CAUGHT IN THE DEBT TRAP

STORIES OF PAYDAY AND CAR TITLE LOAN BORROWERS

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IN JUNE, THE CONSUMER FINANCIAL PROTECTION BUREAU (CFPB) RELEASED A PROPOSAL FOR THE FIRST FEDERAL REGULATION OF PAYDAY, CAR TITLE, AND OTHER HIGH-COST CONSUMER LOANS.

After a comment period that closes on October 7, the Bureau will analyze the feedback and complete the crucially important work of crafting final rules with the potential to benefit millions of people across the United States.

THE DEBT-TRAP

The payday lending industry is in the business of kicking people when they're down. Lenders go after cash-strapped families with the offer of easy money to solve a short-term problem. Then they spring the debt trap, leaving borrowers to make triple-digit interest payments for months or even years on end. This is where the industry makes its money: more than 80 percent of payday loans are taken out just to pay off previous loans.[1] What makes it possible to operate this way is the extraordinary leverage that lenders gain either through direct access to a borrower's bank account (in the case of payday lenders), or through the power to seize a borrower's vehicle (in the case of title lenders). Using automatic withdrawals, payment for the payday loan comes out of borrowers' bank accounts as soon as their pay check is deposited, even if it means they don't have enough left to pay for food, utilities, or rent.

DRIVER OF INEQUALITY

Middle- and low-income workers and families are struggling to make ends meet. With more than half of all job openings paying less than $15 per hour,[2] an explosion of low-wage, no-benefit jobs has left a growing number of people with regular paychecks, but without the consistent ability to make ends meet – and with little to no savings.

These workers are the target customers for debt-trap lenders. While the loans are advertised as a way of dealing with a one-time emergency, seven out of ten payday borrowers take out their loans (by their own account) to help with utility bills, rent, food, mortgage payments, and other routine living expenses.[3] And because the average borrower ends up spending more in fees than the amount of the original loan,[4] the effect is almost invariably to compound the financial problems that lead people to borrow in the first place.

In this way, payday and car title lenders both exploit and exacerbate the trend of rising inequality, with all of its destructive and far-reaching implications. To compound matters, payday storefronts tend to be concentrated in communities of color. (In Charlotte, North Carolina, for example, census tracts with the highest proportion of people of color have 13 payday storefronts per 100,000 people, while the areas with the lowest percent of people of color have just two payday lending storefronts per 100,000 people.[5]) A disproportionate number of debt-trap loans go not only to people of color but, more particularly, to women of color. As a result, debt-trap loans widen already large racial and gender wealth disparities.

COMPOUND DAMAGE

These loans are hugely expensive. The average payday borrower ends up paying $520 in interest to borrow $375.[6] The typical car title borrower pays $1,200 in interest on a loan of $1,000.[7]

And, the damage does not end there. About one-in-six online payday borrowers eventually lose their bank accounts, despite their efforts to avoid it.[8] And, one-in-five car title borrowers are forced to surrender their vehicles, often only after making many onerous payments and sequencing through multiple loans.[9] In direct and indirect ways, these loans push people down and keep them there. For someone facing a financial emergency, the offer of a payday or car title loan is like "throwing bricks to a drowning man," as Senator Elizabeth Warren said in a Senate Banking Committee hearing earlier this year.[10]

REAL LIFE STORIES

***The following pages include stories of real people who have experienced the impact of payday and car-title loans personally and in their communities.** These stories show just how hard it is to get out of the cycle of debt created by high-interest loans. Like the great majority of people in the U.S., they recognize the need for and are demanding tough regulation of payday-style loans, and given their experiences it's not hard to see why.*

DOROTHY LEWIS II

CINCINNATI, OHIO

I am a single mom living in Cincinnati. My baby girl Cari'el is 1 year old and my son Ja'mere is 5. Everything I do is for them. I try to do my best for my kids, but sometimes people make it so hard. My son and I had to live in a shelter three years ago and I don't want to go back there. I will do whatever I need to do so I can keep my car and my job. I refuse to be homeless.

