Congress of the United States
Washington, DC 20515

March 4, 2015

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

Dear Director Cordray:

We are writing in support of strong, effective rules governing payday loans. The Consumer Financial Protection Bureau (CFPB) has a responsibility to protect consumers from these predatory and exploitive financial products, and we urge you to implement rules that would prohibit fraudulent and abusive payday loans that threaten the economic well-being of so many Americans, especially those from low-income communities of color.

While several states have recently passed new laws and others have increased the enforcement on the abusive nature of these loans, the need for federal regulation is pressing. As of 2014, at least 36 states still permit these abusive loans, and many do so without restriction.[i] Moreover, the prevalence of internet payday lending has grown tremendously in recent years. In fact, one in every three payday loans originates online, some with rates as high as 700% APR or more.[ii]

What is particularly concerning is that payday lenders target low-income communities and communities of color. According to a four state study conducted by Howard University's Center on Race and Wealth, 12 million people living in low-income communities use payday loans annually. Those individuals averaged eight payday loans each year with an average interest rate of 400 percent for each loan. Nearly 90 percent of payday lenders referenced in the study were located in low-income communities of color.

The prevalence of such predatory and abusive practices is unacceptable. The payday loan industry robs borrowers of the opportunity to secure a foothold in the mainstream financial services market by locking borrowers into a long-term debt trap and by increasing the likelihood that a borrower will suffer other harmful financial consequences, such as bankruptcy, excessive overdraft fees, and involuntary bank account closures. The resulting adverse impact on credit scores, which lenders use to determine a borrower's eligibility, can make it even harder for individuals to avail themselves of mainstream financial services. This means that the millions of individuals from low-income communities and communities of color are further disadvantaged and further unable to break free of existing socio-economic barriers.

That is why we need a clear, consistent, national standard that ensures that no one in this country is subject to predatory lending practices. To that end, we urge the CFPB to implement rules to stem predatory practices that are based on exorbitant interest rates and fees that draw consumers into a harmful cycle of repeat lending. Specifically, we ask that the CFPB meaningfully reform the marketplace by implementing rules governing both storefront and online payday lending that would:

1. Require the lender to determine the borrower's ability to repay the loan, including consideration of both income and expenses;

2. Not sanction any series of repeat loans or provide any safe harbor;

3. Recognize that borrowers need small dollar loans with good terms, not short-term loans that are difficult for them to repay. The CFPB should establish an outer limit on length of indebtedness that is at least as short as the FDIC's 2005 guidelines – 90 days in a twelve-month period; and

4. Prohibit lenders from using post-dated checks of electronic access to a borrower's checking account as evidence of ability to repay the loan.

We thank you for your leadership and consideration of our suggestions for strong protections for consumers in the financial market. We look forward to working with you and the Bureau to establish clear rules for the payday lending industry in order to protect consumers from products that have been shown to be financially damaging.

Very truly yours,

Keith Ellison
Co-Chair, Congressional Progressive Caucus

Raúl M. Grijalva
Co-Chair, Congressional Progressive Caucus

Linda T. Sánchez
Chairwoman, Congressional Hispanic Caucus

G.K. Butterfield
Chairman, Congressional Black Caucus

Judy Chu
Chairwoman, Congressional Asian Pacific American Caucus

[i] The Pew Charitable Trusts, *How State Rate Limits Affect Payday Loan Prices*, April 10, 2014, *available at* *http://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2014/04/10/how-state-rate-limits-affect-payday-loan-prices*.

[ii] The Pew Charitable Trusts, *Key Findings About Internet Payday Lending: Harmful Practices, Fraud, and Abuse Abound in a Growing Industry*, Oct. 02, 2014, *available at http://www.pewtrusts.org/en/multimedia/data-visualizations/2014/key-findings-about-internet-payday-lending.*