Consumer Financial Protection Bureau

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Prepared Remarks of CFPB Director Richard Cordray on Payday Lending Research Report Press Call

By Richard Cordray

Thank you for joining us. From the beginning, the small-dollar lending market, which includes payday loans, has been an area of focus for us at the Consumer Financial Protection Bureau. We have engaged in intensive analysis of the market. We have considered the history of the demand for such loans and the conditions that create such demand. And we have focused carefully on how people are affected by the kinds of credit products that have evolved to meet this demand.

In our deep analysis of this product, we have put out two research reports to date. Today, we are adding to that body of knowledge with another research paper about payday loans and certain installment loans, specifically looking at online lenders. After analyzing 18 months of data on more than 330 online lenders, we have found that borrowers face steep, hidden costs to their online loans in the form of unanticipated bank penalty fees.

Online lenders often use an automated network to deposit the loan amount into a borrower's bank or credit union account. They also collect their payments through those same automated networks by submitting payment requests. This easy means of collection means they have considerable power over a consumer's bank account.

While traditional payday loans require a one-time payment within a relatively short period of time after the consumer obtains the loan, online payday loans take different forms. Some require a single payment. Some require a series of interest-only payments and a final balloon payment covering the entire principal amount. Some are repaid in installments with each payment scheduled to coincide with the consumer's payday.

If the consumer does not have enough money in her account, then her bank or credit union can choose to make the payment on her behalf or it can choose to deny the request. Either way, this

often means additional penalty charges will be imposed. The bank or credit union can either make the payment and impose an overdraft charge or refuse the payment and assess a non-sufficient funds (known as an NSF) charge. During the time period covered in the report, the median fee in both instances was about $34. If the bank or credit union declines the payment, the charge is levied in addition to any penalties the payday lender itself may charge for the failed payment.

If a payment request fails, lenders often follow up by making repeated attempts to extract payments from the account, with each one potentially resulting in more fees. Other lenders may react by splitting a single payment into multiple smaller payment requests and pushing them through on the same day, in the hopes of collecting at least some of the money. They can do this, for example, by making three $100 attempts on a day the consumer is due to repay $300. In one extreme case, we saw a lender that made 11 payment requests on an account in a single day.

Failed debits can end up costing consumers a lot of money. Our first finding from today's study is that though many payment requests are fulfilled, about half of online borrowers have at least one that overdrafts or fails. These consumers are incurring an average of $185 in bank penalties. That is on top of any penalties the lender imposes, as well as the average annualized interest rate of 300 to 500 percent that is routinely charged on these kinds of loans.

A second finding of today's research paper is that many online borrowers hit with an overdraft or NSF fee end up losing their checking or savings accounts altogether. Banks or credit unions can close a consumer's account for various reasons, including having a negative balance for too long. We found that over the study period, 36 percent of accounts with a failed debit attempt from an online lender ended up being closed by the bank or credit union. This usually happened within 90 days of the initial failed payment. Getting booted from the banking system can have far-reaching repercussions for consumers, leading to a downward spiral that costs them even more money and their precious time. It can be hard to get a new account at another bank. It can mean having to use expensive check-cashing and bill-paying services to cash their paychecks or their benefits checks or to pay their bills, services they used to take for granted.

A third key finding today is that 70 percent of second payment requests fail to collect any money and later attempts are even less likely to succeed. While it may cost the lender next to nothing to try to extract money from a consumer's account, it can cost the consumer serious money. What our study found is that after one failed payment request, lenders try again three-quarters of the time. This is true despite the fact that so few of them succeed. If they keep at it, a third or subsequent attempt will fail at an even higher rate. Lenders may keep on dinging a consumer's account over and over again, with each ding costing the consumer a hefty bank fee.

As the Consumer Bureau has said all along, we believe that many people who live paycheck to paycheck need access to credit that can help them manage their financial affairs. But we also believe that consumers deserve to have access to responsible credit that helps them rather than harms them.

Each of these additional consequences of an online loan can be significant, and together they may impose large costs, both tangible and intangible, that go far beyond the amounts paid solely

to the original lender. So the true costs of these loans, taken in the aggregate, must be kept in mind as we assess the effects on consumers, especially those who were already experiencing financial difficulties when they took out the loan in the first place.

Last year, we began the process of reforming the market for small-dollar loans. We shared our initial framework for a proposed rule with a small business review panel and with the public. It included an idea for providing new consumer protections about when and how lenders are able to access and control the money in consumer accounts. The research paper we are publishing today sheds further light on these practices to help us better formulate needed reforms in this market.

Of course, lenders that are owed money are entitled to get paid back. But we do not want lenders to be abusing their preferential access to people's accounts. Borrowers should not have to bear the unexpected burdens of being hit repeatedly with steep, hidden penalty fees that are tacked on to the costs of their existing loans. Yet today's report shows that this is just what is happening to many consumers. We will consider this data further as we continue to prepare new regulations to address issues with small-dollar lending.

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