Keep Payday Lenders Out of North Carolina:

Weak national payday rule would be serious threat to NC consumers

QUICK FACTS

- The average payday borrower takes out 10 loans and pays 391% in interest and fees.
- 75% of the payday industry's revenue is generated by these repeat borrowers.
- According to the U.S. Department of Defense, "*The debt trap is the rule not the exception.*"
- On average payday lenders charge $458 in fees and interest to borrow $350.
- Holding a borrower's personal check, with direct access to a bank account, the payday lender is first in line to get paid, ahead of groceries or paying bills.
- North Carolinians say they are better off without payday, according to study released by the NC Commissioner of Banks.
- A March 2015 poll of registered voters shows that North Carolinians strongly oppose high-cost lending above 60% interest.

Since payday storefronts left our state in 2006, North Carolina families living paycheck to paycheck have saved almost $1.4 billion—$153 million every year for the last 9 years.

Payday Loans Designed to Trap Borrowers in Debt

Payday loans are marketed as one-time 'quick fix' loans for people facing a cash crunch. In reality, these loans create a long term cycle of debt and a host of other financial problems for the borrower. Studies show that payday borrowers are more likely to have a credit card delinquency, unpaid medical bills, overdraft fees leading to closed bank accounts and even bankruptcy.

Car title loans and high-cost installment loans are variations on the same theme. Car title lenders use a borrower's car or truck as collateral for their 300% APR loans. Installment loans typically have longer payoff periods and sometimes lower interest rates with expensive and unnecessary add-on products.

Payday & Other High-Cost Loans Illegal in North Carolina

Payday loans have been illegal in North Carolina since 2001, when we became the first state in the country to roll back the then legal payday product. The largest payday lenders continued to operate in the state by subterfuge, affiliating with out of state banks. After the North Carolina Attorney General and Commissioner of Banks successfully challenged this scheme, all the payday storefronts shut down once and for all in 2006. Online payday loans, 300% car-title loans, and triple-digit interest rate installment loans are also illegal in North Carolina, due to our strong state interest rate cap.

Danger and Opportunity with National Payday Rule

The Consumer Financial Protection Bureau (CFPB) - the federal regulator charged with assuring that financial services are fair - is preparing to issue a new rule governing these high-cost loans. *Payday lenders desperately want to re-enter the North Carolina market and a weak national payday rule could provide the ammunition they need.*

What Do We Want in the Rule?

We are asking that payday lenders be required to make affordable loans. There is a pretty simple, widely accepted definition of an affordable loan: An affordable loan is a loan that can be paid back considering the borrower's income and expenses. By this definition, banks and non-profit lenders make affordable loans all the time.

A strong rule would:

- Require that lenders verify a borrower's ability to repay the loan and still be able to cover basics like food and rent, before making the loan;
- Stop the debt trap by preventing long term indebtedness;
- Not create a safe harbor or legal immunity for poorly underwritten loans; and
- Protect borrower's bank accounts by stopping abuses related to the payday lender's direct access to the borrower's checking account.

What Works About the CFPB's Preliminary Proposal?

The CFPB's preliminary proposal released in March 2015 covers a wide range of high-cost loans -- payday, car title and other high-cost loans, open end and closed end loans, and balloon and installment loans. In many cases, it would require lenders to assess and verify a borrower's income, debts and expenses to determine if a loan is affordable before making the loan.

What Is Dangerous About the CFPB's Preliminary Proposal?

There is a major loophole in the CFPB's Preliminary Proposal. For example, payday lenders could make up to six unaffordable short-term loans to the same borrower, with 400 percent annual interest rates and no underwriting. The proposal would also allow some longer-term payday loans without ensuring they are affordable.

Why Do These Loopholes Matter in North Carolina?

North Carolina has a strong interest rate cap with protections against loopholes and subterfuge. Since the CFPB is prohibited by statute to set an interest rate cap, by far the best way to regulate high-cost lending, it is extremely important that states maintain their rate cap protections. A national CFPB rule would not preempt our stronger state interest cap. However, if the CFPB issues a weak rule, they will be putting a government seal of approval on triple-digit, unaffordable loans, handing the payday industry powerful ammunition in their fight to overturn state laws.

An unaffordable loan is an unaffordable loan, period. That's true for the first loan or the sixth. Unaffordable loans cause severe harm to borrowers. The CFPB should issue a strong rule to protect consumers in North Carolina and across the country.

Help Us Keep Payday Lenders out of NC:

Join the Fight for a Strong National Payday Rule.

To join our campaign for a strong national payday rule, contact
Susan Lupton, Center for Responsible Lending
susan.lupton@responsiblelending.org or *919.313.8521.*

Or sign on at http://www.stopthedebttrapnc.org/

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