Member Cities

Boston

Chicago

County of Hawaiʻi

Lansing

Los Angeles

Louisville

Miami

Nashville

New York City

Philadelphia

San Antonio

San Francisco

Savannah

Seattle

St. Louis

Via email to FederalRegisterComments@cfpb.gov. re: Docket No. CFPB-2016-0025

October 7, 2016

Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1275 First Street NE
Washington DC 20002

Director Cordray,

The Cities for Financial Empowerment (CFE) Coalition respectfully submits the following comments in response to the Consumer Financial Protection Bureau's proposed rule for "Payday, Vehicle Title, and Certain High-Cost Installment Loans."

The CFE Coalition is a network of 15 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.

Through financial counseling and other initiatives, CFE members have seen the devastating impacts that predatory lending can have on our residents. 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.

State and local efforts alone are not adequate to protect consumers, and we applaud the Bureau's efforts to create strong national regulations that safeguard all consumers from the array of abusive and costly practices in the short-term lending market that trap them in cycles of debt. Through member cities' programmatic connections, we are clear that high-cost, short-term debt is not the answer to financial distress. We therefore support the goals of rules to protect borrowers and foster safe and affordable products at lower prices. To that end, we offer the following recommendations to strengthen these rules:

- The proposed full payment test should include standardized and transparent methods for estimating and forecasting basic living expenses.
- CFPB should limit access to covered short-term loans to four per 12 month period under the alternative requirements.
- CFPB should implement a reasonable maximum payment-to-income ratio as an alternative to the full payment test that provides banks and credit unions a viable pathway to offer lower-cost, sustainable installment loans.
- Lenders should be required to meet a clearly defined maximum annual portfolio default rate on all covered loan sequences regardless of whether they use the full payment test or approved alternatives.
- Lenders should be required to contribute a percentage of revenue generated from all covered loans to a fund that supports non-profit financial counseling.

Critical to assessing the ability to repay a loan is having accurate information about a borrower's income and basic living expenses. While the proposed framework includes verification requirements for income, debt obligations, and housing costs, the proposal does not include clear guidelines for estimating a consumer's basic living expenses. This lack of standardization exposes the underwriting process to potential abuse and could undermine the overall quality of the full payment test. <u>We encourage the CFPB to develop standardized estimation methods that utilize publicly available data from the U.S. Census Bureau and the Bureau of Labor Statistics</u>.

We support CFPB's principal reduction alternative option that restricts the size of short-term loans a borrower can access within 30 days of one another. As currently proposed however, the rule allows a borrower to take up to 6 short-term loans within a year. Moreover, the principal reduction option does not apply to loans separated by more than 30 days. <u>We urge the CFPB to limit the total number of short-term loans four per 12 month period to further limit the potential damage these loans can have.</u>

The CFPB solicited comment on the appropriateness of a maximum payment to income ratio as the basis of an alternative option to the full payment test for installment loans. <u>We see this approach as viable strategy that would allow banks and credit unions to offer lower-cost loans at a scale needed to keep consumers from turning to payday lenders.</u> Existing evidence appears to suggest that a 5% ratio would balance the need to minimize the risk to a consumer from an unaffordable monthly payment against the flexibility lenders need to achieve economic viability, however we recognize that ratio may need to change based on subsequent data.

The over 20% default rate on storefront payday loan sequences and 33% default rate on vehicle title loan sequences are the clearest indication of the consequences of poor underwriting and the lack of a strong assessment of the ability to repay. While the full payment test provides a vital foundation to the rule, it is clear that some lenders and borrowers may not adhere to spirt of the rule by overstating income and understating expenses. As such, we urge the CFPB to require lenders to meet a 10% maximum annual portfolio default rate on all covered loan sequences. This policy will provide an important back-end protection on the quality of all lenders' basic underwriting policies including their implementation of the ability to repay assessment.

Many Coalition cities have begun to invest in professional, one-on-one financial counseling to assist them in confronting the real and destructive effects that payday lending can have on borrowers and their communities and to help them avoid the need for short-term emergency lending in the future. Given the clear negative effects that high cost lending can have in many communities, and the fact that emergency lending itself represents an underlying need for financial counseling, we urge the CFPB to require lenders to contribute a percentage of their revenue generated from all covered loans to a fund that supports municipal and nonprofit organization one-on-one financial counseling services.

We look forward to continuing to provide our municipal perspective to inform your efforts to protect families from debilitating cycles of debt.

Respectfully,

José Cisneros
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City and County of San Francisco
Co-Chair, CFE Coalition

Amber Paxton
Director, Office of Financial Empowerment
City of Lansing
Co-Chair, CFE Coalition