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Director Richard Cordray Remarks at the Payday Field Hearing

BY RICHARD CORDRAY

Thank you all for joining us. And we thank Nashville for a warm welcome.

Today we are releasing a research study on payday loans. We chose this part of the country to release this study because of the prevalence of payday lenders both here and in many of the neighboring states.

Congress has charged the Consumer Financial Protection Bureau with the dual responsibility for assuring that consumers have access to financial services and making sure that the markets for those services are fair, transparent, and competitive. In particular, we envision a marketplace where both consumers and honest businesses can benefit from reliable small-credit lending.

Payday loans were developed to provide small loans to consumers to meet a short-term need. Consumers who take out these loans are usually required to repay them from their next paycheck. Payday lending as we know it originated in the 1980s and 1990s, when a number of state legislatures were persuaded to create a special exemption to their state usury laws that established a new framework for small-dollar lending. Under the protective umbrella of that new exemption, payday lending has spread and grown rapidly over the past two decades. Today, payday loans are readily available online and in many states through storefronts as well. According to reports from industry analysts, about 12 million American adults are currently choosing to borrow money through payday loans.

For consumers in a pinch, getting the cash they need can seem worth it at any cost. Many consumers would never dream of paying an annual percentage rate of 400 percent on a credit card or any other type of loan, but they might do it for a payday loan

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where it feels like they can get in and out of the loan very quickly. People often are responding to circumstances they view as presenting an emergency that requires immediate access to money.

In fact, the core payday loan product was designed and justified as being expressly intended for short-term emergency use. But our study today again confirms that payday loans are leading many consumers into longer-term, expensive debt burdens. Our research confirms that too many borrowers get caught up in the debt traps these products can become. The stress of having to re-borrow the same dollars after already paying substantial fees is a heavy yoke that impairs a consumer's financial freedom.

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Today's report is based on data drawn from a 12-month period that represents more than 12 million storefront payday loans. It is a continuation of the work we did last year in our report on payday loans and deposit advance products, which was one of the most comprehensive studies ever undertaken on this market.

In last year's report, we studied the number of loans that borrowers take out over the course of the year and the length of time that borrowers are in debt over the course of that year. We found that too often payday consumers are getting caught in a revolving door of debt.

Today's study builds on our prior research and digs deeper into payday loans with even more analysis behind the numbers. We look at new payday loans and examine how often borrowers roll over the loans or take out another loan within 14 days of paying off the old loans. We did this because we consider these subsequent loans really to be renewals that are part of the same "loan sequence." What we mean is that the subsequent loans are prompted by a single need for money – that is, the follow-on loans are taken out to pay off the same initial debt for the consumer. Maybe that consumer took out the loan to pay for a car repair. Or maybe she took it out to pay for an unexpected trip to the hospital. Or maybe she was just short some of the money needed to get by at the end of the month. Whatever the reason, the loan sequence comprises all of the renewal loans that the consumer took out to pay for the costs incurred from or made unaffordable by that initial need.

Our study today is the most in-depth analysis to date of this pattern. Another way of stating the matter is that our central concern here is not with every payday loan made to a consumer. Preserving access to small dollar loans does mean, after all, that some such loans should be available. Our concern instead is that all too often those loans lead to a perpetuating sequence. That is where the consumer ends up being hurt rather than helped by this extremely high-cost loan product. And it is well known that payday loans

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often lead to this damaging result. Our report today further documents this concern in much greater detail.

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Our research found that for about half of all initial payday loans – those that are not taken out within 14 days of a prior loan – borrowers are able to repay the loan with no more than one renewal. However, we also found that more than one in five initial loans that are made result in loan sequences involving seven or more loans. With a typical fee of 15 percent for each payday loan, consumers who renew loans seven times or more will have paid more in fees alone than the amount they borrowed in the original loan. For these people, the piling up of fees eclipses the actual payday loan itself.

