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Center for Responsible Lending

Congress Must Protect Consumers from Predatory Lending During the COVID-19 Crisis

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Payday lenders see chaos and crisis as a profit opportunity—this pandemic is no different. In many states, payday lenders are working to be declared essential businesses so that they can continue to prey on families even as financial insecurity increases. **However, these loans that trap people in a cycle of debt are never essential--and in a crisis they are even more harmful.**

For communities of color, the harms of payday lending runs deep, exacerbating the persistent and growing racial wealth gap. Payday storefronts are significantly more likely to locate in communities of color, even when controlling for income. Payday lenders market their products as quick, easy and short-term. **But the research overwhelmingly shows that payday loans trap individuals and families in debt under the guise of providing "access to credit" and "consumer choice."** Four out of five payday loans are taken out to repay an existing unaffordable payday loan, while the borrower is stuck in a 300%+ interest debt trap. These loans do not represent meaningful access to credit, but a systematic drain on consumers' hard-earned income.

The average American family has yet to fully recover from the 2008 Great Recession. This is most true for families of color and older Americans. As a result, many lack a financial backstop to handle this downturn. Just as in 2008, **low-wage workers and communities of color will disproportionately bear the brunt of this economic downturn.** They are less likely to have paid sick leave or health insurance, less likely to work remotely, and more likely to come in direct contact with others as they have little choice but to continue working during this crisis. This leaves them more vulnerable than ever to predatory lending. **Without protections, payday lenders will siphon away the stimulus income assistance, unemployment insurance benefits, and declining wages of these already struggling workers.**

To protect consumers, small businesses and the economy, Congress must enact strong consumer protections:

1. **36% rate cap on loans during crisis.** A 36% rate cap for payday, car title, consumer installment and small business loans protects consumers from harmful outcomes, such as bankruptcy and overdraft fees, during uncertain economic times. It also guards against unfair rates and prevents the current public health crisis from driving consumers into a long-term cycle of debt. **All lenders, including depository institutions, should only issue loans that are underwritten and affordably priced at no higher than 36% annual interest for small loans, and at lower rates for larger loans.**

2. **Pause on deregulation of high-cost lending, including (1) the CFPB's proposed rescission of its 2017 payday and car title loan rule, and (2) the OCC and FDIC's proposed interest rate rules**, which would broadly preempt state interest rate laws. During this widespread financial crisis, high-cost, short-term, and/or unaffordable loans should not be considered "essential" or any part of an appropriate "emergency" response. Far from replacing lost income, high-cost debt traps will bury consumers in interest and fees, making it harder for consumers and the economy to get back to normal.

3. **Relief Check Protection Program to protect stimulus checks** from (1) payday and car title loans with terms of 45 days or less, and (2) checking account penalty (overdraft and NSF) fees, by prohibiting repayment by the lender or bank from the consumer's account for the 30 days following the best reasonable estimate of when the stimulus check will be deposited.

Congress must act to protect consumers and small businesses from high-cost predatory loans during this national emergency.