small-dollar loans. "Low-income Ohioans deserve access to credit that is affordable and doesn't take advantage of their difficult financial position and Ohio's challenging economic times. We applaud the CFPB for the work it has done so far to help make the marketplace fair for consumers, and we look forward to strong rules for payday."

Payday lenders claim to be offering a one-time financial quick fix. In truth, their business model is to make loans they know cannot be paid back in full and on time – without requiring the borrower to take out another loan. Research shows that 80 percent of these loans are renewed within 2 weeks and a typical payday loan takes one-third of the borrower's paycheck, leaving little for the borrower to live on. These loans ensure that a borrower is financially vulnerable for months and months.

"As a lender ourselves, ability to repay is a fundamental element of responsible lending," said David Rothstein of Neighborhood Housing Services of Greater Cleveland. "The CFPB is establishing a high floor for lending – by making loans borrowers can afford and still cover basic necessities like housing and food."

Under the terms of the Dodd-Frank financial reform law of 2010, the CFPB has the authority to regulate small-dollar consumer loans. In March, the agency released a broad outline of its plans and is expected to come out with a formal proposal this fall. The payday lending industry is expected to resist a strong a rule and to fight back by attacking both the rule and the bureau.

A recent poll, found that many Americans support payday lending reforms. Ninety-one percent support regulating financial services and products to ensure they are fair for consumers. Eighty-eight percent agree that payday loans should require lenders to verify a borrower's ability to repay. The poll underlines public concern about payday abuses, and strong support for regulation.