FOR IMMEDIATE RELEASE: February 6, 2019
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New Rule Proposal, If Finalized, Will Likely Face a Legal Challenge

WASHINGTON, D.C. – Today, the Consumer Financial Protection Bureau (CFPB) under the leadership of new director Kathy Kraninger has proposed to largely repeal a common-sense rule that was scheduled to go into effect later this year that would impose limits on payday lenders that entrap borrowers in unaffordable loans.

“The CFPB has proposed to eviscerate protections against predatory lending by cutting out the heart of the payday rule, which requires that lenders only make loans that borrowers have the ability to repay without re-borrowing,” said Lauren Saunders, associate director of the National Consumer Law Center (NCLC). “Payday lenders have a predatory business model where they profit while families are plunged into an unaffordable debt trap of loans at rates that reach 400% APR or higher.”

“The sudden reversal by the CFPB, which is charged with protecting consumers, flies in the face of extensive evidence of the harm of payday loans. The agency’s proposal is arbitrary and capricious and will certainly face a legal challenge if it is finalized,” Saunders added.

The original 2017 payday rule, scheduled to go into effect in August of 2019, was adopted after more than five years of extensive study, data collection, and public feedback. Congress refused to roll back the rule in May 2018, one of the few resolutions brought under the Congressional Review Act that did not advance.

The public overwhelmingly supports reform of the payday loan industry. A survey shows that 73% of Americans support requiring payday lenders to check a borrower's ability to pay before lending money and over 70% of both Democrats and Republicans supported the Consumer Bureau rule. Payday loans are illegal in 16 states and the District of Columbia.

“Voters of all stripes, such as those in Colorado last year and South Dakota in 2016, overwhelmingly vote to cap interest rates at 36% or less whenever they get the chance,” Saunders noted. “The public should tell the CFPB loudly and clearly to abandon this gift to payday loan predators.”

The deadline to comment on the CFPB’s proposal will be three months after it appears in the Federal Register.

For more information on the National Consumer Law Center's body of work on high cost loans, visit: https://www.nclc.org/issues/payday-loans.html.