Cautious praise offered for new rules on payday lending

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WASHINGTON—Some consumer advocates—including representatives from the faith community—offered cautious praise for proposed new rules designed to clamp down on payday lending abuses.

The Consumer Financial Protection Bureau released proposed regulations that would require lenders to determine if borrowers could repay loans and make it more difficult to roll over loans. Critics of payday lending insist rollovers trap borrowers in a cycle of recurring debt, sometimes carrying an annualized interest race topping 400 percent.

Important first step

"I believe the rules released by the CFPB represent an important first step in the prevention of the exploitation of the poor and financially fragile neighbors," said Kathryn Freeman, director of public policy for Texas Baptists' Christian Life Commission.

The proposed rules offer "another layer of protection" for consumers, in addition to the unified ordinance 35 Texas cities representing 9.3 million citizens have passed to protect their residents, she added.

"This is the most important moment in the fight for just and fair lending," said Stephen Reeves, who leads public policy advocacy efforts for the Cooperative Baptist Fellowship.

The proposed rules "will go a long way to ensuring that those who offer small loans are not basing their profits on a cycle of debt they intentionally create," he added.

The Texas Fair Lending Alliance issued a statement saying its coalition members are "optimistic these rules will help ensure borrowers can repay their loans and avoid falling into a pernicious cycle of debt."

'A lame response' that 'falls short'

But some critics found the bureau-proposed regulations lacking.

A New York Times editorial critiqued the proposed rules as "a lame response to predatory loans." The newspaper's editorial board insisted the final version of new regulations "will need stronger, more explicit consumer protections for the new regulatory system to be effective."

Nick Bourke, director of small-dollar loans for the Pew Charitable Trusts, insisted the proposal "falls short," asserting paydays lenders could continue to flourish while the rules would lock out lower-cost bank loans.

"To correct this problem, the CFPB should ensure that its final regulations include effective, pro-consumer product safety standards, such as limiting loan payments to 5 percent of a borrower's paycheck," Bourke wrote. "With a few strong fixes, the bureau could create a policy that protects millions of hard-working Americans."

Furthermore, the Pew article criticized the bureau's proposed regulations as too vague and granting payday lenders too much authority to make a "reasonable determination" that a borrower can repay a loan.

"As drafted, the CFPB rule would allow lenders to continue to make high-cost loans, such as a line of credit with a 15 percent transaction fee and 299 percent interest rate, or a $1,250 loan on which the borrower would repay a total of $3,700 in fees, interest and principal," Bourke wrote. "These and many other high-cost payday installment loans are already on the market in most states, and they will thrive if the regulation takes effect without changes."

Some strengthening needed

Reeves noted general agreement with the Pew Charitable Trust critique, noting "the rules will need strengthening in a few key places before they are finalized."

"Pew is correct that the rapid growth in longer-term installment lending as well as other 'flex loans' is disturbing," he said. "We even saw lenders trying to authorize or modify the availability of these products through state legislatures prior to the official rule release. This activity indicates they feel this is where the rule is weakest."

Even so, Reeves added, "I'm not yet convinced that the 5 percent standard Pew sites is the best place to fix the problems."

"In the next few weeks, after a more complete review of the rule, I'll have an outline of the most important areas to strengthen or loopholes to close and will make those publically available," he said.

Make voices heard

Reeves emphasized the importance of Christians and other concerned citizens making their views known as the Consumer Financial Protection Bureau receives and evaluates comments between now and Sept. 14.

"The public comment period is an extremely important opportunity … to raise our collective voices to counter the well-funded payday industry megaphone and demand that strong rules are finalized, as well as enforced," he said.

Leaders in the PICO National Network—a steering committee member of Faith for Just Lending, which includes the National Association of Evangelicals, the Ethics & Religious Liberty Commission of the Southern Baptist Convention and the National Baptist Convention, USA—likewise called for Christians to make their views known and "push for public comments that help end the worst abuses by predatory lenders."

Participants with the Stop the Debt Trap campaign are asking consumers to take action and speak up about these abuses by offering public comments to demand that CFPB rules rein-in predatory lenders who evade regulation or exploit legal loopholes to peddle high-cost debt.

In a June 2 field hearing on the regulations, Reeves emphasized the way religious leaders from varied backgrounds have united in calling for reforms in "lending practices they see as immoral and predatory because of the impact they have witnessed first-hand."

"Churches, pastors and ministries have been granting benevolence funds, creating alternative lending programs and offering financial education classes. They've also shown up as advocates in city halls, state legislatures and on Capitol Hill," he said.

"They have come together across sincere differences to say: Enough. Enough preying on our desperate and vulnerable neighbors for profit. Enough capitalizing on the shame of being in need by exploiting those who seek to take responsibility for their problems. And enough selling a product that purports to be a way out of a bind, but for so many, is instead a way into a trap.

"We don't tolerate selling defective products in this country. We recall millions of cars every year on the small probability someone could get hurt. Debt-trap loans are hurting our fellow Americans, and it's time for a recall."