Stop the Payday Loan Debt Trap

WE NEED YOU!

THE MOMENT

This is an historic opportunity for opponents of predatory lending. The Consumer Financial Protection Bureau has put forth a preliminary proposal to rein in the worst abuses of payday lending. The CFPB cannot, by law, institute a rate cap. That leaves other potentially good but complicated options. The early draft is a mixed bag.

The current business model of payday lending relies on making unaffordable ones. Today, payday lenders make 75 percent of their fees from borrowers more than 10 loans in a one-year period because they are stuck in a debt trap. Payday loans are associated with other harms such as increased likelihood of bankruptcy, delinquency on other bills, and bank account closures.

WHAT WORKS ABOUT THE PROPOSAL

The draft CFPB proposal includes an affordability standard. This would require lenders to assess a borrower's income, debts and expenses to determine if that borrower can reasonably be expected to pay off the loan and still afford food and pay the rent and utilities. In other words, for the first time, payday lenders would be required to make their profit the same way we expect responsible banks and mortgage lenders to – by making loans borrowers can afford.

WHY THE AFFORDABILITY STANDARD MATTERS

The current business model of payday lending relies on making loans borrowers can't pay off. In fact, payday lenders make 75 percent of their fees from borrowers who take out more than 10 loans in a year. That adds up to a debt trap where borrowers wind up paying an additional $450 to borrower $300.

WHAT DOESN'T WORK ABOUT THE PROPOSAL

There is a major loophole in the affordability requirement. For example, under this proposal rule, payday lenders could make up to six unaffordable short-term loans to the same borrower, with interest rates that can average 400 percent and no underwriting. The proposal would also allow some longer-term payday loans without ensuring they are affordable.

WHY THIS LOOPHOLE MATTERS

A bad loan is a bad loan, period. That's true the first time or the sixth. Bad loans cause severe harm to borrowers. And by putting, in essence, a government seal of approval on bad loans, the CFPB would be undermining and ultimately endangering tougher state laws and rate caps.

WHAT'S THE ASK

The CFPB should require that lenders verify borrowers' ability to repay the loan and still be able to cover basics, like food and rent, before making the loan. This is true for the first loan and every loan. If a borrower is still in debt two months after taking out a two week loan, that is not a good loan, that loan should be presumed to be a bad or unaffordable loan.

WHAT YOU CAN DO

- [ ] Contact the CFPB to ask them to close the loopholes to stop the debt trap
- [ ] Contact your member of Congress to urge them to support a strong CFPB rule to stop the payday loan debt trap
- [ ] Mobilize other stakeholders in your states to join the effort with you.

STOP THE DEBT TRAP

#stopthedebttrap