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Coalition on Homelessness and Housing in Ohio

FEDERAL PAYDAY LENDING RULES MIGHT FINALLY STOP OHIO'S DEBT TRAP

Bill Faith, executive director of the Coalition on Homelessness and Housing in Ohio

In 2008 Ohioans voted overwhelmingly to reduce interest rates on payday loans from 391 percent to 28 percent. But lenders quickly found ways to avoid the law, like issuing loans as checks and then charging ridiculous fees to cash the check, or falsely posing as Consumer Service Organizations and, of course, charging ridiculous fees. Lenders also devised creative new ways to swindle people, like car title loans and longer-term payday loans. In fact, last year payday lenders drained $502 million in fees from Ohioans, more than twice the $239 million they collected back in 2008.

Payday lenders know most borrowers won't be able to pay off their short-term loans when they come due, and they encourage their customers to take out a new loan to repay the old one. We've seen how borrowers wind up paying interest and fees on loan after loan for months and even years. That's how these swindlers make money – by creating debt traps.

For years state lawmakers have been unwilling to do anything about these legal loan sharks, despite an overwhelming mandate from Ohio voters. Fortunately, Ohio now has another chance to rein in the payday loan debt trap. The federal Consumer Financial Protection Bureau has proposed new national regulations to rein in these out-of-control lenders. The rules are based on the same principal that normal lenders must adhere to – the common sense notion that lenders must check to make sure their customers can actually pay back a loan without going broke or resorting to additional loans.

Unfortunately, the payday loan industry has successfully lobbied for loopholes in the CFPB's proposed rules. For example, the requirement to assess a borrower's ability to repay would only kick in after a customer has taken six short-term loans that could have interest rates far exceeding 300 percent. Even more concerning, lenders could avoid the rule simply by claiming that they were able to collect payment from a customer on past loans.

The payday loan industry likes to say they help working families facing one-time emergency cash needs, like unexpected car repairs. But the CFPB's own research shows that more than 75% of payday loan fees come from borrowers who are stuck in more than 10 loans a year. That's a lot of unexpected emergencies.

The proposed payday lending rules are open for public comment through Sept. 14, after which the CFPB will consider feedback. The agency is expected to issue final regulations next year.

The CFPB's draft rules are a good start, but given our experience with payday lenders in Ohio, we know how easily they will exploit loopholes, popping up in different place like a game of whack-a-mole. These regulations need to be airtight if they're going to work.

Ohioans can submit their comments on the CFPB's payday and car title lending rules through the online advocacy portal at: http://stoppaydaypredators.org/OH/