

Neugebauer Leads Subcommittee to Examine CFPB's Assault on Short-Term, Small Dollar Lending

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Press Release



Rep. Neugebauer speaks with consumers at a small dollar lender in Virginia.

WASHINGTON – Rep. Randy Neugebauer (R-TX), Chairman of the Financial Institutions and Consumer Credit Subcommittee, delivered the following opening statement—as prepared for delivery—at today’s Subcommittee [hearing](#) entitled “Short-term, Small Dollar Lending: the CFPB’s Assault on Access to Credit and Trampling of State and Tribal Sovereignty:”

“Today, we hold a hearing to exam the short-term, small dollar credit marketplace and to examine the CFPB’s efforts to regulate the market for the first time at the federal level. This hearing is especially timely given the Bureau’s efforts to put out its proposed rule in the next month or two.

“Short-term, small dollar credit is essential to millions of Americans. According to the FDIC, roughly 51 million American consumers are unbanked or underbanked—meaning they don’t have sufficient access to traditional banking services or products.

“Short-term credit customers are disproportionality drawn from low or moderate-income segments of the population. These individuals are more likely to have limited discretionary income after necessities and to be more vulnerable to unexpected expenses. Fortunately, these individuals have been able to access a variety of products from non-bank lenders, from payday loans, to vehicle title, and installment lending—the marketplace is evolving and becoming more competitive.

“The characteristic that makes these sorts of loans distinctive is their availability to consumers who have difficulty qualifying for many other types of credit. These loans may not fit the needs of all consumers in all circumstances, but they are often essential to forestall consumer harm.

“Last week, I had the opportunity to visit a small dollar lender in Virginia. In addition to seeing the sophisticated backroom underwriting process and understanding the diverse product offerings other than credit products, I had the chance to actually talk to the very customers that use these products.

“One couple I met took out a payday loan for the first time. The father told me he worked nights and that public transportation wasn’t reliable at 2:00 a.m. His family’s car was in the shop and he had to get it out to make it to work that night. He had two options—either a day of work and risk losing his job—or take out a short term loan to get him through this emergency.

“This same story is repeated over and over in the letters I get from my constituents in the 19th District of Texas. From the mother of five, to the disabled veteran, to the painter trying to get a truck repair—a common theme emerges in all of these stories. Please don’t take away my choice and availability to use these products.

“Unfortunately, the CFPB’s efforts represent yet another example of a Washington-knows-best mentality. Using behavioral economics, which by its very principles says policymakers should make choices for unsophisticated individuals, the CFPB has set down a road of paternalistic erosion of consumer product choice and access to credit.

“By its own analysis, the Bureau expects a roughly 60-70% market contraction for these products. This is the type of behavior that people across this country are tired of seeing come out of Washington.

“Now my colleagues on the other side of the aisle will point to high APRs associated with many of these products. But I must remind them that the vast majority of these products aren’t annualized.

“The consumer we will hear from today isn’t thinking about using these products over the course of a year. He is in and out of the product to meet a short-term need—he is paying a service charge to access funds quickly. Myself and many consumer-lending scholars believe APR is not the appropriate way for consumers to measure the cost of these products.

“Other constituencies that I have heard from regarding the Bureau’s efforts are states and tribal nations. Short-term, small dollar loans are historically a state-regulated product. Yet the Bureau explicitly states that ‘the proposals under consideration, if implemented, would establish a federal floor for consumer protection for covered loans.’

“Despite this recognition, the Bureau has made no showing that any State or tribe lacks the authority to regulate these products. Nor has it shown that any State or tribe is incapable of adequately protecting its citizens from the potential risks associated with using them responsibly.

“Of the 50 states, the legislatures of 35 have deliberately enacted small dollar lending laws of varying protections, including and up to outright bans. The

remaining 15 states also address the issue, either by affirmatively declining to enact an authorizing law to govern the industry, or choosing to regulate through interest rates.

“Crucially, and contrary to the Bureau’s appeal to a greater moral obligation, no state lacks the authority to enact, repeal, or amend its own payday and lending laws in order to provide greater protections to its consumers. In fact, as we will hear in the Washington state example, the state legislature amended its law after it realized the previous version had a problematic impact of decreasing credit availability. Unfortunately, the Bureau has ignored this reality.

“Acting Deputy Director Silberman, who is testifying today, told this Committee last April ‘We have not thought about a state that doesn’t have authority.’

“And in an effort to double down, Director Cordray has told this Committee ‘I am not thinking about it (meaning the rule) this way.’

“As we hear testimony from this first panel of witnesses, I hope everyone remembers the rulemaking is discretionary and not statutorily mandated. This is an example of an executive branch agency making the choice to preempt state law without the direction of this Congress. That should give us all pause.

“In conclusion, I hope members will leave today’s hearing with a better understanding about the people who use the products, why they are important, and how they are already regulated.”

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