United Ways of California

October 3, 2016

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

Re: Comments on proposed rulemaking on payday, vehicle title, and certain high-cost installment loans/Docket number CFPB-2016-0025 or RIN 3170-AA40

Dear Director Cordray:

United Ways of California (UWCA) improves the health, education and financial stability of low-income children and families by enhancing and coordinating the advocacy and community impact work of member United Ways throughout California.

We and our member United Ways work to improve the financial stability low- and moderate-income families and individuals in communities across California, through programmatic efforts such as Volunteer Income Tax Assistance (VITA), financial education and connection to other income support services. We share CFPB's goal of ensuring low- and moderate-income families have access to affordable loans and other financial services. Unfortunately, without more affordable lending options for the unbanked and underbanked, many low-income folks will have no choice but to resort to payday loans in times of emergency.

Given that reality, we agree with the core principle of the CFPB's proposal: "lenders should not make a loan unless they have determined a borrower has the ability to repay without having to re-borrow or default on other expenses." This rule is critically important to stop predatory lending practices from trapping borrowers in endless cycles of debt. We urge you to apply this basic principle to every consumer loan – with no exceptions.

However, we urge CFPB to close problematic loopholes in the proposed rule that would significantly undermine this standard. For example, the proposal would allow six, payday loans a year at rates up to 400% APR to be made without applying this vital "ability to repay" standard. Even one such unaffordable loan is too many, and allowing up to six such loans could lead individuals and families into a ruinous debt trap.

We are also concerned that the proposed rule does not go far enough to prevent lenders from flipping or churning borrowers from one unaffordable loan to the next. The proposed rule should be strengthened to ensure that short-term debt is not easily converted to unaffordable long-term debt, and that loans are structured to ensure people have enough money for living expenses after paying back the loan.

1107 Fair Oaks Ave. #12, South Pasadena CA 91030
(877) 355-8922 • https://www.unitedwaysca.org

Stronger rules to protect low-income families and individuals are welcome, but rules can only take us so far. We all need to work together to assure that the market offers more suitable lending options to those borrowers. A recent study commissioned by the American Bankers Association found that only one percent of banks surveyed currently offer loans of $500 or less, leaving payday lenders one of the few options for emergency loans. This highlights the problem of a lack of affordable small loans for the low-income unbanked and underbanked population.

Thank you for the opportunity to submit comments. The CFPB's proposed rule is a critical and welcome first step in stopping the damage that payday loans cause, however incentives for mainstream financial services providers to offer more suitable options for clients should be supported through other legislation.

Sincerely,

Judith Darnell
Vice President of Public Policy