CFPB Guts Curbs on Unaffordable 400% APR Payday Loans

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Washington, D.C. – Today, the Consumer Financial Protection Bureau (CFPB) released its final rule gutting the protections against unaffordable payday loans. The previous payday loan rule, issued under former CFPB director Richard Cordray in October 2017, limited unaffordable loans that trap families in a cycle of debt. The CFPB also announced that it is ratifying and will seek to implement the provisions of the payday loan rule that prevent lenders, including those offering high-cost longer term loans, from hitting people with repeated bounced payment fees.

The following is a statement by National Consumer Law Center Associate Director Lauren Saunders:

"At this moment of health and economic crisis, the CFPB has callously embraced an industry that charges up to 400% annual interest and deliberately makes loans that put people in a debt trap. The CFPB has no basis for gutting the heart of common sense protections that merely required payday lenders to do what responsible lenders already do: ensure that the borrower has the ability to repay. The evidence to support the debt trap of payday loans is overwhelming and the CFPB's flimsy excuses for repealing protections do not stand up.

"It is truly shocking that the CFPB, an agency created to protect families from financial abuses, is bending over backwards to side with the most scurrilous lenders over the consumers it is supposed to protect.

"The CFPB has not only repealed critical protections against dangerous payday loans, but its May template for no action letters for banks that make small dollar loans, together with bank regulator guidance that could open the door to single-payment bank loans, could be used to encourage banks to get back into the bank payday loan business. Bank payday loans were a debt trap, and banks should stay out of that business even with the CFPB inviting them back in.

"While the CFPB is allowing the payment provisions of the payday loan rule to go into effect – and the CFPB should immediately ask the Texas court to lift the stay of those provisions – that is cold comfort. The payment rules prevent predatory lenders from subjecting people to multiple fees when payments bounce. It is shocking that we even need rules to prevent that conduct, but curtailing just one dangerous impact of unaffordable loans over 100% APR does not make those loans safe.

"With the CFPB abandoning its role in protecting families, Congress must act now to extend to all families a national rate cap of 36% — which is broadly supported by Americans across the ideological spectrum. Congress should pass HR 5050/S.2833, the Veterans and Consumers Fair Credit Act, which would extend the Military Lending Act's 36% rate cap to veterans and all consumers.

"In the absence of reform by the federal government, states should adopt or strengthen their interest rate caps. States have had usury laws since the time of the American Revolution, and state interest rate caps are the strongest protection we have today against predatory lending."

Related NCLC Resources

Press Release: FDIC to Repeal 36% Rate Cap and Bank Payday Loan Guidance, but Banks Should Not Take the Bait, May 20, 2020

Brief: After Payday Loans: How do Consumers Fare When States Restrict High-Cost Loans? Oct. 2018

Report: Why 36%? The History, Use, and Purpose of the 36% Interest Rate Cap, April 2013

Brief: State Rate Caps for $500 and $2,000 Loans, February 2020