Address: 400 S. Union Street, Ste. 340
Montgomery, AL 36101
Phone: 334-832-9060
Website: arisecitizens.org
Facebook/Twitter: @AlabamaArise

FACT SHEET

The new proposed federal payday lending rules are a good start, but they need to be even stronger

By Stephen Stetson, policy analyst
June 17, 2016

Consumer protection took a big step forward in June 2016, when the Consumer Financial Protection Bureau (CFPB) proposed important new federal rules governing high-cost consumer lending products, including payday and auto title loans. The proposals came after years of public comments and input gathered at CFPB events across the nation.

Alabamians played a key role in the development of these new regulations. The CFPB held its very first field hearing on payday lending in Birmingham in 2012, and President Barack Obama met with Arise and other state advocates in Birmingham in March 2015 before delivering a speech calling for consumer-friendly reforms of payday and title lending.

These loans come at a high cost in Alabama, where they can carry interest rates of *456 percent a year* (payday loans) and *300 percent a year* (title loans). The CFPB has broad power to regulate these loans, but importantly, it does not have the authority to reduce rates. Only states can do that.

Arise will continue to work for state-level payday and title lending reform alongside its partners in the Alliance for Responsible Lending in Alabama (ARLA). In the meantime, these new federal rules represent a critical opportunity to improve the landscape of short-term lending in Alabama.

What the new rules would do – and why they need improvement

The rules would strengthen consumer protections by requiring certain lenders to investigate whether borrowers can afford to repay their loans. That would establish the basic principle of underwriting, an important way to help keep borrowers from getting stuck in deep debt they can't afford to repay.

Unfortunately, the rules may not take effect for years, and they include many exceptions. For example, the rules would exempt a borrower's first six payday loans in a year, meaning many consumers still could spend much of the year burdened by debt with triple-digit interest rates.

The rules also contain loopholes in how a lender can show a loan is affordable, meaning borrowers, after repaying the loan, can afford to pay basic living expenses without borrowing again. Under the "business as usual" loophole, lenders may be able to meet this affordability test by showing that their rates of re-borrowing or default are no higher than those of other high-cost lenders. But that standard would offer evidence of little more than a lender's ability to seize repayment directly from a borrower's checking account.

How you can help strengthen the new CFPB rules

The proposed rules are well-intentioned, but they must be strengthened before they're finalized. Fortunately, there's still time to speak up. The CFPB is accepting public comments until Sept. 14, 2016, and it's safe to expect the lending industry will attempt to weaken the rules. ***We need your help to speak up for consumers.*** We need reform advocates to submit as many comments as possible on the CFPB rules, whether you've taken out a high-cost loan or not.

Here's how to submit a comment:

1. Go to stoppaydaypredators.org/ARLA.
2. Enter your contact information and tell the CFPB why stronger rules on payday and title loans matter to you. See the box below for a few possible arguments.

Five ways you can speak up for Alabama borrowers

Your comments to the CFPB should be personalized to your specific experiences and concerns with high-cost lending. Here are a few examples of topics that you could discuss:

- If you've ever taken out a payday or title loan, talk about the impact of high-cost debt in your life. If you know someone who has taken out one of these loans, ask them to tell their story. It's important to put a human face on the problem of debt, and to push back against the stigma that people feel about their past financial woes.

- You can talk about how high-cost lending is a drain on communities. Research shows that every $1 that someone pays back to a payday or title lender takes nearly $2 out of the overall economy. Bankruptcies and decreased consumer spending affect us all.

- You can argue that stronger federal regulation is vital because state-level lending reform is difficult. As advocates continue to work for change in Montgomery, borrowers need all the federal help they can get in the meantime.

- You can urge the CFPB to expand the "cooling-off period" between high-cost loans to 60 days, up from the proposed 30 days. This change would help ensure that these loans are used only for emergencies. Allowing lenders to refinance high-cost loans repeatedly ensures that many borrowers will stay on the debt treadmill for most of the year.

- You can encourage the CFPB to add teeth to the "ability to repay" provisions by closing the loophole that exempts a borrower's first six payday loans every year. The CFPB should require lenders to ensure that borrowers have enough money to meet basic living expenses after their debts are repaid. The new rules should eliminate any loopholes that might allow lenders to avoid ensuring that borrowers are truly creditworthy.