

Jan 19 2012

Remarks by Richard Cordray at the Payday Loan Field Hearing in Birmingham, AL

BY RICHARD CORDRAY

Prepared Remarks by Richard Cordray
Director of the Consumer Financial Protection Bureau
Payday Loan Field Hearing
Birmingham, AL
January 19, 2012

Thank you, Congresswoman Sewell and U.S. Attorney Vance for joining us today. We are in Birmingham to hold our first field hearing on payday lending.

Dr. Martin Luther King, Jr. once said, “The dignity of the individual will flourish when the decisions concerning his life are in his own hands, when he has the means to seek self-improvement.”

At the Consumer Financial Protection Bureau, we deeply believe in empowering people so that they can make informed financial decisions and take responsibility for those decisions.

Before we open this hearing, I will take a few minutes to discuss the payday lending market and our role in overseeing it. Let me stress again that this is a field hearing. We came here to listen, to learn, and to gather information on the ground that will help inform our approach to these issues. We are thinking hard about these issues, and we do not have all the answers worked out by any means.

* * *

Payday loans are short-term, high-cost loans made in exchange for a commitment to repayment from the person’s next paycheck. According to reports from the industry, about 19 million American households are currently choosing to borrow money through payday loans.

Payday lending as we know it has grown rapidly since the 1990s. Today, payday loans are readily available online and in strip malls. Even some traditional banks now offer a similar product called a deposit “advance.”

Payday loan storefronts are scattered throughout the country – in some places more than others. Alabama has one of the highest concentrations of payday lenders in the U.S. There has been such a growth of payday lenders in Birmingham that your City Council last month passed a six-month moratorium on any new payday lenders setting up in the city.

Just who is using these payday loans? From what we have seen so far, families who take out a payday loan tend to have less income, fewer assets, and lower net worth than the average family. Surveys indicate that payday borrowers are disproportionately people of color.

People often are responding to an emergency that requires quick access to cash.

It appears that a significant share of payday borrowers do not have savings or a credit card. And many like the payday option because it is relatively anonymous, quick and easy – a borrower can have the money in half an hour, and other family members may not have to find out about the loan.

Whatever their reasons may be for taking out a payday loan, Americans are now borrowing billions of dollars this way. Lenders collect over \$7 billion in fees annually.

In a pinch, getting the cash you need can seem worth it at any cost. Maybe you would never dream of paying an annual percentage rate of 400 percent on a credit card or any other type of loan, but you might do it for a payday loan. When you are desperate, the terms of the loan seem to matter a lot less. You need the money. Now. Rightly or wrongly, people faced with tough situations often think these payday loans are their only options. It matters on this issue that we all look to develop a more vibrant, competitive market for small consumer loans.

* * *

At the Bureau, we now have the authority to examine nonbank payday lenders of all types and sizes, as well as large banks that offer deposit advances. We already have begun examining the banks, and we will be paying close attention to deposit advance products at the banks that offer them. And this month, we have launched our examination program for nonbank financial firms as well.

Today we are releasing our Short-Term, Small-Dollar Lending Procedures, the field guide for our examiners across the country who will be visiting both banks and payday lenders to see first-hand how they conduct business. Our examination authority is an important tool that will allow us to inspect their books, ask tough questions, and work with them to fix any problems we uncover. This includes looking at the materials and strategies that are used to market the loans.

Before this month, the federal government did not examine payday lenders. Some state regulators have been examining payday lenders for compliance with their state laws. We hope to use our combined resources as effectively as possible.

So now, the Bureau will be giving payday lenders much more attention. This is an important new area for us. And the purpose of this field hearing, and the purpose of all our research and analysis and outreach on these issues, is to help us figure out how to determine the right approach to protect consumers and ensure that they have access to a small loan market that is fair, transparent, and competitive.

* * *

At the Bureau, we hear from consumers all across the country. One person from Michigan told us of having to use payday loans several times and wanting them to remain available because alternatives did not exist. And so I want to be clear about one thing: We recognize the need for emergency credit. At the same time, it is important that these products actually help consumers, rather than harm them.

A lack of supervision at the federal level means there is a lot we do not know about some of the inherent risks associated with payday products. Through forums like this and through our supervision program, we will systematically gather data to get a complete picture of the payday market and its impact on consumers. This assessment will allow us to better choose among the tools we have available at the Consumer Bureau to balance the needs of consumers with the risks they face.

For example, we hear a lot about repeated long-term use of payday loans. We plan to dig deep on this topic to understand what consumers know when they take out a loan and how they are affected by long-term use of these products. For borrowers who are already living paycheck-to-paycheck, it may be difficult to repay the loan and still have enough left over for other bills. Trouble strikes when they cannot pay back the money and that two-week loan rolls over and over and turns into a loan that the consumer has been carrying for months and months. Soon they are living off money borrowed at a rate of 400 percent.

One consumer wrote a “Tell Your Story” on our website about borrowing \$500 to pay for car repairs. In nine months, \$900 has now been paid out with \$312 to go. The payday lender takes the money directly from the consumer’s checking account, and not enough is left to pay other bills.

* * *

In addition to the things we need to learn more about, we know there are some payday lenders engaged in practices that present immediate risk to consumers and are clearly illegal. While we need to learn more about the prevalence of this conduct and what allows it to fester, where we find these practices we will take immediate steps to eliminate them.

One example is unauthorized debits on a person’s checking account. These can occur when, unbeknownst to them, the consumer is dealing with several businesses hidden behind the payday loan. When consumers are shopping for a payday loan, the person advertising the loan may not be the same person as the lender and may simply be gathering and selling the customer’s information. The highest bidder may be a legitimate lender, but it could also be a fraudster that has enough of the consumer’s sensitive financial information to make unauthorized withdrawals from their bank account.

Another example is aggressive debt collection tactics involving payday loans – either by the lenders themselves or by debt collectors acting on their behalf. These include posing

as federal authorities, threatening borrowers with criminal prosecution, trying to garnish wages improperly, and harassing the borrower as well as their families, friends, and co-workers.

These illegal practices are outrageous. We want to root them out where we find them. And we want to work with responsible parties in the industry to prevent them from expanding.

* * *

Let me say to all of you, that it is a privilege for us to visit Birmingham, where so many people endured police dogs and fire hoses in their pursuit of freedom. The fundamental principles of dignity and equality that powered the civil rights movement also animate our work at the Bureau.

Dr. King showed the whole world how determination and imagination and perseverance in service of a great cause could move not only the course of institutions but the trajectory of an entire society.

The work of the Bureau is more modest – it is not designed to redeem fundamental constitutional principles of American life. But we are here to make sure there is fundamental fairness for all consumers. And we can do that. We can find and expose the hidden risks, and we can make sure people are able to pursue their hopes and dreams by working with responsible businesses to make informed financial decisions.

In this field hearing, please share your thoughts and experiences with us. Tell us what works and what does not. Tell us how we can do our small part to achieve Dr. King's vision of an America where we all have a chance to achieve our deepest aspirations.

Thank you.