I use my car for everything. I take my kids to daycare, I go to work, I go to the store. Cincinnati's bus system isn't that good and it doesn't go where I need to go, so I have to use my car. My job is a 45-minute drive or a two-hour bus ride from my house. If I don't have my car, I'll lose everything. Back in July, my car broke down, so I took out a $700 car title loan to fix it and to help cover some unexpected expenses. In just two months, my car title loan went up to $1,500.

When I took out the loan the people at the title loan place were so nice. They said they would work with me to figure out a way to pay them back. They said they would help me put together a payment plan. When I called back to set up the plan, they said they didn't know what I was talking about. They said I had to pay off half of the loan plus interest in 30 days or lose my car.

I've started to park my car in different places at night because I'm afraid I'll wake up one morning and find they took it. It's like I went in to borrow a nail from my finger but now they want my whole arm and a leg. All I want is for the loan company to work with me to get a plan together so I can pay them back. It's like they don't want me to pay the money back. I honestly don't know how I'm going to do it. I feel like they just want me to keep borrowing and keep borrowing and be in debt forever.

These car title loan places and other businesses like that need to stop making money off of other people's troubles. It ain't right and it has to stop. ■

JOHN McGEE

OCONTO FALLS, WISCONSIN

I am disabled, unemployed, and live off of my Social Security Disability Insurance check. In 2008, I borrowed $300 against my disability check, which would have a $75 fee if I paid it in 30 days. Later that month when I had some checks that were going to bounce, I took out $200 more, so now I owed a $125 fee, every 2 weeks, when I got paid.

I was able to pay the fees, but nothing on the principle. And, the money wasn't in my account on time so the checks I was trying to cover bounced anyway. So, my bank charged a fee for the bounced checks and the lenders charged a fee for the loan. I couldn't keep up.

The loans made my life miserable. Living on the edge, I didn't have a lot of money coming in. With all the fees, it was mind-boggling how a relatively small loan could cost so much. I would have had to pay $750 on the $500 loan if I had actually been able to pay it on time. Instead, my checks kept bouncing, and the fees added up. I refused to continue to pay into their deceptive game.

The relief from the debt trap came in 2012 when I moved into low income housing. With my rent tied to my monthly income and the inclusion of basic utilities into my rent, I have been barely able to make ends meet, so I try to pay my bills first and I don't have any credit cards.

Being disabled, it is very difficult to find a job and make ends meet if anything unforeseen comes up. I believe that payday lenders take advantage of people like me who can't really afford to borrow money – they lure people in and once they've got you hooked, you're hooked. If they could charge a more reasonable finance charge and it wasn't an astronomical fee, I could see it helping, but instead they charge as much as they want.

After this experience, I was able to get a Kwik Cash loan on my checking account to cover bounced checks. My Credit Union has helped me with a loan I can afford to repay to help fund the book I am writing. I think it is very important that people have access to loans that won't catch them in this trap, but there aren't enough opportunities like that out there yet.

I believe that payday lenders are taking advantage of people and ruining their lives. These lenders tie people into a vicious cycle, and they are fully aware of what they do.

When I borrowed money from the payday lender, the woman at the counter was very welcoming, but she openly acknowledged the products were terrible and that she would not let her daughter take out a payday loan. Payday lending is legalized loan sharking. The only difference is that they don't literally come break your legs if you can't pay.

My advice: when you see a payday lender, run the opposite way. They're not good for you. Once you get hooked, you're screwed. ■

PAYDAY LENDING IS LEGALIZED LOAN SHARKING.

JOHN **McGEE**

BILLIE ASCHMELLER

SPRINGFIELD, ILLINOIS

I am disabled and live on a very fixed income. I took out a $1,000 title loan last December because my daughter was seven months pregnant and she didn't have anything for the baby. It was winter and she didn't have a coat for herself, let alone a car seat or a crib. I took out the title loan so I could help get her started and help when the baby came.

