MARKETPLACE

Consumer bureau proposes new rules for payday lenders

Kimberley Adams

June 1, 2016

Today, the Consumer Financial Protection Bureau (CFPB) is set to release new rules to crack down on payday lenders.

Among other things, the proposed rules would put the onus on lenders to make sure borrowers can pay back the usually high-interest loans, rather than get caught up in a cycle of debt.

Those who use payday loans tend to be low-income and from minority groups, and they often struggle to pay them back. Consumer advocates say the loans are exploitative.

University of Georgia Law professor Mehrsa Baradaran wrote “How the Other Half Banks” about limited access to financing for the poor.

“I think that the CFPB’s rules,” she said, “go a long way in trying to eliminate some of the most egregious sort of abuses in that market. “

The rules will address fees, repayment terms, and how many loans a borrower can take out at a time.

“I think you are going to see the industry scrambling to figure out whether it’s worth remaining open,” said Thaya Brook Knight, associate director of financial regulation studies at the libertarian Cato Institute. “I think most people would agree it’s likely to reduce the availability of this product altogether.”

Knight said people who have no other options for smaller and short term loans will likely be out of luck under the new rules.

That’s in line with the argument from the payday loan industry, which argues there’s already enough regulation in place to protect consumers.

Dan Gwaltney is president of California Financial Service Providers Association, a trade group for payday lenders in California. He worries the new rules will be too much for some business owners, and might block existing customers from accessing future loans.

“Unfortunately some small lenders may not be able to continue to do business,” he said, “And we’re nervous about where their customers are going to go.”

CFPB will be taking comments on the new rules until mid-September.