VaPERL: The Virginia Poverty Law Center applauds CFPB's Rule to End Payday Debt Traps

After nearly four years of research, stakeholder and community engagement, including the consideration of more than a million public comments, the Consumer Financial Protection Bureau announced a Rule to End Payday Debt Traps  and moved  us one step closer towards ending the debt trap perpetuated by payday, car title and other abusive lenders.

Unfortunately, the proposed Rule applies only to short -term loans and therefore will have little effect on the various predatory loans currently offered in Virginia. Payday lenders anticipated possible crackdowns on their abusive practices and begun morphing their business plans toward other schemes to evade the law, such as offering predatory long -term loans.  We look forward to further work by the CFPB: “The CFPB is conducting further study to consider how the market for longer-term loans is evolving and the best ways to address  concerns about existing and potential practices.”

We commend the CFPB for recognizing the devastating harm that payday lending causes millions of Americans. We documented this harm when we submitted comments from over 70 Virginians on the proposed Rule and you can feel the pain experienced by these borrowers as you read their comments.

The Bureau recognizes that States may wish to prevent more harms than are prevented by this rule, and they are free to do so because this rule should be considered a floor and not a ceiling.  First, Virginia  must do more to stop the open-end and internet lenders from abusing Virginia borrowers.  This Rule will have little effect as each of these lender types are constantly changing their practices toward longer term loans.  At the heart of the CFPB rule is the common-sense principle that lenders check a borrower’s ability to repay before lending money. In a recent poll of likely voters, more than 70% of Republicans, Independents, and Democrats support this idea. This requirement ensures that loans are affordable, meaning a borrower can repay without re-borrowing and without defaulting on other expenses.

We are pleased that the CFPB Rule recognized the substantial harm caused by lenders access to borrowers’ bank and prepaid accounts.

After many years of dealing with payday lenders, car title lenders, internet lenders and other purveyors of debt traps in Virginia we have discovered the following truths which are substantiated by this Rule and the payday lenders reaction to it:
1. These are not loans at all but debt traps or loansharking.
2. Payday lenders will always opt to evade and get around the law rather than complying with it.
3.This industry will always cry that any regulation, rule or law has been offered to destroy their livelihood despite all evidence to the contrary.

Despite important progress with today’s announcement, the struggle for financial fairness will continue.

Please call our hotline for free legal help with a predatory loan:  866-830-4501