Every month I pay $150 on the loan. So, almost a year later I've paid $1,500, but I still owe over $800. I'm not even paying down the loan; I'm just paying interest. And even doing that means that I can't cover my basic expenses. One month I couldn't make my title loan so I took out a payday loan to cover the payment. I was desperate. I didn't want to lose my car, but I didn't realize all it would do is make matters worse. They didn't ask if I could afford the loan or if I had other debt or anything. They took a copy of my bank card to make sure they could get into my account and that's all that mattered to them. Every month, they just grab the payment straight out of my account. And, if there isn't enough in there to make the payment, they charge me $25 more. I feel like I'm a hamster on one of those wheels. I just keep running and running and I never get anywhere. There's nowhere to turn. I have a title loan and a payday loan now and it's a struggle to make the payments. Sometimes, I just don't have the money, but they've got my title, so I have to pay.

Up until this month, I was living in my car. You can't imagine the stress of living in your car and knowing those people are holding the title. What if they come and take your car with you and everything you own in it? I finally moved into an apartment and it took my whole check to do it; I don't even have money left over for food. Thank God there's a food bank around the corner or I wouldn't have anything to eat. Moving in took everything, and now I can't pay my car title loan or my payday loan payments.

They just called me up to ask for their payment and I told them I don't have anything left. I can't make money appear. They know I'm on a fixed, monthly income. They know it does no good to call me up in the middle of the month because I've got nothing. But they still call. They even called my dad and my best friend trying to get them to make me pay the loan.

You know the funny thing? When I went to the payday loan store, they told me that the government is breathing down their necks and asked me if I could advocate for them so they could keep their loans available. I told them I couldn't get involved in that. I didn't tell them I've been standing up and asking for fair regulations. These people prey on poor people like me.

It's scary to tell my story, but someone's got to stand up. Someone's got to tell people what's going on and what the payday lending industry is doing to us. They are profiting off the backs of poor people. It's predatory, plain and simple, and it's got to stop. ■

YOU CAN'T IMAGINE THE STRESS OF LIVING IN YOUR CAR AND KNOWING THOSE PEOPLE ARE HOLDING THE TITLE. WHAT IF THEY COME AND TAKE YOUR CAR WITH YOU AND EVERYTHING YOU OWN IN IT?

BILLIE **ASCHMELLER**

I am a life-long resident of the St. Louis area with a good job. Payday loans almost ruined my life. It all started for me back in 2002 or 2003. I had an emergency and took out a payday loan. Instead of getting me out of the hole, it began a cycle that I've been trying to get out of ever since. Since my first loan I've probably had 15 loans, each to make payments on the one before. I remember going from store front to store front; getting a loan from one just to walk down the street to use the money to pay off another. I just couldn't keep up.

I work for the school district and we're paid every two weeks. Sometimes my salary doesn't stretch, and especially with payday loan payments piling up it can be impossible to pay all of the bills. So, on a $300 loan, I'd pay the minimum interest, which wouldn't pay down the loan. I was just throwing them money. Before I knew it, I owed them $500 on a $300 loan. I was just drowning. I couldn't pay my house payment or my car payment. I couldn't pay my student loan, would be short on food money, and got behind on utilities. I ended up losing my house. But I still went back to them to keep going – I didn't see any other option.