Moreover, when we looked at 14-day windows in the states that apply cooling-off periods to reduce the level of same-day renewals, the renewal rates are nearly identical to states without these limitations. This renewing of loans can put consumers on a slippery slope toward a debt trap in which they cannot get ahead of the money they owe. And this tells us that even if state law precludes consumers from taking out another payday loan immediately, the pressure of their circumstances – now intensified by the heavy expense of the payday loan itself – tends to force consumers to find their way back to the payday lender about as soon as the law permits.

As for the amounts that people are borrowing, we found that in four out of five loan sequences in which borrowers renew the loan, they end up borrowing the same amount or more, sometimes again and again. So because they rolled over their loans, they ended up owing as much or more on their very last loan as the entire amount they had borrowed initially. Tragically, these consumers find that they are simply unable to make any progress in reducing the debt over time.

Most telling, the study found that four out of five payday loans are rolled over or renewed within two weeks and that roughly half of all loans are made to borrowers in loan sequences lasting ten or more loans in a row. From this finding, one could readily conclude that the business model of the payday industry depends on people becoming stuck in these loans for the long term, since almost half their business comes from people who are basically paying high-cost rent on the amount of their original loan.

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These are not just abstract numbers. They reflect the circumstances of people across the United States who are running into trouble with payday loans. Several thousand have submitted complaints to the Consumer Bureau because they have gotten caught in these spider webs of debt. Since we started taking payday loan complaints in November of 2013, just four months ago, we have already heard from thousands of consumers across the country.

Some consumers have told us about circumstances in which a payday loan proved beneficial to them. But others have told us a very different story.

Take Lisa from Pennsylvania, who submitted a complaint to us after taking out a payday loan. Lisa told us that she lost her job at a local hospital and went to a payday lender to help pay her rent. She meant to take out the loan for a short amount of time. She thought she would be able to get in and out of the loan quickly. But she ended up rolling it over. She also took out a second loan to pay for the first loan. In total, she says, she took out $800. Today, despite having paid back more than $1,400, she still has not entirely paid off the loans.

Now she is trying to turn her life around. She is taking classes, holding down two jobs, and moving in with her parents to save money. Yet the struggle continues. "It caught me totally off guard," she said. "I got stuck in a cycle." Her information eventually got sold to a debt collector and now she tells us she is getting called five times a day.

Lisa's story is all too common. She thought she could get in and out of the loan but ended up spiraling downward in debt. She slipped on the steep slope and just kept on sliding.

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Our study also looked at payday borrowers who are paid on a monthly basis. It found that many payday borrowers fall into this category, such as elderly Americans or disability recipients on fixed incomes. A fair number of them remained in debt for the entire year of our study, living for all practical purposes with a high-cost lien against their everyday life.

Indeed, of the payday borrowers who were receiving monthly payments, one out of five borrowed money in every single month of the year. These borrowers, which includes those who receive Supplemental Security Income and Social Security Disability or retirement benefits, are thus in serious danger of ensnaring themselves in a debt trap when they take out a payday loan. This fact is of great concern to us.

Evelyn, an 81-year-old woman from Texas, had to deal with this very situation. Evelyn told us she had never taken out a payday loan in her life until she needed to pay for her dying daughter's cancer medicine. She saw an ad on TV and on a Saturday morning went down to her local payday storefront to take out $380. She was hoping her daughte would get well and pay back the money herself. But the cancer took away her daughter just six months later. Evelyn, on a fixed income that combined her widow's pension and

Social Security checks, tried to pay back the loan bit by bit. But every time she hit her due date at the beginning of the month, she had to renew the loan because she did not have the full amount plus the new fees. As the many months passed, Evelyn's outstanding balance grew to be more than $700.

These kinds of stories are heartbreaking and they are happening all across the country, even in states that have adopted mandatory cooling off periods and other regulations. They demand that we pay serious attention to the human consequences of the payday loan market.

