# Payday Loans Trap Borrowers in High-Cost Debt;

***Federal regulators should partner with states to ensure online payday loans do not evade their consumer protection laws***

May 11, 2011

Dear Representative:

**We, the undersigned consumer and community organizations, are writing to alert you to the dangers of payday lending and to urge you to oppose proposals that would weaken the strong, independent Consumer Financial Protection Bureau needed to protect consumers from abusive practices used by these lenders.** An industry trade group representing payday lenders who use the Internet to deliver and collect triple-digit interest rate loans will be in Washington this week promoting a predatory loan product that leaves already-struggling consumers even worse off.

Payday loans are small loans secured by direct access to the borrower's bank account, either through a post-dated check or other authorization to withdraw funds on the borrower's next payday. While payday loans are marketed as short-term credit, many borrowers become indebted over long periods of time, taking out one loan after the other. Payday lenders pay up to $110 per qualified lead, while many offer a first loan at a steep discount or even for free, a sure indication that loans are expected to be long-term debts. A recent study found that the average active payday loan recipient is indebted 212 days during the first year of using payday loans. Consumers using payday loans over a two-year period averaged 9-12 loans per year. Over 75 percent of all loans are not taken to deal with an emergency need but are instead the result of "churning" trapped borrowers from one loan to the next each pay period. Academic research demonstrates that payday lending is harmful to borrowers, increasing the risk of being seriously delinquent on credit card payments, having trouble paying other bills, having a bank account closed due to excessive overdraft fees, and even filing for bankruptcy.

The mechanism by which payday loans are repaid can leave consumers even more vulnerable to abuse. Since payday lenders have access to borrowers' bank accounts and require full repayment of the loan on the day the borrower receives his/her paycheck or benefits, these triple-digit rate loans are first-in-line to be repaid, ahead of food, rent, or other necessities. This can be a serious problem for families that are struggling financially.

While all payday borrowers—whether obtaining the loan at a local shop or in front of a computer—are placed at significant risk because of the product's fundamental flaws, additional risk exists for those taking payday loans via the Internet. Consumers have difficulty in distinguishing websites for lenders from lead generators that sell completed loan applications to the highest bidder. Borrowers supply bank account numbers, Social Security numbers, and other sensitive financial and personal information electronically via loan applications, which makes the information easier to transmit and to steal. Complaints about unauthorized withdrawals from accounts, coercive collection tactics, and inability to stop withdrawals from bank accounts are common. Many online lenders structure payments to automatically renew loans, withdrawing only the finance charge payday after payday.

At the urging of the Department of Defense, Congress passed legislation to protect active-duty service members and their families from payday loans through the John Warner Defense Authorization Act of 2007. This Act bans loans based on post-dated checks or electronic access to Service members' bank accounts and caps the cost of payday loans at 36 percent annual interest. All Americans deserve for Congress to give them the same protections.

Proponents of triple-digit interest loans often imply that Internet lenders are non-U.S.-based or operate under some guise that makes enforcement of state and federal law virtually impossible. In fact, the largest online lender, accounting for one-eighth of the online payday market, is Cash America, a payday/pawnshop company headquartered in Texas. Of the top ten "brick and mortar" payday lenders, at least seven also offer nearly identical loans over the Internet. While some online payday lenders attempt to operate in direct violation of state laws prohibiting payday lending or capping interest rates, state Attorneys General and credit regulators across the country, including those in Arkansas, California, Colorado, Georgia, Maine, Maryland, Massachusetts, Missouri, Pennsylvania, and West Virginia are fighting to enforce state credit laws and usury caps against online payday lenders. While these efforts to enforce state law have largely been effective, consumers and state regulators need help from the federal consumer protection regulators to combat the spread of illegal or predatory online payday lending. The Federal Trade Commission has led these efforts, charging online loan marketers with using applicants' bank account information to extract payments for unauthorized purchases, and the Consumer Financial Protection Bureau will soon play an important role as well.

We strongly urge you to reject proposals to weaken the Consumer Financial Protection Bureau before it ever gets started. We need a strong, independent agency to rein in the type of abusive loan practices described in this letter.

If you have any questions or would like further information, please contact Jean Ann Fox at the Consumer Federation of America at (928) 772-0674 or jafox@consumerfed.org.

Sincerely,

Arkansans Against Abusive Payday Lending
Center for Responsible Lending
Center for Digital Democracy
Citizen Action/Illinois
Chicago Consumer Coalition, Illinois
Consumer Action
Consumer Assistance Council, Hyannis, Massachusetts
Consumer Federation of America
Consumer Federation of California
Consumer Federation of the Southeast, Florida
Consumers for Auto Reliability and Safety
Consumers Union
Coalition of Religious Communities, Utah
Jacksonville Area Legal Aid, Florida
Kentucky Equal Justice Center
Kentucky Coalition for Responsible Lending
Legal Services Advocacy Project, Minnesota
Maryland Consumer Rights Coalition
Memphis Responsible Lending Collaborative, Tennessee

National Association of Consumer Advocates
National Community Reinvestment Coalition
National Consumer Law Center
(on behalf of its low income clients)
National Fair Housing Alliance
National People's Action
North Carolina Justice Center
North Carolina Reinvestment Coalition
Privacy Rights Clearinghouse, California
Sargent Shriver National Center on Poverty Law
South Carolina Appleseed Legal Justice Center
US Public Interest Research Group
Virginia Citizens Consumer Council