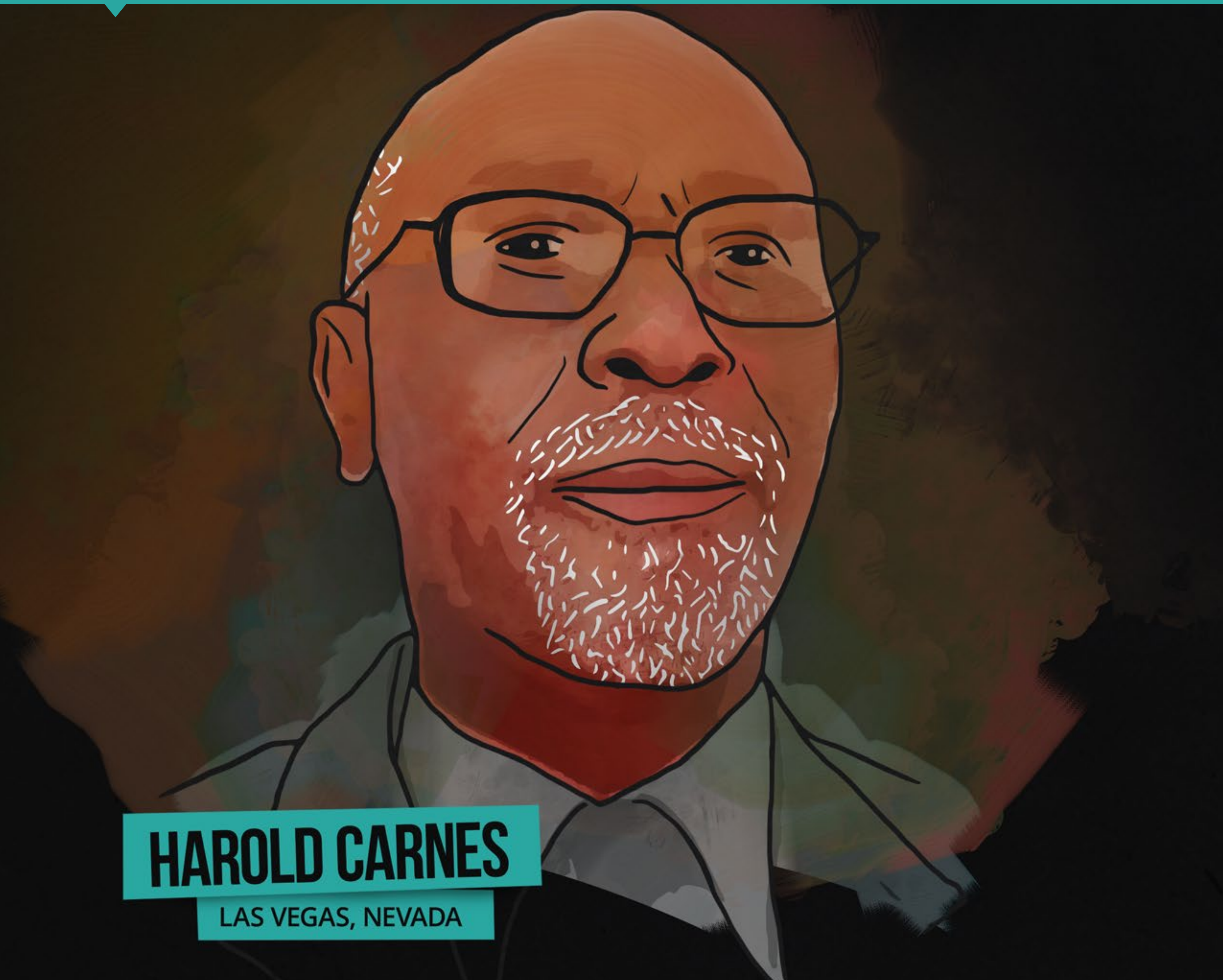
People can't understand how I could be having trouble. I have a good job and I work a second job as a DJ, but the way these loans pile up, I just couldn't keep my head above water. It got so bad that one of my friends paid off one of my loans as a birthday present to me. But even with that help, the debt just kept piling up. The payday lenders were even threatening me at work. Saying they would call my Human Resources department, threatening to sue me. I spent so much time living in fear. I lost sleep; it really affected my sense of self-worth and overall, just caused and causes a huge amount of anxiety. Even now as I'm trying to pull everything together, they're still calling, threatening to garnish my wages.

