AMERICANS FOR FINANCIAL REFORM

AFR Calls for Strong Rules on Payday Lending

The Consumer Financial Protection Bureau's latest report on payday lending, released today, underscores the need for the Bureau to write rules to prevent abuses that trap vulnerable families in debt.

Today's report reaffirms what the Bureau's initial research showed a year ago: these ultra-high-cost loans, while promoted as a form of emergency credit, consistently lead to a cycle of debt. Even after paying substantial fees, many borrowers end up "owing as much or more on their very last loan as the entire amount they had borrowed initially," CFPB Director Richard Cordray pointed out today.

The new report is based on data drawn from a 12-month period, and representing more than 12 million storefront payday loans. Among the major findings:

- Four out of five payday loans are rolled over or renewed within two weeks.
- Roughly half of all loans are made to borrowers in loan sequences lasting ten or more loans in a row.
- More than one in five initial loans result in loan sequences involving seven or more loans.
- Consumers who renew loans seven times or more will have paid more in fees alone than the amount they originally borrowed.
- Between the first and last loan of a loan sequence, few borrowers succeed in making payments that reduce the principal owed. In more than 80% of sequences that extend beyond a single loan, the last loan is at least as large as the first.
- Among borrowers whose income includes monthly paychecks – a way of capturing the experience of those who depend on Social Security retirement or disability benefits - one out of five took out loans in every single month of the year.
- A troubling number of companies engage in unfair or deceptive collection activities, including false threats, the disclosure of debts to third parties, and repeated phone calls, which sometimes continue after borrowers have asked for them to stop. (In a recent CFPB enforcement action, Cash America International was ordered to pay up to $14 million in refunds to consumers, as well as a $5 million fine, for robo-signing court

documents in debt collection lawsuits.