PENNSYLVANIA WAR VETERANS COUNCIL, INC.

PO Box 2324
Harrisburg, PA 17105

Phone: 717-730-9100
Email: info@pawvc.org

www.pawvc.org

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

Re: Pennsylvania War Veterans Council comments on proposed rulemaking on payday, vehicle title, and certain high-cost installment loans. Docket No: CFPB-2016- 0025 or RIN 3170-AA40

Dear Director Cordray:

The Pennsylvania War Veterans Council (PWVC) respectfully urges the Consumer Financial Protection Bureau to strengthen its proposed rule on payday, car title and installment lending.

The council is a strong voice for nearly 900,000 veterans in Pennsylvania through a broad cross-section of veteran organizations in the state, including The American Legion, American Veterans (AMVETS), Blinded Veterans Association, Catholic War Veterans, Disabled American Veterans, Jewish War Veterans, Keystone Paralyzed Veterans of America, Marine Corps League, Military Officers Association of America, Military Order of the Grand Cooties of Pennsylvania, Military Order of the Purple Heart, Navy Club USA, PA County Directors of Veteran Affairs, Veterans of Foreign Wars, and Vietnam Veterans of America, Inc.

We are opposed to any legislation that would increase the interest rates and fees on small-dollar loans and authorize predatory payday lending. Furthermore, we are strongly concerned about any policy outcomes that could undermine Pennsylvania's strong cap on interest rates and fees. Our position is informed by a comprehensive study of predatory lending conducted by the U.S. Department of Defense (DoD) and our experience working with vulnerable veterans in Pennsylvania.

In its study, the DoD found that payday loans are predatory and create a "debt trap". The study further concluded that "predatory lending undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all-volunteer force."

The DoD specifically recognized Pennsylvania as having one of the strongest laws in the country to guard against payday lending, and it called on Congress to enact similar protections to protect active duty military nationwide. Shortly thereafter, the Military Lending Act (MLA) was enacted, which established a 36% cap, including BOTH fees and interest, for covered loans made to active duty military and their families.

The DoD has concluded that it is important to cap both fees and interests on consumer loans, and the CFPB's proposal would additionally set a strong standard for small-dollar loans that focuses on an ability-to-repay taking into account income and expenses. Unfortunately, as currently written, the bureau's rule would legitimize some predatory loans.

The DoD also has found it important to protect our nation's military members from all predatory loan products. The DoD initially applied the MLA rate cap to loans of 90 days or less, targeting traditional payday loans. Recently, the DoD modified its rules to apply the rate cap to long-term payday loans, finding that they caused the same harm to soldiers and military readiness.

We understand that is a difficult task given that the CFPB does not have the ability to cap the rates on these loans. We commend the CFPB for recognizing in the proposed rule the importance of state fee and interest rate caps by specifically noting that they provide stronger protections to consumers. We also are grateful that the proposed rule makes clear that the federal rule does not preempt our stronger state law.

We urge that the CFPB to make the following adjustments to its proposed rule:

- **Require a meaningful "ability to repay" standard that applies to all loans, without exceptions.**

Since the CFPB cannot set a rate cap, the rule should require lenders to verify a borrower's ability to repay every loan, considering both income and expenses. The proposed rule contains dangerous loopholes to this standard. For example, the proposal allows six triple-digit APR payday loans a year to be made without any ability-to-repay determination. <u>This is six unaffordable loans too many</u>. In addition, the rule exempts longer-term payday loans with high origination fees from its proposed ability-to-repay test. These loopholes must be closed.

- **Close loopholes in the rule that allow lenders to continue "business as usual."**

The rule must be strengthened to ensure that people have enough money to live on after paying back the loan. The proposed rule falls short by allowing lenders to simply continue "business as usual," making loans to borrowers who cannot afford them but have not defaulted in the past. Low default rates are not evidence that the loan is affordable because the lender has access to the borrower's bank account, or car title, leading to the lender getting paid back first on the borrower's payday.

- **Strengthen the protections against loan flipping.**

The proposed rule does not go far enough to stop lenders from flipping borrowers from one unaffordable loan to the next. The rule should ensure that borrowers cannot be stuck in two-week loans for three months or more, and prevent serial flipping of long-term loans.

- **Strengthen the enforceability of existing, stronger state consumer lending laws.**

The rule should provide that a violation of state usury or other consumer protection lending laws is an unfair, deceptive and abusive act or practice under federal law, as a federal court recently found in the CFPB's action against the lender CashCall.

Already, the payday lenders are using the CFPB rule as leverage to weaken our state law. They are crafting state legislation to legalize their loans based on provisions in the proposed rule that would permit high-cost, unaffordable, long-term payday loans, and implying that the CFPB has given its "seal of approval" to these loans.

The payday lenders have a long history of trying to disguise their legislative proposals to legalize high-cost loans in Pennsylvania. They have repeatedly rebranded payday loans as "short-term loans," "micro-loans," or "a fresh start," and have falsely promoted their legislation as consumer protection. What is unique this year is that they are using the CFPB as a Trojan horse to bring their predatory loans into Pennsylvania.

Veterans are not covered by the federal law, but are covered by our strong state law. We urge a stronger rule to ensure that lobbyists for the payday lenders are unable to use the rulemaking as a "Trojan horse" to enter states where their practices are not legal. We work every day to ensure that veterans have financial security after service to our country. Loopholes that would legitimize long-term, predatory payday loans will undermine our work and cause veterans financial distress. As such, we ask that you strengthen your rule to regulate these high-cost loans.

Sincerely,

Keith G. Beebe

Keith G. Beebe
LTC USA (RET)
Chairman, Legislative Committee
Pennsylvania War Veterans Council