They make it so easy and make it sound like it's such a good idea. All you need is a pay stub. I wish I'd never done this. It's set my life back, it really has. I have a friend who works with me and she has the same issues sometimes with making ends meet. I remember telling her once she should go to the payday lender. She said. "I'd rather not eat than get wrapped up in the payday trap." She's smart.

Take it from me, first-hand, as someone who got sucked in: don't go there. You think you can stay on top – but there's so much that's pressing.

These companies are just raking it in and stealing people's lives. Without payday loans I'd be able to invest in a home, get furniture. My life would do a big turnaround. I would have been able to keep a home. Now my credit is totally shot and my dream of opening my own business is off the table.

I really wish I'd never done this. I'm working now on rebuilding my life and I'm not going back to the payday lenders. I'm hoping my story will help others to know they're not alone if they're stuck like I was. We need to do something about the payday loan industry. We have to get these guys under control. ■



HAROLD CARNES

LAS VEGAS, NEVADA

I've been in the fast food business for 21 years. Four years ago, I came down to Las Vegas from Pittsburgh with my wife and stepdaughter. My wife had family nearby, and with credentials as a manager at Wendy's and experience at Panera and Au Bon Pain, I thought I would easily get a job as a manager down here.

The day I went in for a job interview at Wendy's it was well over 100 degrees so I didn't wear a suit and tie. The store manager wouldn't even talk to me because of my clothes. Things went quickly downhill from there.

I was able to get a job at McDonald's, and things were okay for a little while. I was the only one in our family who was working, so things were still tight. About two years ago I heard about the Fight for $15, and I decided to get involved.

As soon as McDonald's found out I was involved in the Fight for $15, they started cutting my hours. We moved into a weekly rental, but I soon realized that even though everything is included, they're actually really expensive. And, if you don't have the money right away, they will just put you out on the street. We had to find some way to pay.

That's when I first got involved with payday loans. My first loan was $500 at Rapid Cash. I didn't want to take out that much, but they encouraged me to take out more than I really needed so that I'd have some extra money.

I was able to make the first payment, but then my hours at work were cut even more. The next paycheck was only about $200, so I couldn't afford the $143 I owed on the loan and pay our rent. So, I went over to Money Tree and took out another loan for $300 to cover rent. They knew I had another loan already, but they still loaned me the money.

At that point, I didn't really realize that my hours had been cut because of the Fight for $15. I knew I was a hard worker, and had even gotten Employee of the Month, so I was sure my hours would pick up again. When they didn't and it came time to pay back both payday lenders, I didn't have the money, and didn't know what to do. Thankfully, my church stepped in and made the payments. I know we would have been out on the streets otherwise. Of course, my hours didn't improve at McDonald's, and the church just made one payment. So, because I didn't want to over stretch my welcome at church, I took out another payday loan, and now had three outstanding loans.

Everyone was demanding payment. I was getting phone calls every other day from one company or another. I tried to explain to the lady that there's no way I can actually pay. Even if we tried to set something up, my commitment wouldn't be worth a nickel, with McDonald's cutting my hours.

About a year ago I went to work at Five Guys, a burger and fries place, and was finally able to get some more hours. Things started getting a little bit better, and then my grandson was born. So now we're all together, but there's no extra money to pay off the loans. I've stopped making payments altogether. Even if they took me to court, there's just no money and no way I can pay them back.

Sometimes I wish that they wouldn't have let me take out the second and third loans. Those companies knew I had an outstanding loan to another company, but they loaned me the money anyway. I don't know what we would have done, but it would have saved me from being even more in debt. Now my credit is basically zero.

Real people need a voice in the state assembly to stand up to the payday loan industry, so in 2018 I'm going to run for state assembly. There are a few politicians standing up for people like me, but too many have forgotten that there are real people struggling and don't care that payday loan places are taking advantage.