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In January 2012, we added payday lenders to our program of supervising financial institutions. It was, in fact, one of the first things we did after I took over as the Director of the Consumer Bureau. Almost immediately, we decided to hold a field hearing in Birmingham, Alabama, so that we could hear directly from stakeholders about the costs and the benefits of actual consumer experience with this kind of small dollar loan. And we began to undertake our first closer study of these issues, which led to last year's report.

Through our supervisory work, we have become concerned about situations we have found where payday lenders have inhibited borrowers from using company payment plans that are intended to assist them when they have trouble repaying their outstanding loans. Moreover, we have found that some lenders use the electronic payment system in ways that pose risks to consumers. These practices can hinder consumers from getting out of debt or can leave them unable to prioritize the payment of their various debts in ways that would leave them better off.

Our examinations also show that a troubling number of these companies engage in collection activities that may be unfair or deceptive in one or more ways. These activities include using false threats, disclosing debts to third parties, making repeated phone calls, and continuing to call borrowers after being requested to stop. The same is true for debt collectors that work for payday lenders and that may fail to honor the protections that are afforded to consumers through the Fair Debt Collection Practices Act. As we uncover these problems, we are taking actions that require firms to comply with the law by changing their practices and to make consumers whole for any harm they have suffered as a result of legal violations.

The fundamental problem is that too many borrowers cannot afford the debt they are taking on or at least cannot afford the size of the payments required by a payday loan. In the end, consumers are at risk of using these products in ways that go beyond their intended purpose. This concerns us at the Consumer Bureau, and it should concern anyone who is focused on the payday market, because financial products that trigger a cycle of debt are likely to disrupt the precarious balance of consumers' financial lives, leaving them worse off.

We have also taken further steps to protect consumers in this space. In an enforcement action against Cash America International, we ordered one of the largest short-term, small-dollar lenders in the country to refund consumers for robo-signing court documents in debt collection lawsuits. We ordered Cash America to pay up to $14 million in refunds to consumers and levied an additional $5 million fine both for these violations and for obstructing our examination team by destroying records in advance of our arrival.

We also sued a company named CashCall, along with its owner, its subsidiary, and its affiliate, for collecting money that consumers did not even owe. We believe the defendants engaged in unfair, deceptive, and abusive practices in violation of the federal consumer financial laws, including illegally debiting consumer checking accounts for loans that were void. The Bureau's investigation showed that these high-cost loans violated either licensing requirements or interest-rate caps – or both – in at least eight states, which had the legal effect of either voiding or nullifying the loans.

Last fall, we released new guidelines to our examiners who are supervising payday lenders on how to identify consumer harm and risks related to Military Lending Act violations. And for the past year, we have been working directly with the Department of Defense and other agencies to revise the regulations implementing the Military Lending Act, with the goal of fulfilling the congressional objective of ensuring more consistent protection of our servicemembers in the consumer financial marketplace.

In sum, we are taking a variety of actions in this space that address serious harms to consumers. And as we learn more about this industry, we will remain vigilant to address other concerns as they are identified.

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The purpose of all this additional outreach, research and analysis on these issues is to help us figure out the right approach to protect consumers in the marketplace for payday loans. We want to ensure they will have access to a small loan market that is fair, transparent, and competitive.

As we look ahead to our next steps, I will frankly say that we are now in the late stages of our considerations about how we can formulate new rules to bring needed reforms to this market. We continue to grapple with all aspects of these issues. We have always acknowledged that the American consumer has shown a clear and steady demand for small-dollar credit products, which can be helpful for the consumers who use them on an occasional basis and can manage to repay them without becoming mired in a prolonged and costly struggle. So we intend to make sure that consumers who can afford to take out small-dollar loans can get the credit they need without jeopardizing or undermining their financial futures. But we also need to recognize that loan products which routinely lead consumers into debt traps should have no place in their lives. Thank you.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.