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New Federal Action on Payday Lending Will Help Wisconsinites

Additional Steps Needed to Stop the Payday Debt Trap

MADISON – Advocates praised a rule with new consumer protections that will reduce the harms of short-term payday and car-title lending to Wisconsinites, issued yesterday by the federal Consumer Financial Protection Bureau (CFPB). On a press conference call this morning, the groups welcomed the new protections as an important step, while also calling on state and federal decision-makers to take additional action to stop the payday debt trap.

"Payday and car title loans drive borrowers into financial distress by trapping them in long-term debt at triple-digit interest rates," **said Peter Skopec, WISPIRG Director**. "These new protections are good news. To stop the debt trap, there's more work to do."

Payday lenders made more than 115,000 payday loans in Wisconsin last year, according to the Department of Financial Institutions. The average Wisconsin payday loan was for $303, and comes with an astronomical annual interest rate of 515 percent.

"Victims of domestic violence are disproportionately subjected to the predatory tactics of payday lenders, as victims are often in desperate financial straits when trying to leave an abuser," **said Chase Tarrier, Public Policy Coordinator with End Domestic Abuse Wisconsin**. "Many victims have reported that the use of payday loans made their struggles to be free of violence far more difficult. End Abuse and domestic violence victim advocates support the CFPB's new protections for consumers. There will be fewer victims when individuals are not financially constrained to remain in unsafe environments."

At the heart of the Consumer Bureau's new protections is an "ability to repay" check. That means payday and car title lenders will have to make sure a potential borrower can repay their loan and afford regular living expenses before money changes hands. The CFPB's rule also includes new protections that limit how many high-interest loans a lender can make to a borrower in quick succession, and has new debit protections for borrowers.

The CFPB's new rule does not apply to all high-interest loans, however. The new consumer protections cover loans that have to be repaid all at once, including payday loans, car title loans, and longer-term loans with balloon payments. So-called installment loans, which also have astronomical interest rates but are repaid more gradually, are not covered.

"Although there may be disappointment that the CFPB dropped language that would have ensured all high-interest loans were covered, these protections are overdue and welcome at a time when income disparity has never been greater," **said Jeff Smith, Western Wisconsin Organizer with Citizen Action**. "With the lack of action from our legislators on this issue, the CFPB's rules must remain in place and be the standard that every state can work from."

Installment loans have become more and more popular across the country and in Wisconsin. The Consumer Bureau is working on a separate rule to address these loans.

"The rules are a welcome step in the right direction for payday and auto title loan borrowers," **added Sarah Orr, Director of the Consumer Law Litigation Clinic at the UW Law School.** "We look forward to similar protections for borrowers with other types of high-cost loans from these lenders."

In order to fully stop the payday loan debt trap, advocates called on decision-makers to take further action:

- The Consumer Financial Protection Bureau should finish a second rule addressing the problems with longer-term installment loans as quickly as possible.
- Wisconsin state lawmakers should pass a 36 percent interest rate cap, which is the most effective way to combat predatory lending. Additionally, state regulators and the Attorney General should work to vigilantly enact state and federal consumer protections under their authority, including the CFPB's new predatory lending rule.
- Wisconsin's Congressional delegation should stand with consumers, not predatory lenders, by supporting a strong, independent and well-funded CFPB. The Consumer Bureau has been under attack by the financial industry and its allies in Congress since opening its doors in 2011.

The full CFPB rule can be found here:
http://files.consumerfinance.gov/f/documents/201710_cfpb_final-rule_payday-loans-rule.pdf

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