Consumer Financial Protection Bureau Defends Borrowers from Illegal High-Cost Loans

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Online Lenders Attempted to Collect 440% to 950% APR Loans that Were Illegal in Many States

Washington, DC – The Consumer Financial Protection Bureau (CFPB) yesterday took action against four tribally affiliated online payday installment lenders for deceiving consumers and collecting debt that was not legally owed in many states because the loans exceeded state interest rate caps or because the lenders were unlicensed. Under the law of those states, the illegal loans were void and could not be collected.

The four online lenders – Golden Valley Lending, Inc., Silver Cloud Financial, Inc., Mountain Summit Financial, Inc., and Majestic Lake Financial, Inc. – made $300 to $1200 long-term payday installment loans with annual percentage rates (APRs) from 440% to 950%. The CFPB charged that the loans violated licensing requirements or interest-rate caps – or both – that made the loans void in whole or in part in at least 17 states: Arizona, Arkansas, Colorado, Connecticut, Illinois, Indiana, Kentucky, Massachusetts, Minnesota, Montana, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, and South Dakota.

While some of those states permit short-term payday loans, all but New Mexico and Ohio limit the interest rates for long-term loans, according to a report by the National Consumer Law Center, and most of the states (including New Mexico and Ohio) limit interest rates for unlicensed lenders or void loans by unlicensed lenders. (South Dakota voters adopted a 36% interest rate cap after the NCLC report was published and Connecticut and New Hampshire also adjusted their rates.)

“High-cost loans, whether short-term payday loans or long-term payday loans, put people in a cycle of debt. State interest rate caps are a critical consumer protection, and the Consumer Financial Protection Bureau is defending families against predatory lenders,” said Lauren Saunders, associate director of the National Consumer Law Center.

All of the lenders are owned and incorporated by the Habematolel Pomo of Upper Lake Indian Tribe located in Upper Lake, California. The lenders claimed that only tribal law, not state law, applied to the loans. However, in 2014, the Supreme Court made clear that tribes “’going beyond reservation boundaries’ are subject to any generally applicable state law.’” The loans to the borrowers were not made on the California reservation. “Predatory lenders can’t evade state loan protections by hiding behind a tribe,” said Saunders.

The CFPB alleges that the four lenders made electronic withdrawals from consumers’ bank accounts or called or sent letters to consumers demanding payment for debts that consumers were under no legal obligation to pay, violating not only state law but also the federal law against unfair, deceptive and abusive practices. The CFPB is the consumer watchdog that was created in 2010 after the financial crisis to protect American consumers from unscrupulous financial practices.

Read the full release from the CFPB here.