REMARKS

CFPB Field Hearing on Payday
Nashville, TN
Tuesday, March 25, 2014

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Good afternoon, and thanks to Director Cordray and the CFPB staff for inviting me here today.

The Center for Responsible Lending is a research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. We are an affiliate of Self-Help, one of the nation's largest nonprofit community development institutions. Self-Help has provided over 6 billion dollars in financing to low-income, rural, and minority families.

CRL has worked extensively on the predatory aspects of payday lending. We base our work on facts, and the facts are clear - payday loans are an <u>inherently</u> <u>defective</u> <u>produc</u>t that violate principles of fair and responsible lending for three main reasons:

Number one: triple-digit interest rates. Nationally, the typical payday loan is about $350 and carries an interest rate of 391%. In Tennessee, the rate is even higher. Here, a 2-week, $100 loan costs 460%. Tennesseans pay over $198 million in payday fees per year.

Number two: Payday loans are <u>designed</u> to create a long-term cycle of debt. For payday lenders, a good customer is a customer who <u>cannot</u> repay the loan without borrowing again. Rather than being a temporary solution, we found that most payday borrowers remained in debt *an average* of 212 days of the year.

Number three: Payday lenders completely ignore a borrower's ability to repay the loan. Instead, payday lenders rely solely on their ability to *collect*—often by having direct access to the borrower's bank account.

Payday lending imposes a high cost on borrowers *and communities*. About half of payday borrowers eventually default, leaving them with no bank account, delinquent on other bills, or in the face of bankruptcy. And when families have no money to spend, how can that make their cities better off?

Fortunately, public policy is trending *against* payday lending. 22 states prohibit or restrict payday loans. Not a single state has legalized payday lending since 2005. Federal banking regulators now require banks to examine a borrower's ability to repay before making a loan.

The few banks that were making payday loans have exited the business. And Congress has already prohibited payday loans for military service members and their families.

While the CFPB cannot limit interest rates, it can and should limit the length of time lenders can keep borrowers in debt and require that lenders evaluate a borrower's ability to repay the loan.

It is time to end these debt-trap loans and promote fair and affordable small-dollar products that bring financial stability rather than financial agony. Thank you for listening today.