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Contact:
Kerry Smith, Senior Staff Attorney
Community Legal Services
215.981.3724, ksmith@clsphila.org

Michael Roles, Field Director
Pennsylvania Public Interest Research Group
215.732.3747, mroles@pennpirg.org

PA GROUPS RESPOND TO NEW CFPB PAYDAY LENDING RULE

Vow to Remain Vigilant in Preserving PA's Existing Protections against Predatory Lending

HARRISBURG – Today, the Consumer Financial Protection Bureau (CFPB) issued federal regulations to protect borrowers from the harms of high-cost payday lending in states where they are legal, and Pennsylvania advocates warned that Pennsylvania's existing interest rate caps remain crucial to prevent abusive lending.

"We commend the CFPB for recognizing the devastating harm that payday lending causes millions of Americans. Payday lenders charge borrowers excessive fees and shockingly high interest rates-- typically between 300 and 400% --to ensnare borrowers in a long-term cycle of debt," said **Michael Roles, Field Director for the Pennsylvania Public Interest Research Group**.

"Pennsylvania already has one of the strongest laws in the country to guard against predatory lending, with a strict cap on fees and interest that has effectively kept high-cost payday lenders at bay," said **Kerry Smith, Senior Staff Attorney at Community Legal Services of Philadelphia**. "The CFPB clearly recognizes our state's authority to keep predatory lending out of our state, and its new rule affirms that strong fee and interest rate caps, like we have in Pennsylvania, are the best defense against predatory payday lending."

The CFPB's rule states that:

- "[C]ertain States have fee or interest rate caps (i.e., usury limits) that payday lenders may find are set too low to sustain their business models. The Bureau regards the fee and interest rate caps in these States as providing **greater consumer protections** than, and thus as not inconsistent with, the requirements of the final rule**.**"(Emphasis added.)

The CFPB further clarifies within its rule:

- "The Bureau recognizes that States may wish to prevent more harms than are prevented by this rule, and they are free to do so because, as noted earlier, **this rule should be considered a floor and not a ceiling**."

Strong state interest rate caps yield tremendous benefits for more than 90 million people who live in states free of high-cost payday and car-title lending and the host of harms they bring. Thanks to strong usury laws in Pennsylvania, residents save an estimated $489 million *every year*, according to research from the Center for Responsible Lending.

"When the Department of Defense conducted a comprehensive study of predatory lending targeting the military, it specifically recognized state rate caps, including Pennsylvania's, as the most effective tool against debt-trap lending, and it convinced Congress and President George Bush to enact similar protections for active duty military nationwide," said **Keith Beebe, Legislative Chair of the Pennsylvania War Veterans Council**.

As a result of pressure by the financial services industry, the 2010 Dodd-Frank law expressly bars the CFPB from setting interest rates. Without the authority to cap the cost of these loans, the CFPB took the next best step in issuing the regulations: The rule requires lenders to ensure that borrowers can repay the loans, taking into account both income and expenses. Unfortunately, the new rule contains problematic exceptions to this ability-to-repay standard, and other loopholes, that abusive lenders are likely to cash in on.

One way they may do that in Pennsylvania is by exploiting weaknesses in the rule as justification for legalizing their loans here. Payday lenders already have attempted to use the rule as a Trojan horse to get into Pennsylvania, claiming the CFPB gave its "seal of approval" to high-interest rate loans in its proposed rule.

A diverse state coalition of faith organizations, veterans, community development organizations, and social service agencies has fought for years to defend Pennsylvania's strong consumer laws. They plan to remain vigilant against any attempt to weaken them.

"All major religious traditions share a deep opposition to usury," said **The Rev. Sandy Strauss, Director of Advocacy and Ecumenical Outreach for the Pennsylvania Council of Churches**. "Beyond the moral case, payday lending would have devastating impact on the congregants we serve. In states that have legalized high-cost payday loans, churches and social services report strains on food pantries and charitable relief services."

Donna Henry, Executive Director of Southwest Community Development Corporation, added, "Legislators need to defend our strong state law that keeps high-cost payday lenders from dropping storefronts right into our neighborhoods. Predatory payday loans would drain money from our community and force us to divert resources away from neighborhood progress to assist our clients in climbing out of debt traps."

The groups support vigorous enforcement of Pennsylvania's law and the enactment of additional protections at the federal level.

"We must end the payday loan debt trap once and for all," said **Michael Roles, Field Director for the Pennsylvania Public Interest Research Group**. "The Pennsylvania Attorney General, the Banking Department and the CFPB should continue their work to stop illegal payday lending. And Congress should build on the CFPB's rule and extend to all consumers a 36 percent all-inclusive APR cap."

"Congress should not do the bidding of the payday lenders by overturning this rule and the new, modest protections it will bring to vulnerable borrowers in states where high-cost lending is legal. Instead, they should stand with consumers and work to pass a national cap on interest and fees for these loans, similar to what we have done in Pennsylvania," said **Tam St. Claire, President of the Bucks County Women's Advocacy Coalition**.

"Our experience in Pennsylvania shows that consumers are better off without predatory payday lending," said **Kerry Smith, Senior Staff Attorney at Community Legal Services of Philadelphia**. "Our delegation should be touting Pennsylvania's strong laws so everyone across the country is protected from debt-trap loans."

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