Mesa Independent
Connecting & Celebrating Our Community!

Proposed limits on payday loans draw sharp reactions from both sides

Wafa Shahid

June 22, 2016

Federal officials unveiled new restrictions on payday lenders June 2 that aim to help low-income borrowers avoid the "debt traps" of readily available, high-interest loans that critics say prey on minority communities.

The 1,334-page proposed rule released by the Consumer Finance Protection Bureau would force lenders to make sure customers can pay back a loan and still maintain basic living expenses.

It would also prohibit borrowers from rolling unpaid debt into a new loan, and bar lenders from giving a loan to someone until 30 days after they paid off their last loan.

Criticism of the plan was swift and loud. Industry officials said it will actually end up hurting low-income and minority communities by cutting off what is often the only source of funding available to someone with little credit or collateral.

"This decision will force consumers into higher-cost alternatives, like bank overdrafts and late fees, and perhaps even to unlicensed or unregulated lenders that operate in the shadows and will inevitably prosper under this new proposal," said Melissa DeLaney, a spokeswoman for the Arizona Financial Choice Association, in a statement June 2.

Norbert Michel, a research fellow in financial regulations at the Heritage Foundation, said the regulations are designed to put payday lenders out of business.

"I don't see any positives really," said Mr. Michel, who said the CFPB claims the rule will cut industry revenue as much as 85 percent. "This is hostile to free enterprise and economic freedom pretty much any way you cut it."

But the proposal, which could be phased in over the next 15 months, was welcomed June 2 by advocates for low-income and minority groups, who said the loans have been "extremely predatory and hard to pay off."

“For decades now, payday lenders have targeted low-income communities,” said Hilary Shelton, director of the NAACP Washington bureau. “It’s because of these loans that the NAACP is encouraged by the CFPB’s rule.”

Ms. Shelton was part of a conference call with officials from the National Council of La Raza, the Center for Responsible Lending, church groups and others.

The CFPB says there are many variations on payday loans, also known as small-dollar loans, but they are typically short-term loans for $500 or less. They are often due in full on the borrower’s next pay day, and secured by the borrower giving access to his checking account or writing a check for the loan in full that the lender holds.

The bureau said payday lenders are “setting up borrowers to fail,” to get borrowers even deeper in debt.

The loans come at a steep price, the bureau said, with fees of $15 per $100 due at the next pay day. That translates into an annual percentage rate of almost 400 percent, according to the CFPB.

In 2010, Arizona capped consumer loans at $10,000 and a maximum annual interest rate of 36 percent – plus fees – and banned lender “roll-overs.” Auto-title lenders and other consumer lenders in the state are licensed and regulated by the Arizona Department of Financial Institutions.

The Arizona Financial Choice Association statement said states are better situated to regulate lenders than the federal CFPB and its “untested one-size-fits-all regulations.” DeLaney said the rules will deny people “the ability to make their own financial decisions.”

Thaya Brook Knight, associate director of financial regulation studies at the Cato Institute, said federal regulators are out of touch with “the need that payday borrowers have.” They are “looking at the product and not the underlying lack of funds that causes the product to be needed,” she said.

But low-income advocates said the reforms are an overdue first step to “address abuses” by payday lenders.

Mike Calhoun, president of the Center for Responsible lending, said he is concerned about loopholes that remain in what he called the “basic reforms” proposed by the CFPB. Despite what loan-industry backers claim, Calhoun said, “Borrowers do better in states that don’t allow payday loans at all.”

Lindsay Daniels, associate director of La Raza’s Wealth Building Initiative, said reform is “important to communities of color.”

“Low-income communities have few choices and often turn to alternate sources of credit,” Daniels said, which is why payday lenders “specifically target communities of color.”

The CFPB will take public comments on the plan until Sept. 14.