THE WOMEN'S FUND
OF GREATER BIRMINGHAM

August 26, 2016

Director Richard Cordray
Consumer Finance Protection Bureau
1700 G Street NW
Washington D.C. 20552

Dear Director Cordray,

We are writing concerning the CFPB proposed rulemaking for payday, vehicle title, and certain high-cost installment loans. As a nonprofit organization that works to strengthen the economic security of women and children in Alabama, The Women's Fund of Greater Birmingham has seen the devastating effects of the debt-cycle created by payday loans. Within the Greater Birmingham area, 45 % of single mothers live in poverty. Payday and title loans are widely available and poorly regulated in Alabama, and the economic insecurity they create disproportionately affects these low-income families. Lenders in Alabama collected $482 million annually in fees, the sixth highest fee drain in the country, according to the Center for Responsible Lending. Our work to assist women move into higher waged jobs is often negated by exorbitant interest rates and fees on needed short-term loans.

Angela, a single mother and part-time college student from Birmingham, first took out a payday loan in 2003. She needed the money for emergency housing so she and her children could escape domestic violence. She has been trapped in a cycle of debt ever since. "There hasn't been any time from 2003 to now that I have not been paying off a title or payday loan," she said. At times, Angela has worked three jobs to support her family and pay the fees and interest on these loans. Currently, Angela's son is working two jobs while she attends college, in hopes that a degree will mean she can finally move into a job that will support herself and her family – and pay off her loans. But her debt threatens their future. "It's gotten to the point now that I'm just going to let them take that car out there. I can't pay it. I just don't have it." Crises like the ones experienced by Angela and her family are common in Alabama.

While we support the CFPB's effort to curtail predatory short-term loans, we believe the proposal does not go far enough to protect borrowers, particularly in states such as Alabama where lawmakers have

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repeatedly refused to act despite clear evidence of payday lending's harm to families and struggling communities. Among our concerns is that the proposed rule will shift the market toward installment loans which would remain extremely expensive.

Under the proposal, installment loans could carry a 400 % APR and come with added fees. While borrowers will have longer to repay their loans, the additional fees and high interest rate will continue to make these loans unnecessarily expensive. An analysis by PEW Charitable Trusts determined that a six-month installment loan for $500 will cost a borrower $1,089. Our experience in Birmingham reveals that most borrowers are unable to afford the high monthly payments required to repay a loan within six months, which will drive costs even higher. Lenders would be permitted to refinance or flip the loan and collect additional "origination" or "application" fees. Thus, loopholes in the proposed rule permit the same kinds of predatory practices that trap borrowers in a cycle of debt: high interest rates, high payments, hidden fees, and incentives to take out new loans to repay existing ones.

The Women's Fund of Greater Birmingham recommends the following additional requirements to address these risks:

1. Loans should be repayable in small installments. Research has shown that most consumers of short-term loans can afford payments of no more than 5 % of their income.
2. Frontloaded fees should not be allowed by lenders. Finance charges should be spread evenly over the life of a loan and should be limited to interest charges or monthly fees.
3. Installment loans should be limited in both fees and duration. Borrowers who extend repayment for 16 months on a $500 loan ultimately pay $1,500 for that loan. Consumers overwhelmingly believe these kinds of costs are unfair, according to the July 2015 survey of the PEW Charitable Trusts.
4. In addition to these basic product safety standards, the CFPB should expand the cooling off period between loans from 30 days to 60 days, and should remove the loophole that exempts the first six payday loans from the "ability to repay" requirements.

The experiences of consumers in states that have passed reasonable reforms strongly suggest that borrowers do not lose access to short term credit. Colorado implemented reforms similar to those outlined above, and lenders claimed it would put them out of business. Five years later, research shows that borrowers still have access to credit, but with better, less expensive options, including more credit union offerings. By 2012, consumers saved $41 million in interest and fees over what they would have paid before the reforms, according to the *Denver Post.* Similarly in North Carolina, the elimination of storefront payday lending increased the number of lower-interest, short term loans available from responsible lenders.

As a majority of the comments to this proposal make clear, borrowers rely on high cost, small loans for recurring expenses, not one-time emergencies. The bureau's own research has shown that 90 % of loan fees are paid by consumers who borrowed seven or more times. Thus, eliminating front end fees and incentives to roll over loans, once the market shifts to installment loans, will be critical to making these products safer and fairer for low-income families.

Here in Alabama, the Legislature has authorized fees of up to 17.5 % of a loan, which can be due in 10 days. This means a $500 loan incurs interest charges of $87.50 every two weeks, for an APR of 456 %. We have seen women in the communities we serve repeatedly forced to take out new loans to pay off existing ones, or renew their loans multiple times because of the inability to pay more than just the high interest. Borrowing $1,500 for a few months can cost $3,000. Yet, despite vocal support from bi-partisan groups, the Alabama Legislature has refused to implement the kinds of reforms that have made small dollar, short term loans fairer in states such as Colorado and North Carolina, and Arkansas.

From our experience advocating to end predatory lending, we believe that the only real lending reform that will address these issues will be from the CFPB. The Women's Fund of Greater Birmingham strongly requests that the bureau add protections to installment loans as well as payday loans in order to protect borrowers in places like Alabama where state action remains perilously uncertain.

Sincerely,

Jeanne Jackson

Jeanne Jackson
President/CEO
The Women's Fund of Greater Birmingham