Consumer Watchdog Curbs Unaffordable 300% Payday Loans

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State interest rate caps remain the strongest and most important consumer protection

WASHINGTON, D.C. – The Consumer Financial Protection Bureau (CFPB) today issued a final payday loan rule that takes a significant step to limit lenders from making unaffordable loans and should disrupt the heinous payday loan debt trap. But state interest rate caps remain critical, advocates at the National Consumer Law Center (NCLC) emphasized.

The CFPB rule limits payday lenders' ability to put families into a vicious cycle of debt by adopting the common sense requirement that lenders consider a borrower's ability to repay and by restricting the number of unaffordable back-to-back loans," **said Lauren Saunders, associate director of the National Consumer Law Center.** "These protections are an important step forward and should mean fewer families will face financial devastation," she added.

The key protection in the rule requires lenders to verify a borrower's income and key expenses to ensure that the borrower can afford to repay the payday loan in full when due. Importantly, the rule applies to payday and auto title lenders as well as to bank payday loans (also known as "deposit advance products") previously made by several large banks. But the rule doesn't apply to loans made more than 30 days after a previous loan or to the first three back-to-back loans if those loans step down in size. (Auto title loans are not eligible for this "principal payoff" option.) "In combination, these exceptions allow some unaffordable loans, but the rule breaks the strings of nine or more payday loans that are common today," **Saunders explained.**

The ability-to-pay rules apply to loans of 45 days or less and to longer-term loans with a balloon payment. The CFPB's proposed rule had included high-cost longer-term payday loans, but the CFPB is conducting further study of the best way to address concerns in that market. "Payday lenders are moving into long-term payday loans that are an even deeper and longer debt trap than short-term loans, so the CFPB must move quickly to address these predatory loans," **said Saunders.**

Additional protections limit successive attempts to debit an account that has insufficient fund, for both short-term loans as well as longer-term loans over 36 percent. "Unaffordable short-term and long-term payday loans not only carry high fees but expose struggling families to bank nonsufficient funds fees and overdraft fees," Saunders said.

"The new payday loan rule will work together with the CFPB's new arbitration rule to provide tools to fight abusive payday lender practices," **Saunders added.**

NCLC's recent report *Predatory Installment Lending in 2017: States Battle to Restrain High-Cost Loans* details that 20 jurisdictions (19 states plus Washington, D.C.) cap interest rates at 36 percent or less for a 6-month, $500 loan, and 33 states and D.C. impose that limit on a $2,000, 2-year loan. In addition, 15 states and D.C. impose a similar cap or otherwise prohibit short-term payday loans.

Learn more about NCLC's body of work on high-cost short term loans.

Read the CFPB press release and factsheet summarizing the rule on payday loans and the full CFPB rule on payday loans.