VOICE OF THE POOR

A Webinar of the St. Vincent de Paul Society

August 18, 2016

Strengthening the Financial Well-Being of Those We Serve

Tom Mulloy, *National Director of Poverty Programs, St. Vincent de Paul Society*

Whitney Barkley-Denney, *Policy Counsel, Center for Responsible Lending*

Opening Prayer

Dear friends,
in this preparation for Christmas, now at hand,
the Church's prayer for the fulfillment of the hopes of peace, salvation and justice which the world today urgently needs
become more intense.

Let us ask God
to grant that violence be overcome by the power of love,
that opposition give way to reconciliation
and that the desire to oppress be transformed
into the desire for forgiveness, justice and peace…

May peace be in our hearts
so that they are open to the action of God's grace…

May all members of the family community,
especially children, the elderly, the weakest,
feel the warmth of this feast,
and may it extend subsequently to all the days in the year.

Amen.

-Pope Emeritus Benedict XVI, General Audience, December 19, 2007

Catholic Social Teaching

Catechism of the Catholic Church

2269. Those whose usurious and avaricious dealings lead to the hunger and death of their brethren in the human family **indirectly commit homicide**, which is imputable to them.

2409. …any form of unjustly taking and keeping the property of others is against the seventh commandment: thus, deliberate retention of goods lent or of objects lost; business fraud; paying unjust wages; **forcing up prices by taking advantage of the ignorance or hardship of another**.

Catholic Social Teaching

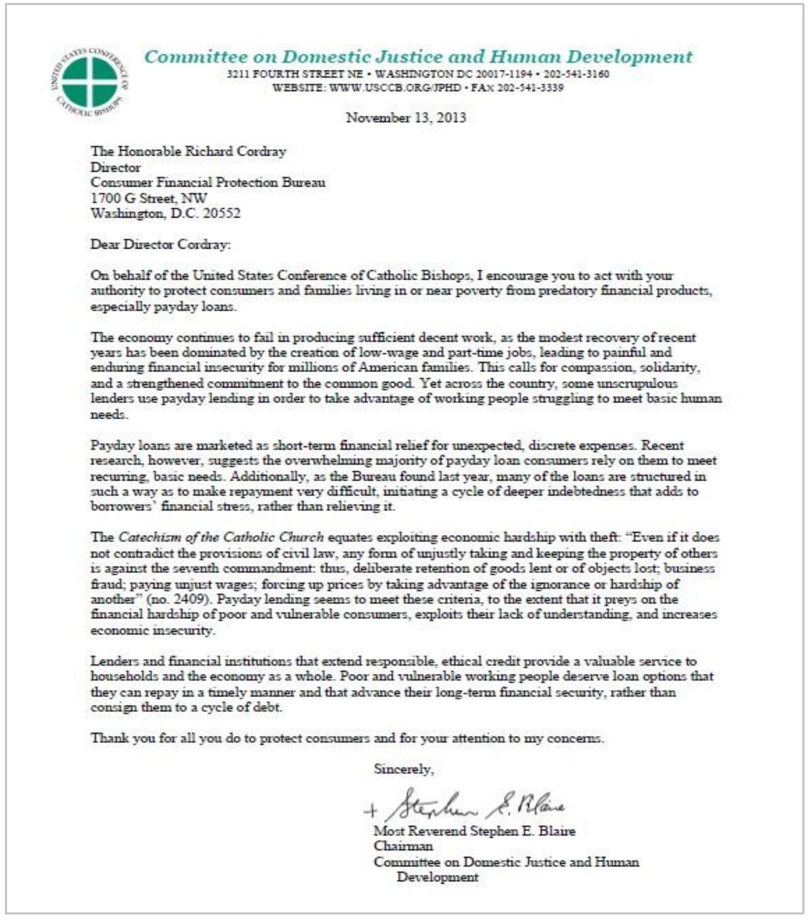
"Usury [is] a ***dramatic social ill.*** When a family has nothing to eat, because it has to make payments to usurers, this is not Christian, it is not human! This dramatic scourge in our society harms the inviolable dignity of the human person."

-Pope Francis, January 29, 2014

"Finance . . . needs to go back to being an instrument directed towards improved wealth creation . . . used in an ethical way so as to create suitable conditions for human development and for the development of peoples. "

-Pope Emeritus Benedict XVI, *Caritas in Veritate*

Catholic Bishops



Committee on Domestic Justice and Human Development
3211 FOURTH STREET NE • WASHINGTON DC 20017-1194 • 202-541-3160
WEBSITE: WWW.USCCB.ORG/JPHD • FAX 202-541-3339

November 13, 2013

The Honorable Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, D.C. 20552

Dear Director Cordray:

On behalf of the United States Conference of Catholic Bishops, I encourage you to act with your authority to protect consumers and families living in or near poverty from predatory financial products, especially payday loans.

