CFPB Reforms to Payday and Auto Title Loans are Laudable, but Additional Protections are Necessary:

New rules should not undermine North Carolina's existing rules that cap rates on short-term unsecured loans. The CFPB's final rule should have additional safeguards in place to protect consumers from debt traps.

(Durham, NC) - Reinvestment Partners applauds the Consumer Financial Protection Bureau for its proposed rulemaking to guard consumers from abusive payday and auto title loans.

"By preventing debt traps and requiring that lenders make sure borrowers can repay their debts, the proposed rule paves the way for the establishment of strong barriers that will protect consumers from predatory payday and auto title loans. This rule will stop the kinds of harmful practices that have characterized these products for decades, without undermining access to safe and affordable small-dollar credit."

There are several important parts to the rule:

1. It prevents consumers from falling into a repeating cycle of debt: As proposed, the rule would put safeguards in place to prevent repeat refinancing ("rollovers") of loans.
2. It protects borrower's bank accounts from unauthorized debits: Lenders must ask for re-authorization to debit a consumer's account after more than two failed requests.
3. It requires lenders to determine a borrower's ability-to-repay based on a determination of income and expenses of borrowers: Unless certain other conditions are met, a lender will be expected to make sure that borrowers can afford to pay back the full amount of loans and fees at the end of the initial loan term.
4. It creates a database for payday loans: Lenders will be required to submit loan originations and payment records to a "registered information system" in order to facilitate the restrictions on loan renewals.

In its study on payday lending, the CFPB reported that online payday loan users paid an average of $186 in fees per year – in addition to interest. This included overdraft fees charged when lenders debited borrower's checking accounts. To underscore how these loans create debt traps, the Bureau's research found that 75 percent of payday loan fees were paid by borrowers who took out more than ten loans in one year.

It has been a decade since payday lending was legal in North Carolina. Since then, unsecured personal loans of less than $25,000 cannot bear an interest rate of more than 36 percent.

"In the upcoming comment period, it will be important to preserve the rights of states to enforce laws that go above and beyond the new federal rule. Currently 90 million Americans live in states with rate caps – including ten million North Carolinians. By no means should the CFPB's rulemaking become the basis for the return of payday lending in any form to North Carolina."

"The rule is complicated, but the idea behind it is common sense. In the minutiae of a 1,334-page rulemaking, the Bureau is essentially saying that no one should be put into a loan which is designed to trap them in a debt that they cannot repay."

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