THE ASPEN INSTITUTE
FINANCIAL SECURITY PROGRAM

May 15, 2019

Ms. Kathleen Kraninger
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

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

Dear Ms. Kraninger:

The Aspen Institute's Financial Security Program (Aspen FSP) appreciates this opportunity to provide comments on the Consumer Financial Protection Bureau's (CFPB) Proposed Rule on Payday, Vehicle Title, and Certain High-Cost Installment Loans (RIN 3170-AA80).

Aspen FSP is dedicated to solving the most critical financial challenges facing American households, and to shaping policies and financial products that enable all Americans to save, invest, and own. As such, Aspen FSP opposes CFPB's proposal to rescind the ability-to-repay (ATR) underwriting requirements on payday, vehicle title, and certain high-cost installment loans. ATR underwriting requirements are necessary because they reduce consumers' exposure to harmful loan terms and features. As mandated in Title X of the 2010 Dodd-Frank Act, CFPB has both the regulatory power and the responsibility to protect those whose credit constraints lead them to high-cost, high-risk products. Underwriting based on the borrower's ability to repay has positively transformed mortgage lending since the Great Recession by reducing the incidence of high debt-to-income home purchase loans from 25% in 2007 to the current rate of 5-8%.[1] A similar principle should guide the regulation of subprime and small-dollar lending, such as payday and auto title loans.

Aspen FSP has identified ability-to-repay underwriting requirements for small-dollar loans as an important government-led solution to reducing consumers' exposure to harmful loan terms and features, as well as more

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[1] "Ability-to-Repay and Qualified Mortgage Rule Assessment Report," Bureau of Consumer Financial Protection, January 2019, https://files.consumerfinance.gov/f/documents/cfpb_ability-to-repay-qualified-mortgage_assessment-report.pdf.

stringent oversight to products and services that incorporate excessively expensive and/or harmful features such as payday and car title loans. Many across the United States take out these loans to make ends meet, often not realizing how associated high interest rates could further impede their financial security. For example, the average annual interest rate on payday loans is 456% in Alabama and 395% in South Carolina.[2] While these interest rates are shocking, their most insidious consequence is generating a long-term cycle of debt at triple-digit interest rates.

Harmful payday loans create a cycle of debt that is difficult to escape, resulting in various negative consequences in people's lives. Studies have shown that payday loans are also associated with an inability to pay bills, closed bank accounts, and even bankruptcy.[3] In addition, one in five people who take out a car title loan eventually lose their vehicle to repossession. Such an impact can greatly hinder a person's ability to find or keep a job, especially those with lower incomes. These impacts ripple out to weaken our economies and our nation. Payday and car title loans drain a total of $7,587,023,580 from our country every year, including $481,791,005 from Alabama and $245,108,629 from South Carolina.[4]

Aspen FSP partners with local organizations in Alabama and South Carolina that work with low-income people who are deeply harmed by payday and vehicle title loans. Interviews and surveys conducted by our partners in these states have found that low-income borrowers have the most to lose from the proposed rule. Research by the Alabama Appleseed Center for Law and Justice has shown that the average payday loan borrower in Alabama has an average of seven loans, and an estimated 44% of residents use payday loans to cover court debts.[5] The South Carolina Appleseed Legal Justice Center has found that vulnerable families in South Carolina are victimized by payday loans with high interest rates. One South Carolina family that borrowed $500 in payday loans for an unexpected knee surgery ended up owing over $1,200 in additional financial charges, despite still struggling to pay off the original loan.[6] Lastly, rescinding the ability-to-repay underwriting requirements further undermines racial equity, as payday lenders are disproportionately located in communities of color.[7]

Payday loans cause acute damage to the financial security of individuals and families. They have the potential to hurt families, friends, neighbors, local businesses, and employers as borrowers

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[2] "Map of U.S. Payday Interest Rates," Center for Responsible Lending, February 2019, https://www.responsiblelending.org/research-publication/map-us-payday-interest-rates.

[3] Neil Bhutta, Jacob Goldin, and Tatiana Homonoff, "Consumer Borrowing after Payday Loan Bans," *The Journal of Law and Economics* 59, no. 1 (February 2016): 225-249, https://doi.org/10.1086/686033; Dennis Campbell, Asis Martinez-Jerez, and Peter Tufano, "Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures," *Journal of Banking and Finance* 36, no. 4 (April 2012): 1224-1235, https://doi.org/10.1016/j.jbankfin.2011.11.014.

[4] 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.

[5] "Broke: How Payday Lenders Crush Alabama Communities," Alabama Appleseed Center for Law and Justice, April 2019, http://www.alabamaappleseed.org/broke-report/.

[6] Joe James, "Press Release: CFPB Move to Gut Payday Consumer Protections Will Harm South Carolina Families," South Carolina Appleseed Legal Justice Center, February 2019, https://www.scjustice.org/press-release-cfpb-move-to-gut-payday-consumer-protections-will-harm-south-carolina-families/.

[7] See, for example, the Center for Responsible Lending's analyses of California, Florida, and Michigan.

with worsening financial security struggle to support their households and fully participate in the economy.

Thank you for your consideration of these comments. Please contact Katherine Lucas McKay at Katherine.McKay@aspeninstitute.org or 202-721-5594 should you have any questions.

Sincerely,

Ida Rademacher
Vice President, The Aspen Institute
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