The economy continues to fail in producing sufficient decent work, as the modest recovery of recent years has been dominated by the creation of low-wage and part-time jobs, leading to painful and enduring financial insecurity for millions of American families. This calls for compassion, solidarity, and a strengthened commitment to the common good. Yet across the country, some unscrupulous lenders use payday lending in order to take advantage of working people struggling to meet basic human needs.

Payday loans are marketed as short-term financial relief for unexpected, discrete expenses. Recent research, however, suggests the overwhelming majority of payday loan consumers rely on them to meet recurring, basic needs. Additionally, as the Bureau found last year, many of the loans are structured in such a way as to make repayment very difficult, initiating a cycle of deeper indebtedness that adds to borrowers' financial stress, rather than relieving it.

The *Catechism of the Catholic Church* equates exploiting economic hardship with theft: "Even if it does not contradict the provisions of civil law, any form of unjustly taking and keeping the property of others is against the seventh commandment: thus, deliberate retention of goods lent or of objects lost; business fraud; paying unjust wages; forcing up prices by taking advantage of the ignorance or hardship of another" (no. 2409). Payday lending seems to meet these criteria, to the extent that it preys on the financial hardship of poor and vulnerable consumers, exploits their lack of understanding, and increases economic insecurity.

Lenders and financial institutions that extend responsible, ethical credit provide a valuable service to households and the economy as a whole. Poor and vulnerable working people deserve loan options that they can repay in a timely manner and that advance their long-term financial security, rather than consign them to a cycle of debt.

Thank you for all you do to protect consumers and for your attention to my concerns.

Sincerely,

+ Stephen E. Blaire

Most Reverend Stephen E. Blaire
Chairman
Committee on Domestic Justice and Human Development

- … "preys on the financial hardship of poor and vulnerable consumers, exploits their lack of understanding, and increases economic insecurity"
- Called for compassion, solidarity, and a strengthened commitment to the common good
- Encouraged the CFPB to act within its authority to protect consumers

The Vincentian Family
Advocacy and Alternatives

Voice of the Poor in Arizona

- Tucson and Phoenix Council members
- Defeated proposed state legislation that would have greatly expanded predatory lending
- Estimated cost to poor and vulnerable customers--additional $350 million just in interest
- Advocacy included testimony, action alerts, visits with legislators, sharing stories of those harmed, and offering alternatives

The Vincentian Family

Advocacy and Alternatives

SVdP Dallas Mini Loan Program (MLP)

- Low-interest loan conversion program to assist those financially trapped by predatory payday and auto title loans--interest rates as high as 500% APR
- Combined with savings account and financial education
- Started in January 2015; Society cosigns each loan; to date, no defaults

The CFPB Payday Lending Proposal and Other Trends in the Small-Dollar Lending Landscape:

A Primer for St. Vincent de Paul.

Whitney Barkley-Denney

Center for Responsible Lending

What Are Payday Loans?

