TIM KAINE
VIRGINIA

COMMITTEE ON
ARMED SERVICES

COMMITTEE ON
FOREIGN RELATIONS

COMMITTEE ON
THE BUDGET

SPECIAL COMMITTEE
ON AGING

WASHINGTON OFFICE:

WASHINGTON, DC 20510–4607
(202) 224–4024

United States Senate

WASHINGTON, DC 20510-4607

October 7, 2016

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

Dear Director Cordray,

I write in support of the Consumer Financial Protection Bureau's (CFPB) proposed rule on payday lending. The issue of predatory lending is not new, nor will it improve without strong action from the CFPB. Too many consumers are stuck in high-cost debt traps. I applaud the CFPB for taking action to end these harmful business practices.

According to the CFPB, short-term, predatory loans can carry annual interest rates over 300 percent[1]. Coupled with an uneven presence in communities with low employment rates or tepid wage growth, it is simple to see how these products are predatory by locating in communities of color and near military installations.

Virginia has a history combatting payday loans at a state level. The Virginia State Employee Loan Program, for example, provides a short-term payday lending alternative for state employees. Under this program, begun during my term as Governor of Virginia, state employees can borrow in increments of $100 with annual percentage rates a fraction of what payday lenders charge[2]. And for consumers who aren't state employees, there are often alternatives available from family, churches, employers, credit unions, and community banks[3]. There is a need for these short-term credit options in the economy. About half of the country could not cover an emergency $400 expense[4]. When those needs arise, credit must be available, but those options must be well-regulated to ensure they are fair to consumers.

There are important steps to avoiding payday loans outside of the rulemaking. Improving financial literacy is a critical effort that must be improved. Consumers who save more or know

---

[1] http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf
[2] http://www.cvc.virginia.gov/vaemploan/
[3] https://www.fdic.gov/about/comein/federalreservedocjune2010.pdf
[4] https://www.federalreserve.gov/econresdata/2014-report-economic-well-being-us-households-201505.pdf

the dangers of payday loans can avoid falling into a debt trap. At the same time, the rules must be enforced by state and federal regulators. In Virginia, there have been documented cases of online payday lenders offering loans even though they are illegal[5]. The CFPB has been effective in taking action against organizations for deceptive business practices[6].

The CFPB aims to solve some of the issues that exist in the payday lending industry through this proposed rule. Specifically, CFPB's efforts to strengthen ability-to-repay tests are at the core of this issue. Short-term payday lenders set up products so they are challenging for people to repay. According to CFPB, 80 percent of payday loans are rolled over or renewed within 14 days[7]. Inclusion of a stronger ability-to-repay test is to be applauded. However, there are concerns loopholes exist in the proposed rule with respect to ability-to-repay. I hope the CFPB will address these loopholes in the final rule.

Even with this rule, there is still work to be done. States should spearhead efforts to enhance payday lending rules on a state-by-state basis. Federal regulators and law enforcement agencies should better enforce existing rules related to payday lending. The scope of this rule is limited but a step forward. I hope the CFPB will continue to pursue the issue of payday lending.

I remain encouraged by the CFPB's focus on predatory payday lending and hope the final rule will be strong to protect consumers.

Sincerely,

Tim Kaine
United States Senator

---

[5] http://www.nbc12.com/story/15048446/businesses-offering-illegal-online-payday-loans

[6] http://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-check-cashing-and-payday-lending-company-tricking-and-trapping-consumers/

[7] http://www.consumerfinance.gov/about-us/newsroom/cfpb-finds-four-out-of-five-payday-loans-are-rolled-over-or-renewed/