

Civil Rights and Consumer Groups Condemn “Emergency” Regulatory Guidance that Allows Banks to Make Payday Loans

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Banks should not embrace this terrible idea, especially as they are borrowing for free

Washington, D.C. - Today, under the cover of a national crisis, the Consumer Financial Protection Bureau (CFPB), Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), Federal Reserve Board (FRB), and the National Credit Union Administration issued small dollar bank lending guidance that lacks the consumer protections needed to ensure loans do not trap borrowers in a cycle of debt. The guidance does not warn against unaffordable, high interest rates and says that balloon payments may be appropriate - paving the way for loans with characteristics of debt trap payday loans. Several civil rights and consumer groups forcefully condemned this action.

“This crisis will last longer than two weeks, and balloon-payment bank payday loans just leave a hole in the next paycheck when a family’s financial situation will only be worse,” **said National Consumer Law Center Lauren Saunders.** “Banks should not revive the so-called ‘deposit advance product’ payday loans they were making in 2013, which the CFPB found trapped consumers in debt.”

The National Consumer Law Center, The Leadership Conference on Civil and Human Rights, NAACP, Center for Responsible Lending, Americans for Financial Reform, and Consumer Federation of America issued the following statement:

“This is the worst possible time for banks to make predatory payday loans. Government regulators have opened the door for banks to exploit people, rather than to help them.

“Essential consumer protection measures are absent from this guidance. By saying nothing about the harm of high-interest loans, regulators are allowing banks to charge exorbitant prices when people in need can least afford it. They have also lent credibility to single balloon-payment structured loans, which have been shown to trap people in a cycle of repeat reborrowing and crushing debt.

“Banks should not take the bait of this terrible idea. Especially at a time when banks are receiving 0% interest loans from the federal government, bank loans should be fair and affordable - at annual rates no higher than 36% for small loans and lower for larger loans. We will be monitoring whether banks offer loans that help or loans that hurt.

“Around the time of the last recession, a handful of banks issued ‘deposit advances’ that put borrowers in an average of 19 loans a year at over 200% annual interest. These bank payday loans disproportionately harmed the financially vulnerable and badly damaged banks’ reputations. Since 2013 when regulatory guidance warned against this form of credit, banks have mostly stayed away.

We trust that they will continue to do so as they do not want to repeat mistakes of the past.”