city of
CINCINNATI
COUNCILMEMBER
CHRIS SEELBACH

Director Richard Cordray
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

Re: Docket No. CFPB-2016-0025

Director Cordray,

I'd like to applaud the Consumer Financial Protection Bureau (CFPB) for releasing its proposed payday and car title lending rule to rein in the most abusive practices of this industry. This is an important step forward for the 12 million Americans caught in the debt cycle each year[1], but the rule can be made stronger to ensure that it ends the debt trap once and for all.

As a City of Cincinnati Councilmember, I have seen firsthand the devastating impact that predatory payday and car title lending has on struggling families, on small businesses and on Cincinnati's economy overall. I've heard stories from families who've lost their means due to these predatory financial traps. When families are already struggling to make ends meet, the outrageous interest rates, averaging a staggering 667% APR in Ohio[2], make most current payday and car title loans virtually impossible to repay and still meet a family's basic needs. Yet, the direct access to bank accounts, back dated checks or access to a car title that payday lenders demand mean that families are left with little choice but to re-borrow and go deeper into a cycle of debt and desperation.

At the heart of the proposed rule is a common sense principle – lenders must determine whether or not a consumer has the ability to repay the loan without hardship or re-borrowing. This is a strong and critically important principle and I strongly support it. No responsible lender would consider making a loan without basic underwriting and the same standard must apply to the small dollar and car title loans.

That being said, as it is currently written, the proposed rule contains several troubling exceptions to this standard. Currently, up to six high-cost payday loans could be exempted from the ability to repay standard, leaving borrowers in debt for much of the year. The rule also creates exemptions for some longer-term loans with high origination fees. Even a single unaffordable loan can have a devastating financial impact on borrowers. The ability to repay standard should apply to every loan with no exceptions.

The rule also does not go far enough to ensure that borrowers can really meet their basic needs after repaying their loan. Low default rates in the payday and car title industry are evidence of

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[1] Pew Safe Small-Dollar Loans Research Project (2012). "Payday lending in America: Who borrows, where they borrow, and why.

[2] Center for Responsible Lending. *U.S. Payday Interest Rates calculated on a Typical Loan.* 2016.

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coercion – not evidence that loans are affordable. This is little more than business as usual for predatory lenders and this loophole must be closed.

The harm caused by these exploitative and abusive loan products is clear. More than half of payday borrowers today end up paying more in fees and interest than they originally borrowed.[3] They are nearly twice as likely to file for bankruptcy[4] as people in similar financial situations and more than 92 percent more likely to become delinquent on their credit cards.[5] The Bureau's own data found that one in five car title borrowers lose their car – often even after having paid the original principal back. As struggling families get caught in a cycle of debt and desperation, the ripple effects are felt throughout our community. Families struggling with debt often must turn to local governments and social services for support while payday lending funnels millions out of our local economy. In Ohio, payday and car title lenders along are stripping over $500 million dollars in fees out of our economy[6].

The Bureau's proposed rule is an important step forward for millions of Americans and for the people of Cincinnati's struggling to escape the debt trap, but it must be strengthened to be effective. As a nation, we must put people over profits and protect vulnerable families from deception, coercion and abuse by poor-quality lending products. I urge the CFPB to enact the strong rule our families deserve.

Sincerely,

Chris Seelbach
Councilmember
City of Cincinnati

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3 Skiba, P.M. and Tobacman, J. (2008). "Do payday loans cause bankruptcy?" SSRN working paper.

4 Campbell, D., Jerez, A.S., and Tufano, P. (2011) Bouncing out of the banking system: An empirical analysis of involuntary bank account closures. Harvard Business School; Agarwal, S., Skiba, P.M. and Tobacman, J. (2009). "Payday loans and credit cards: New liquidity and credit scoring puzzles?" NBER Working Paper.

5 Standaert, D. *The Buckeye Burden: An Analysis of Payday and Car Title Lending in Ohio.* Nov. 2015.