PAUL HEROUX

ORLANDO, FLORIDA

I own a painting and handyman business in Orlando, and even without taking out payday loans I've experienced their impact. When my customers and community members face financial turmoil, many turn to payday lenders. If that happens, I can reasonably assume they won't be coming to me with any new projects until their debt is paid and, for some, it could be quite a while.

My company provides affordable repairs and renovations; services that are especially needed by homeowners and business owners in low-income areas. But, when their money is tied up in fees and interest associated with their payday loan they are forced to let that leaky faucet go, or hope the hole in their fence "fixes itself."

Here in central Florida, payday lenders mark every corner with at least one retail location. In poor neighborhoods with people of color, some corners are home to two or three brick and mortar lenders. It came as no surprise to me when I learned that payday lenders outnumbered McDonald's locations nationwide. The impact of that is staggering.

Whether lured in by their check cashing, free money orders, or a quick fix, payday borrowers often borrow repeatedly. Before they realize it, they've paid the loan back ten times over in interest and fees.

I'm lucky that I never resorted to a payday loan, but I also feel cheated by the industry. I'm being cheated out of business and cheated out of the ability to help people improve their lives by repairing or renovating their homes or businesses.

When we let payday lenders extract wealth and resources from our communities, the communities that my business and other small businesses in the Main Street Alliance rely on, we let those nefarious lenders take money out of our cash registers and off our revenue sheets. A business model that requires the extraction of wealth from a community, and the temporary removal of borrowers from the local economy, has no place on Main Street. Payday loan sharks are hurting my business, they're hurting my neighbor's businesses, and they're crippling low-income households and communities.

I have used payday lenders on and off my entire life to try to help make ends meet. I currently have two outstanding payday loans that I'm working to pay off and it's time for me to get the predatory lenders out of my life.

When I was younger, I used payday loans to make ends meet and had some luck paying them off, but I recently became the sole provider for my family after my husband had a stroke and lost his job. There is no way we can afford that debt trap anymore. I'm coming closer to retirement; I realize now that payday loans are truly predatory and not something I need in my life.

I am just about paid off on my two loans, finally, and I want to share my story to teach younger people about the dangers of payday loans. When you feel like you have no other options, many people end up at payday lenders, but it's obvious that it puts you in a trap.

Payday loans feel like a financial roller coaster, because it's another person in your checking account with permission to take your money. You're never really sure if your account is up or down. These loans have added a great amount of uncertainty to my life, both in the lucky times where I was able to pay the loan off quickly, and other times when I got stuck in their trap.

Unexpected costs have completely thrown my budget off at times, and then the service I was trying to use to make ends meet actually made my situation even worse. I had payday bills to pay on top of my other expenses. Add in the extra fees and high interest rates, and the extra money from the payday loans was more expensive than I could afford.

Even though I was working, I wasn't making ends meet, leading me to feel very depressed.

One of the reasons these loans are so predatory and expensive is because it takes so long to start paying off the principle. They should let borrowers pay a portion of every payment toward the principle so people can get out of these traps, but instead you're just paying off interest without even touching the principle. You can make payment after payment and not get any closer to actually paying off the loan.

If I had never taken out a payday loan, I would feel much easier about my finances. I would not be stuck knowing that I can't pay my credit card bill on time because I know the money has to be in my account for the lender to take it. I wouldn't have to worry about someone else taking money out of my checking account that I might need for our basic needs.

On top of this, payday loans are not even supposed to be legal in the state of Georgia, yet in reality they still exist.[11] Places like InstaLoan and Covington Credit change the way they talk about the loans, but at the end of the day they're doing the same thing – tying us up in debt traps. ■

JOSIE HOPE

STONE MOUNTAIN, GEORGIA

JANE McCARTHY

OPA-LOCKA, FLORIDA

Unfortunately, I've been caught up in the predatory payday debt trap a few times in my life. Each time, I had an emergency and I took out a loan that I thought would make things better, but it only made things worse. I'm sharing my story because I want people to know what they are getting into, and because we need better options.

