The NAACP Supports a Strong Rule to Stop the Short Term, High Cost Loan Debt Trap

WHEREAS, the NAACP commends Consumer Financial Protection Bureau (CFPB) Director Richard Cordray for his extraordinary job in advancing the fight against predatory loan products such as payday loans, title loans that have pushed and held racial and ethnic minority communities, including African American community members, among others in the debt trap; and,

WHEREAS, many short term, small dollar loans, including payday loans, tend to be associated with exorbitant interest rates and other high cost, wealth stripping fees. They are heavily marketed and targeted to African Americans, Latinos and low-wealth families traditionally underserved by the mainstream banking system in a process often referred to as “predatory lending”; and

WHEREAS, studies have repeatedly shown that the wealth-stripping effects of predatory lending practices have a disproportionate impact on African Americans, Latinos, and low-wealth families, robbing households of hard-earned wages and savings that could otherwise be reinvested into local neighborhoods and communities; and

WHEREAS, the use of these predatory products is associated with higher incidences of credit delinquency, delayed medical care, bank overdrafts and account closures, and bankruptcy; and

WHEREAS, short term, small dollar lenders including payday and car title lenders collect over $7 billion in penalties and fees from borrowers on an annual basis; and

WHEREAS, the typical average cost of these loans is 300% annual interest or its equivalent in fees; and

WHEREAS, the NAACP recognizes the significant enabling/collaborative role of the major banking institutions in providing payday and other predatory lenders favorable financing; and

WHEREAS, high-cost, small-dollar lenders make loans that are structured to last for months or years at these high-costs, with continual refinancing and high-defaults; and

WHEREAS, many high-cost, small-dollar lenders do not assess a borrower's ability to repay a loan, considering both income and expenses, and in fact intentionally rely on the unaffordability of these loans to extract huge profits from borrowers stuck in the debt trap cycle; and

WHEREAS, the average payday loan borrower is trapped in more than 8 payday loans per year, and the average car title loan is refinanced 8 times. Many borrowers are
unable to afford to repay the original loan plus interest; the result being that they become entangled in a debt trap cycle which is the main source of financial gain for payday lenders; and

WHEREAS, 14 states and the District of Columbia have enacted strong state laws that effectively enforce a rate cap to protect against triple-digit interest rate payday loans; and

WHEREAS, as advised by the U.S. Department of Defense, Congress enacted the Military Lending Act, containing a 36% rate cap on consumer credit, which extends to payday, car-title, and installment loans to active duty Service members and their families; and

WHEREAS, 36 states lack meaningful regulation to protect against triple-digit interest rate payday loans, and 21 states permit high-cost car title lending; and

WHEREAS, in 2000, 2001, 2002, 2005, and 2013, the NAACP passed resolutions decrying the lack of affordable credit in the communities we serve and represent, as well as condemning high-cost, predatory, wealth-stripping loans; and

WHEREAS, the NAACP championed the Dodd-Frank Wall Street Reform and Consumer Protection Act, through which the CFPB was created to prevent unfair, abusive, and deceptive practices; and

WHEREAS, subsequent to extensive research of payday lenders, the CFPB is currently engaged in the rulemaking process for rules that have the potential to end the debt trap created by unaffordable high-cost, small-dollar loans by ensuring that lenders require that borrowers have an ability to repay their loans; and

WHEREAS, the NAACP is aware of the tendency of predatory lenders to exploit loopholes in laws and regulations as the local, state, and federal levels; and

WHEREAS, the NAACP strongly condemns abusive, predatory, wealth-stripping lending practices in whatever form and wherever they exist, particularly those that disproportionately prey on communities of color and low-wealth families.

BE IT FURTHER RESOLVED, that the NAACP commits to work through the local, state and federal legislative processes to end these practices, and supports efforts by the CFPB to rein in the abusive, wealth-draining practices of predatory lenders; and

BE IT FURTHER RESOLVED, that the NAACP encourages the CFPB to adopt strong rules to protect consumers across the country, requiring high-cost small-dollar lenders to ensure loans are affordable when considering borrowers' income and expenses, and to ensure the loans can be repaid without refinancing or defaulting; and

BE IT FURTHER RESOLVED, that CFPB engage the major banking institutions in solving this problem; and

BE IT FURTHER RESOLVED, that the NAACP encourages the CFPB to adopt high-cost, small-dollar rules that limit a borrower's total length of indebtedness to no more than 90 days in a 12 month period; and

BE IT FURTHER RESOLVED, that the NAACP urges the CFPB not to use its preemptive powers to undermine stronger state or local protections; and

BE IT FINALLY RESOLVED, that the NAACP encourages the CFPB to be diligent in adopting rules that encompass tactics used by predatory lenders to evade regulation in efforts to continue offering abusive loan products in all their forms.