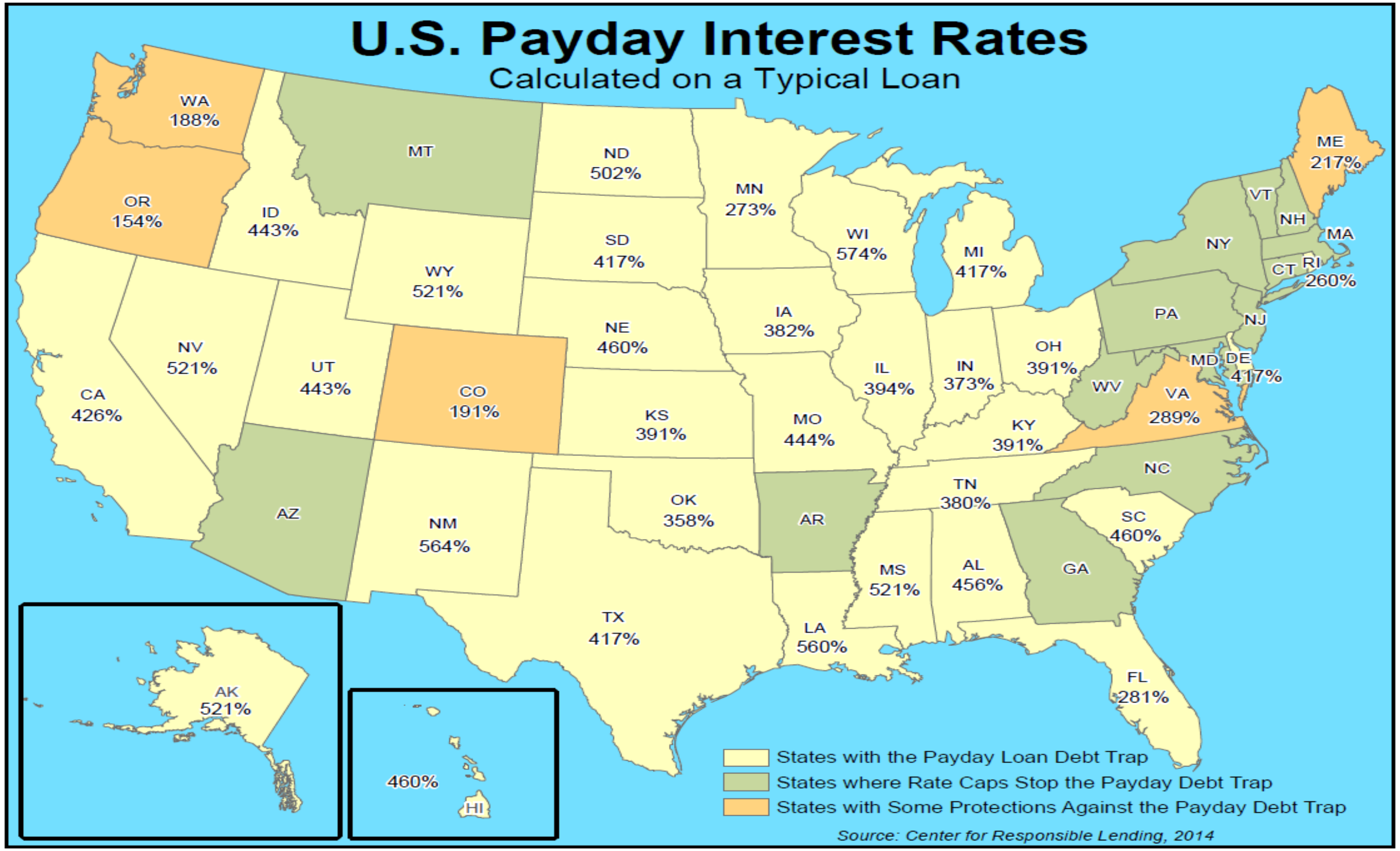
Payday loans are marketed as quick, financial fixes, but in reality create unaffordable debt traps for borrowers.

- The average loan is around **$350**.
- Nationally, the average APR on payday loans is **391%**.
- [Nearly half of all payday loan borrowers default within two years of the original loan, and of those who default, nearly half do so in the first two loans.]
- 76% of payday loan volume is due to “loan churn” – meaning borrowers take out a new loan within two weeks of the old loan

Current State Policy Landscape and Trends

- 14 states and the District of Columbia have rate caps that eliminate the payday lending debt trap
- Six other states have enacted reforms that limit but do not completely eliminate the debt trap
- 30 states have no substantive restrictions to protect against the harms of 300% APR payday loans
- Since 2005, no state has authorized 300% APR payday lending and many states have since curbed it
- In efforts to sidestep regulation, payday and car title lenders are pushing to structure payday loans as installment loans

U.S. Payday APRs



CFPB's Payday Lending Proposal

CENTER FOR RESPONSIBLE LENDING

General Scope of the Proposal

Applies to:

- Short-Term Loans
  - 45 days or less

- Longer-Term Loans
  - Longer than 45 days
  - "All-in" APR greater than 36%
  - Access to the borrowers bank account, or holds security to the borrower's car

Products Covered

Payday Loans

Deposit Advance Products

Vehicle Title Loans

Certain High-Cost Installment Loans

Certain Open-End Line of Credit and Other Loans

(bona fide pawn loans are excluded)

Methods of Compliance: Short-Term Loans (45 days or less)

"Debt Trap Prevention"

- Front-end determination of a borrower's ability-to-repay without defaulting or re-borrowing
- 60-day cooling off period between loans
- Borrower limited to one loan at a time

OR

"Debt Trap Protection"

- $500 or less
- No ability-to-repay determination
- Allows six loans in a 12-month period (two series of three loans followed by a mandatory 60-day cooling off period between each series)
  - 2nd and 3rd loans of each series could only be offered if the lender offers an affordable way out of debt
- Borrower limited to one loan at a time
- Limited to 90 days of total indebtedness in a 12-month period

