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United States Senate

WASHINGTON, DC 20510

March 19, 2015

Hon. Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

Dear Director Cordray:

I write to encourage the Consumer Financial Protection Bureau (CFPB) to propose the strongest possible rules to address predatory lending practices. The CFPB has already demonstrated its commitment to protecting consumers against predatory and illegal practices through work that has resulted in \$4.6 billion in relief for consumers and I commend the CFPB for these actions.[1] I appreciate the CFPB's demonstrated commitment to studying small dollar loans and the thoroughness of the information it has gathered which provides important data about the existing small dollar lending market. However, I now urge swift action to formally propose rules to address the predatory and damaging impacts of many of these loans. Addressing predatory lending practices through robust rules is a crucial part of fulfilling the CFPB's mission.

Notably, the CFPB has found that four out of five payday loans are rolled over or renewed within two weeks and that a majority of consumers who take out payday loans pay more in fees than the original amount borrowed.[2] The Pew Charitable Trusts reports that "Twelve million people now use payday loans annually, spending an average of \$520 in interest to repeatedly borrow an average of \$375 in credit."[3] Predatory loans trap consumers in exorbitantly high-cost products that lead to a cycle of debt. Often, the consumers who turn to these products are those least able to afford any additional costs: the CFPB found that the median income of consumers who take out payday loans is \$22,476.[4] The data from both the CFPB's initiatives and independent organizations clearly demonstrates the urgent need for comprehensive rules that will protect consumers.

I urge you to take this opportunity to prepare strong rules with thorough requirements on a consumer's ability to repay the loan without rollovers or refinancing. The rules must protect

[1] Consumer Financial Protection Bureau: By the Numbers, 21 July 2014, http://files.consumerfinance.gov/f/201407_cfpb_factsheet_by-the-numbers.pdf.
[2] "CFPB Finds Four Out Of Five Payday Loans Are Rolled Over Or Renewed," 25 March 2014, http://www.consumerfinance.gov/newsroom/cfpb-finds-four-out-of-five-payday-loans-are-rolled-over-or-renewed/.
[3] The Pew Charitable Trusts, Payday Lending in America: Policy Solutions, October 2013, p.1, http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2013/PewPaydayOverviewandRecommendationspdf.pdf.
[4] Consumer Financial Protection Bureau, Payday Loans and Deposit Advance Products, 24 April, 2013, p.18, http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf.

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consumers from predatory products. Thorough underwriting standards that enable consumers to afford small dollar loans are critical to guarantee that consumers do not get stuck in products with exorbitant costs that are difficult or impossible to repay.

While many states, including Oregon, have passed laws affecting predatory lending practices, action at the federal level is necessary, particularly as lenders have adapted and changed their structures in order to get around existing state laws.[5] In addition, online predatory lending has grown, often ignoring state laws, and can be a difficult target for enforcement. Though the CFPB does not have the authority to impose a usury cap as states do, the proposed rules would be important supplements to state laws. I urge you to include measures that will prevent evasion or efforts to exploit loopholes by disguising predatory lending behind different product types.

I look forward to seeing action to address predatory lending at the federal level. I expect the CFPB to use the full range of its authority to put forth the strongest possible set of rules that will truly and effectively end the predatory lending practices that have exploited consumers and harmed working families for far too long. Thank you for your attention to this important issue.

Sincerely,

Jeffrey A. Merkley

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United States Senator

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[5] Some payday lenders have responded to state laws such as those in Arizona, by registering as car title lenders instead: "Lenders made similar changes in Virginia, where lawmakers outlawed payday lending in 2010. But title lenders were untouched by that law and have expanded throughout the state, drawing business from Maryland. The number of stores offering title loans in Virginia increased by 24 percent from 2012 to 2013, according to state records. Last year, the lenders made 177,775 loans, up roughly 612 percent from 2010, when the state banned payday lending." Jessica Silver-Greenberg and Michael Corkery, "Rise in Loans Linked to Cars Is Hurting Poor," *New York Times*, DealBook, 25 December 2014, http://dealbook.nytimes.com/2014/12/25/dipping-into-auto-equity-devastates-many-borrowers/.