

Florida Alliance for Consumer Protection – Florida

For immediate release:

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(Tallahassee, Florida) – Earlier today the Consumer Financial Protection Bureau released a working draft proposal to rein in abusive small dollar lending such as payday, car title and installment lending. The draft would require lenders to verify that borrowers can pay the loan back on time. Lenders, however, could choose to ignore this requirement by adhering to other relatively non-restrictive standards that allow for abusive practices. For example, under this rule short-term lenders could make up to six unaffordable loans to the same borrower with interest rates that average 400%.

Back-to-back loans are not a side effect of payday and similar loans – they are their business model. Payday lenders market their products as short-term quick fixes but the average borrower winds up taking out nine loans a year, each with a new fee and triple-digit interest rate.

Florida Alliance for Consumer Protection is part of the Stop the Debt Trap Campaign, which is fighting for an end to abusive lending. In Florida, payday loans carry up to 390% APR; car title lenders are making installment loans in Florida up to 90% APR; installment lenders are seeking to make loans in Florida up to 125% APR. Alice Vickers, Director FLACP, made the following statement about the proposal:

The proposal by the Consumer Financial Protection Bureau takes an important step toward reining in abusive lending products but includes a gaping loophole that puts a government stamp of approval on unaffordable back-to-back loans with interest rates that average 400%. We urge the CFPB and Director Cordray to reconsider and leave this loophole out of the rule.

The proposed affordability standard would require small-dollar lenders to do business the same way we expect responsible banks and mortgage lenders to – by making good loans consumers are able to pay back.

Sanctioning even one abusive loan, let alone six, will keep responsible lenders out of the marketplace and open the door to manipulation of the rules by payday lenders who will exploit loopholes and continue business as usual.

CFPB must remove the “look-the-other-way” standard for the first six loans and apply a strong affordability standard to every loan. Only with a consistent standard of affordable loans will we stop debt trap lending and maintain and grow a strong, responsible, small dollar loan market.

At the same time, Florida must continue its work to enact and enforce what the CFPB cannot – rate caps the end usury once and for all.

FLACP is a nonprofit, nonpartisan statewide organization whose mission is to advance consumer protection and tenants rights through research, education and advocacy.