CITY OF SEATTLE

July 5, 2016

Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1700 G Street, NW., Washington, DC 20552

Re: Docket No. CFPB-2016-0025; RIN 3170–AA40

Thank you for the opportunity to comment on the Consumer Protection Financial Bureau's (CFPB) proposed rules on Payday, Vehicle Title, and Certain High-Cost Installment Loans. We appreciate the due diligence and careful consideration the CFPB has given to developing these proposed rules. Absent a ban of payday loans, we the undersigned, support maintaining Washington's strong payday lending protections for consumers and continued access to short-term credit that are not predatory or usurious. For context, we offer overall comments on payday lending products, our own state laws regulating payday loans, and also express support for various aspects of the proposed rules on payday and high-cost installment loans.

There has been much public debate across cities and states nationwide over the regulation of payday loans and similar short-term lending products. Our city and state has not been absent from these discussions over the past twenty-five years. For many, access to short-term credit is not readily available and the need for short term loans is real. At the same time we believe these loan products need to be tightly regulated, not contain exorbitant interest rates and unnecessary fees, and have ability to repay provisions. Without these protections, these loan products can be predatory, usurious, and keep borrowers in a cycle of debt.

In 2009, our state passed Engrossed Substitute House Bill 1709 (ESHB 1709) - the Payday Lending Reform Act[1], imposing ground breaking rules protecting consumers from high-cost payday lending products. Two critical provisions that were the centerpiece of the legislation were instituting an eight payday loan cap per any twelve-month period and an automatic installment plan to repay a payday loan. The pairing of the loan cap with a consumer requested installment plan was the first of its kind in the nation and led to a significant decrease in the number of loans and total fees a consumer would owe.

Five years prior to ESHB 1709's passage, the chief financial regulator of state chartered financial services, the Washington State Department of Financial Institutions (DFI), compiled reports annually on the payday lending industry. From 2005-2009[2], the average number of payday loans made per year were 3,360,590 and the average total fees paid annually by consumers were $183,594,183. In the five

[1] ESHB 1709
[2] http://www.dfi.wa.gov/reports/payday-lending-reports

years post enactment of the law 2010-2014[3], the average number of payday loans made per year dropped to 910,812 and the average total fees paid annually by consumers also dropped to $50,092,303. This resulted in a 73% decrease in the volume of payday loans made and total fees paid by consumers. The difference of over $133m dollars pre and post ESHB 1709, shows that without these prudent consumer protections and common sense regulations, borrowers in Washington would have paid those fees to payday lenders rather than keeping those hard earned dollars during the Great Recession. Instead those dollars went towards borrower's families, homes, and other basic needs. According to the DFI's latest report[4], payday lending is a $319 million industry in Washington and one can conclude that they are doing fine without those additional fees.

The proposed CFPB rules has one specific provision that is not applicable to Washington consumers which is the regulation of vehicle title loans that were outlawed in 2003[5]. The state had the foresight to ban this type of lending product many years ago. It is unfortunate that many states still allow this type of loan product.

There are aspects of the rules that we do support and share the CFPB's "serious concerns that risky lender practices in the payday markets are pushing borrowers into debt traps." They are as follows:

- **Ability to repay.** Requiring lenders to make a determination upfront that consumers can afford to repay their loans without reborrowing is a good initial first step. We ask that in developing the baseline methodology for evaluating individual financial situations, the strongest provision for consumers is adopted in the final rule and that there be no exceptions given to the rule.

- **Rule applicability.** Having the proposed rules apply to both traditional payday loans as well as long-term loans, also known as installment loans, is a prudent move. There have been recent efforts here in Washington to introduce a new longer term product masked and marketed as a supremely better option than payday loans. In our opinion, triple digit interest loans are still not a consumer friendly loan product. We ask that the underwriting of both traditional payday loans and installment loans be clear and comprehensive and that income and expenses are verifiable.

- **Loan cap and principal reduction.** Instituting a loan cap of no more than $500 and requiring each successive loan over a three-loan sequence have a principal amount that is reduced by at least one-third is a good consumer protection. We think the loan amount is more in line with the $390 average loan amount[6] borrowers take out in Washington and the proposed principal reduction feature can prevent further harms from reborrowing.

[3] Same as footnote 2.
[4] DFI Annual Report, 2014
[5] SB 5452 - RCW 31.45.073 (6)
[6] DFI Annual Report, 2014

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While these rules are not perfect and some consumer friendly provisions did not make it in the draft rules, these are positive steps and will offer protections to borrowers. We urge that you take action on implementing these rules as quick as possible.

Thank you for your attention to our comments on behalf of the residents of the City of Seattle who desire the strongest consumer protections.

Sincerely,

Council President Bruce Harrell

Councilmember Sally Bagshaw

Councilmember Tim Burgess

Councilmember M. Lorena González

Councilmember Lisa A. Herbold

ROB JOHNSON

Councilmember Rob Johnson

Councilmember Debora Juarez

Councilmember Mike O'Brien

Councilmember Kshama Sawant

Concurred by:

Mayor Edward B. Murray