

# Stop the Debt Trap: Preserve the Consumer Financial Protection Bureau's Payday Loan Rule

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Payday lenders' predatory business model is built on loans that people cannot afford to repay. Payday loans are typically 14- or 30-day balloon-payment loans at 391% interest or more. People who cannot afford to repay the loan must re-borrow to meet their other expenses, getting into a cycle of debt.

=> More than 75% of payday loan fees come from people stuck in more than 10 loans a year.

=> Payday and car title loans drain nearly \$8 billion in fees from Americans each year.

***The payday loan rule breaks the cycle of debt of endless unaffordable 391% payday loans. Lenders:***

- Must consider the borrower's ability to repay the loan while meeting other expenses.
- May make up to 6 loans or 90 days of loans per year without considering ability to repay, but back-to-back loans must step down in size to wean people off.
- May no longer debit a consumer's account or re-submit checks after two consecutive bounces, and must give written notice before making a debit attempt at an irregular interval or amount.

The rule's ability-to-repay provisions only cover loans of 45 days or fewer. Most bank and credit union loans are exempt from the rule through exemptions for lower-cost loans and accommodation loans.

=> The Credit Union National Association is "very pleased" with the rule.

=> The American Bankers Association noted "a helpful exemption ... that protects banks' ability to make small-dollar 'accommodation loans' to customers."

States may adopt stronger laws, such as a 36% interest rate cap. Many states do not allow payday loans.

**The public supports protections against unaffordable payday loans:**

Nearly three-quarters of Americans support requiring that payday loans be affordable. Since 2008, voters in four states, Arizona, Montana, Ohio, and most recently South Dakota, have overwhelmingly voted to limit rates to 36% or less. Faith leaders support the payday loan rule. Pope Francis has said that "When a family has nothing to eat because it has to make payments to usurers, this is not Christian."

**The Military Lending Act protects active duty military from high-cost payday loans, but payday lenders prey on veterans, who are not covered by the MLA:**

Raymond Chaney, a 66-year old veteran, became homeless after he took out a payday loan. He needed \$400 to repair his car, but he couldn't afford to repay the loan without re-borrowing. The

\$400 loan led to \$3,000 in additional loans and eventually \$12,000 in debt. He was also racking up overdraft fees when trying to pay his rent. Payday lenders had full access to his bank account and took all of his Social Security, and he lost his apartment. His advice: "If the alternative to a payday loan is dying, think long and hard about dying."

In May 2018, Congress declined to overturn the payday loan rule. Unfortunately, the CFPB has announced a plan to revisit the rule and has tried to delay it. The rule imposes modest protections that curb the debt trap, and the CFPB should allow the rule to go into effect as is and should enforce it.

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