Kentucky Coalition for Responsible Lending

For immediate release

National Payday Rule Could Save Kentucky Families Millions

June 2, 2016 –The Kentucky Coalition for Responsible Lending (KCRL) is a broad-based coalition of 88 faith based and community groups who have come together to fight the payday lending debt trap. Today, KCRL applauds the Consumer Financial Protection Bureau (CFPB) which has released its long-awaited proposed rule intended to end the payday lending debt trap. This proposed rule is a good first step to regulate payday lending on a national basis, and has the potential to save Kentucky residents millions.

The proposed rule generally requires the lender to determine the borrower's ability to repay. Alternatively, payday lenders would be permitted to issue loans without determining a borrower's ability to repay if the loans meets certain requirements. Lenders would be limited to offering 3 loans within 30 days of each other, with decreasing principal amounts. In addition, lenders would be limited to offering a total of 6 loans or limiting the borrower's lending to a maximum of 90 days in any given 12-month period.

Advertised as a way to meet short-term financial needs, the actual business model of payday loans is to trap borrowers in debt for years on end, extracting fees that quickly add up to far more than the amount borrowed. KCRL and advocates around the country have been pushing for a rule that simply requires these lenders to do what any responsible lender does already – to determine whether a borrower is likely to be able to pay back the loan.

"The CFPB should require **all** payday lenders to determine ability to repay. That is how responsible lenders already do business," said Belinda Snead, a member of BUILD in Lexington. "An affordable loan is one that can be repaid without having to borrow again, while still being able to pay for other basic necessities like rent, transportation, and food. As the CFPB moves forward, the question will be whether this requirement in the proposed rule is meaningful."

In Kentucky, payday loans must be repaid within 14 days and there is no requirement that lenders determine ability to repay. At the end of the 14 days, the lender accesses the borrower's bank account directly. The typical payday borrower is unable to repay so quickly, and ends up taking out a second loan to repay the first, with additional fees. The typical borrower in Kentucky ends up in the debt trap, taking out 10 loans per year. On an annual basis, the cost of these loans can be as high as 400% interest. The problem in Kentucky continues to grow. In 2015, payday lenders stripped away $117.8 million in fees, a 12% increase since 2010.

For a number of years, KCRL has advocated for changes in Kentucky state law to reduce the interest rate on payday loans to 36% on an annual basis. These efforts so far have been unsuccessful, largely due to an influential payday industry and its large cadre of lobbyists. In the recent legislative session, the industry attempted to pass a long-term installment loan product that would have allowed lenders to make loans up to $1000 and charge 24% annual interest **plus** .7%

daily customary fees (276% annual rate). Fortunately, our legislature rejected this attempt to create an even more harmful predatory loan product. It is important to note that this type of loan, unfortunately, would not be covered by the CFPB proposed rule. While the rule does cover some long term installment loans, it does not apply if the lender does not have access to the borrower's bank account.

The final rule is expected to be months away, after an extensive public-comment period and further review. The rule as it stands would be a good step toward meaningful financial protections for low-income customers who do need short-term, small dollar loans, but it needs improvement to be effective. KCRL intends to file comments to the proposed rule, seeking stronger protections. Ideally, all payday lenders should be required to determine ability to repay. Other measures to strengthen the rule could include combining the ability to repay requirement with the loan restrictions.

The CFPB, however, cannot create a national interest rate limit on payday loans. KCRL will continue to advocate that Kentucky pass a state interest rate cap of 36%.

"Although I'm happy to see good protections coming down from the federal regulators, it's past time for Kentucky to take up a reasonable interest rate cap" said Sen. Alice Forgy Kerr, who has sponsored a payday lending reform bill in the Kentucky Senate the past two years. "Our loved ones shouldn't be taken advantage of in times of need."

The CFPB will be seeking comments from the public until September 14, 2016, which they will review before making the rule final in 2017. In the meantime, consumers are encouraged to comment and suggest changes to the final rule that will close loopholes and remove exemptions. Comments can be offered at www.stoppaydaypredators.org/KY.

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