



Top Client Questions Regarding the CFPB's Small Dollar Loan Rulemaking

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In recent weeks there has been a significant increase in client interest regarding the CFPB's ongoing efforts to introduce small dollar lending rules. Our client conversations have generally revolved around three specific questions: (1) What is the small dollar loan rulemaking timeline?; (2) How broad will the rule be?; and (3) If the rule includes an affordability assessment, how will it be structured? We briefly address each of these questions below.

What is the Rulemaking Timeline? While rulemaking timelines are inherently fluid, especially at the CFPB, we have included below an illustrative timeline for the CFPB's small dollar loan rulemaking. **We expect the CFPB to initiate a SBREFA panel in the days ahead which will serve as the starting gun for a rulemaking process we expect to last through 2015.** Given the contentious and complicated nature of the small dollar rulemaking effort, we estimate that the proposed rule will be released this summer with the final rule release possibly slipping to 2016.

Estimated Timeline for the CFPB's Small Dollar Loan Rulemaking

Estimated Date	Expected Event	Notes
Feb - 2015	Expected date of SBREFA panel convening	This is based on the CFPB's rulemaking agenda and channel checks
Apr - 2015	Expected date of SBREFA panel ending	SBREFA panels last 2 months
Jul - 2015	Expected date of small dollar NPRM	The CFPB has released its NPRM anywhere from 2 - 4 months after SBREFA panel ends (we assume 3 months)
Oct - 2015	NPRM comment window closes	NPRM comment windows are generally between 60 and 90 days (we assume 3 months)
Jan - 2016	Final small dollar rule released	We assume that it will take the CFPB 90 days to turn the final comments but that is admittedly optimistic
Jan - 2017	Final small dollar rule becomes effective	The implementation timeline is likely to be between 12 and 18 months following the final rule's release

Source: CFPB, SBA, Compass Point

Notes: SBREFA=Small Business Regulatory Enforcement Fairness Act; NPRM= Notice of Proposed Rulemaking

How Broad Will the Rule Be? Press reports suggest that the CFPB's small dollar rulemaking may be more broadly crafted than originally expected. On February 8 the *New York Times* ran an [article](#) stating that the CFPB's forthcoming small dollar loan rule may encompass certain installment and auto title loans. Furthermore, the *NYT* article states that the CFPB's small dollar loan rule proposal may include: (1) a detailed assessment of the borrower's ability to repay the loan at the end of a two-week period; (2) explicit limits on the number of rollovers permitted in a specific time frame; (3) explicit limits on the number of times lenders can ping the borrower's checking account; (4) additional loan term limitations based on the number of rollovers; and (5) the introduction of extended payment offering standards.

How Will an Ability to Repay Standard be Crafted? Within the investment community, there is a particular focus on the potential introduction of an affordability standard for small dollar loans. Given that the rule has yet to be released, there is no clarity regarding how the CFPB will structure an affordability standard for the small dollar loan space or how the standard could impact the market. In order to provide a point of reference, we have pointed clients to the [PEW proposal](#) to limit payments to 5% of a borrower's gross periodic income. So, for example, under the PEW proposal a payday borrower who has a gross monthly income of \$1,800 should not pay more than \$90 in principal, interest, and fees on a monthly basis. There are a number of questions regarding any potential affordability standard we will work to answer once the proposal is released: (1) How will it be structured?; (2) How much will it cost to comply with the standard?; and (3) What will the regulatory incentives for offering loans deemed to be affordable be and will it have an impact on the market?

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