Methods of Compliance: Longer-Term Loans*

“Debt Trap Prevention” OR “Debt Trap Protection”

“Debt Trap Prevention”

- Front-end determination of a borrower’s ability-to-repay without defaulting or re-borrowing
- Determination of ability-to-repay at each refinance or re-borrow
- If borrower has been delinquent on a payment, lender is prohibited from refinancing into a loan with similar terms unless documentation is provided evidencing an improvement in financial circumstances

OR

“Debt Trap Protection”

CFPB considering two options:

1. Offer loans modeling the NCUA’s existing small-dollar loan program
   - $200 to $1000
   - Charge no more than 28% APR, plus $20 application fee
   - No other covered loans, and no more than two loans in a 6-month period
2. Payment-to-Income Option
   - Periodic payments are no more than 5% of borrower’s gross income over the same period
   - No other covered loans, and no more than two of these loans in a 12-month period

* 45+ day term, “All-in” APR >36%, access to a deposit account or secured by a vehicle

Problematic Longer-Term Loans Unaddressed by Proposal

Example 1 – Interest Only*

$300 Loan
783% APR
16 bi-weekly payments (first 5 weeks are interest only)

Time Passed	Amount Paid	Amount Owed
Five weeks	$575	$405
Eight weeks	$888.75	$337.50

** Summary of loan as currently advertised by CastlePayday*

Example 2 – Excessively Long Terms

Loan Amount	Semi-Monthly Payment	Term	Principal Owed after 4 Months
$500	$50	6 months	$186
$500	$50	24 months	$494

Payment Protections

- Lenders would be required to provide borrowers three business days advanced notice before accessing deposit accounts for payment

- Lenders limited to two unsuccessful withdrawal attempts to reduce excessive fees from bounced checks and other deposit account fees; thereafter would need borrower's reauthorization to continue debiting account

Positives of the Proposal

- The CFPB is right to take aim at the harmful debt trap of payday loans, car title loans and high-cost installment loans
- The scope and structure are largely headed in the right direction to limit avenues for evasion
- The ability-to-repay standard has the potential to end the practice of making and relying on unaffordable loans that lenders churn at exceedingly high interest rates
- Restricted access to banks accounts limits repeated bounced check and overdraft fees

Loopholes and Concerns

- Exemptions from determining a borrower's ability-to-repay in both the short- and longer-term guidelines
- While not preemptive, sanctioning rollovers and exempting six high-cost loans annually from the ability-to-repay standard undermine stronger state laws
- Longer-term loans secured by personal property and those that are unsecured are not covered
- More concrete protections are needed to address the worst abuses in long-term market
- A weak federal standard will serve as a point of reference for payday lenders and will fuel attacks on strong consumer protections at the state level

CENTER FOR RESPONSIBLE LENDING

States Remain Battleground for Consumer Protection

In 2015 session, continued push by high-cost lenders to weaken state laws:

- Proposals to create new/modified tiers of installment loans to collect higher fees (CO, FL, KS, NC, and WA)
- Proposals to increase maximum loan size (AL)
- Efforts to use the CFPB rulemaking as cover to open the door to payday lending in states where the practice is currently banned (PA)

Public support for reining in the debt trap continues:

- Continued pushes for 36% rate caps (HI, RI, NM, KY, SD, SC)
- Polling shows voters across party lines strongly oppose unfair lending practices and support financial regulations and enforcement
- Coalition of diverse faith groups joining efforts to rein in predatory payday lending

What Can You Do?

- Contact the CFPB now to weigh in on the Payday Lending proposal: lendjustly.com.
- Share your feedback with your state elected officials and congressional delegation; urge their support for a strong Payday rule
- Encourage individuals affected by predatory loan abuses to file complaints with the CFPB at

  http://www.consumerfinance.gov/complaint/

Further Reading

Further analysis and recommendations on
the CFPB's proposal may be found at:
http://www.responsiblelending.org/payday-lending/research-analysis/cfpbs-preliminary-proposal-to.html

Additional research, analysis and commentary by
the Center for Responsible Lending and other resources
may be found at:
http://www.responsiblelending.org/payday-lending/research-analysis/consumer-financial-protection.html

Q & A

Whitney Barkley-Denney
Policy Counsel
Center for Responsible Lending
Whitney.Barkley@responsiblelending.org

Tom Mulloy
National Director of Poverty Programs
Society of St. Vincent de Paul
tmulloy@svdpusa.org