Cities for
FINANCIAL
EMPOWERMENT
Coalition

May 14, 2019

The Honorable Kathleen Kraninger
Consumer Financial Protection Bureau
1700 G Street NW
Washington DC 20552

Re: Proposal to Rescind Ability-to-Repay Requirements Governing Payday, Vehicle Title, and Certain High-Cost Installment Loans, Docket No. CFPB-2019-0006; RIN 3170-AA80

Director Kraninger,

The Cities for Financial Empowerment (CFE) Coalition respectfully submits the following comments in response to the Consumer Financial Protection Bureau's Notice of Proposed Rulemaking (NPRM) rescinding ability-to-repay requirements governing payday, vehicle title, and certain high-cost installment loans. We believe these underwriting provisions are crucial and oppose their elimination, which would weaken a much-needed rule intended to protect individuals and families from the harmful effects of high-cost and often predatory payday and car-title loans.

The CFE Coalition is a network of 16 diverse cities representing over 21 million people; we are committed to aggressively and creatively leveraging local opportunities, resources, and powers to improve the financial health of our residents. Expanding the vision of how municipal government can serve its citizens and create and strengthen household financial stability, CFE members design and implement large-scale programs to expand access to mainstream banking, asset-building opportunities, and high-quality financial counseling.

CFE members have seen the devastating impacts that predatory lending can have on our cities' residents. The clients who seek our financial counseling services provide firsthand evidence. To address these harmful lending practices, Coalition members are engaged in programmatic, policy and regulatory approaches to curb the damage to our residents' financial security inflicted by payday lenders, vehicle title lenders, and other predatory lenders. For example, a number of CFE cities and their partners have been working directly to counteract or prevent the corrosive effects of payday lending by enacting strong local zoning and licensing rules as well as advocating in their state legislatures to prevent or curb predatory lending practices.

But state and local efforts alone are not adequate to protect consumers, and we strongly supported the Bureau's establishment of a rule creating strong national regulations that safeguard all consumers from the array of abusive and costly practices in the short-term lending market – practices that trap consumers in cycles of debt. At the heart of this rule are underwriting and ability-to-repay requirements that protect consumers – and our economy – from risky loans that lead families into a debt traps. Requiring lenders to assess whether potential customers can afford to pay back both the loan principal and all related finance charges, given the customers' income and other expenses, is a commonsense foundation of responsible lending.

High-cost, short-term debt is not the answer to financial distress. The CFE Coalition has 16 member cities located in fifteen states. Of those 15 states, eleven allow payday and/or auto title lending. Fees from such loans across these eleven states totaled more than $4.6 billion dollars as of 2017.[1] This wealth stripping harms not only the families directly impacted, but our local economies and our ability as municipal governments to strengthen the economic stability of low-income families.

Without underwriting provisions which require lenders to verify borrowers' ability to repay, consumers will continue to be subjected to high-interest loans they cannot afford, leading to a cycle of reborrowing and material hardship. Despite these well-known risks,the NPRM cites no additional research the Bureau has undertaken, or plans to undertake, that would justify the rescission of the ability to repay standard.

Instead, this NPRM cites as justification for the gutting of these needed protections the Bureau's concern for the availability of credit. The NPRM states the Bureau's belief that enacting the underwriting provisions of the 2017 Payday Rule would cause what the Bureau characterizes as an unacceptable contraction of the market for high-cost loans.

While we agree with the Bureau that access to credit is a critical financial health issue, we disagree with the Bureau's contention that reduced consumer access to high-cost short-term credit is an outcome to be avoided on the basis of credit access concerns. High-cost loans crowd out safe and affordable forms of credit, such as low-interest loans from Community Development Financial Institutions. Moreover, to put it plainly, providing these loans solely on the basis of a "need for credit" argument is akin to handing a starving person poisoned food: the outcomes for individuals and families are predictably bad, and in no way justify short-term credit access. The decline of the high-cost credit market, with its triple-digit interest rates and high reborrowing rates, is an outcome greatly to be desired.

It is no accident that high-cost payday and similar loans leave consumers unable to repay what they owe, nor is it an accident that these loans have high rates of reborrowing. The

[1] Diane Standaert and Delvin Davis, "Payday and Car Title Lenders Drain $8 Billion in Fees Every Year," Center for Responsible Lending, January 2017, https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_statebystate_fee_drain_may2016_0.pdf.

business model of payday and other high-cost, short-term lenders has for too long been predicated precisely on the fact that these loans are unaffordable – leading to repeat borrowing and an often inescapable cycle of increasing debt. That is why our member cities join so many other municipalities, businesses, nonprofits, and community members in opposing the elimination of underwriting requirements within this industry.

We urge the Bureau to reconsider its decision to rescind the mandatory underwriting provisions of the Payday Rule, and further ask that you implement the Rule as written without delay. We have attached, for reference, comments submitted by our Coalition in 2016 in support of the Bureau's Proposed Rule on Payday, Vehicle, Title and Certain High-Cost Installment Loans ("Payday Rule").

Respectfully,

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