I work at a hospice facility in Miami, Florida. I'm working to care for people at the end of their lives every day, and my salary doesn't leave me with a lot left over in my budget. I live alone and I'm helping my daughter out with her schooling as she studies for her master's degree in Psychology in Davie, Florida.

When emergencies come up it's hard to know where to turn. Ten years ago, I needed extra money to pay a bill I wasn't expecting so I took out a $500 payday loan. I thought it would help me get things back on track, but I was wrong. In two weeks, the whole loan plus interest was due. I paid the loan, but then I couldn't pay my other bills. So, I had to borrow again, and again, and again. For six months I just kept getting in deeper and deeper. It is a vicious cycle. Once you get in, it is so hard to escape. In the end, I had to keep borrowing and borrowing until I got my tax refund and I could finally escape the cycle, at least for a time.

The second was a car title loan I took out for $500 to help get my daughter to Atlanta to start college. For a $500 loan, I had to pay $98 every month. Halfway through the loan, my daughter needed to come home unexpectedly so I had to take out another $300 on the loan. In the end, it cost me almost $2,000 and it took me over a year to pay it off. My last predatory loan was an installment loan for $300 and I had to pay $68 every pay period and I couldn't keep up with my bills and keep paying. I skipped meals and cut back on groceries just so I could pay back the balance early. It would have cost $1,500 total if I'd paid it back on their schedule, but thankfully I was able to pay it off sooner.

Even after I paid it back, they pressured me to borrow again. They keep emailing me, trying to get me to take out larger and larger loans, but I'm done with payday loans now. They are vicious.

I just got out of debt for the last time a few weeks ago and I know people who are still stuck in the debt trap right now. These lenders are all around us. It's bad for the community and bad for families because they always hurt more than they help. By the time you pay them off, you've paid the lenders three or four times what you borrowed and you are further behind than ever.

I want to be sure that people know how hard it is to escape these loans once you fall into the debt trap. And I want the CFPB to know we need good credit options, not loans that drain you dry paycheck after paycheck. If there's an emergency or an unexpected bill, there needs to be somewhere we can go for a small loan that doesn't trap us in debt.

We need reasonable interest rates and people need the chance to pay down their debt so they can take care of their families. ■

I WANT TO BE SURE THAT PEOPLE KNOW HOW HARD IT IS TO ESCAPE THESE LOANS ONCE YOU FALL INTO THE DEBT TRAP.

JANE **McCARTHY**

LA SHARON ALLEN

SACRAMENTO, CALIFORNIA

My experience with predatory lending began in 2000, when I lost my job of 13 years at a nonprofit. I was collecting unemployment until I was hired by the State of California. Although I had a job, rent came due between my last unemployment check and my first paycheck, and one of my friends suggested payday loans.

They sounded very easy and convenient, and I thought it would solve my problem. What I didn't know is that with the fees and how they structure the loans, you will be short again when the loan is due. I began to realize, as I was stuck in it, that I would never get ahead. I eventually paid my way out after four months, but I was determined not to go back.

Unfortunately, when state employees were forced to go on furlough in 2008, my paycheck was docked 5 percent each month, and this rose all the way to 15 percent during the worst of the furlough. Although it was the last thing I wanted to do, I was pulled into the payday loans again. With my docked pay, I needed to get a loan to pay my rent, but then I couldn't make the payment on my payday loan.

The lenders know that you will be short, so you get stuck in their racket. I wanted to try to set up a payment plan, but they were adamant that they only accepted full payments. So, I had no way to pay my rent, car payment, support my family of five, put food on the table, and keep up with my payday loan.

> **MY TAKE AWAY FROM BEING CAUGHT IN THE PAYDAY LOAN DEBT TRAP: NEVER DO IT.**
>
> LA SHARON **ALLEN**

The furlough reduced my paycheck at increasing rates, but the lender continued take the payment from my bank account when the loan was due. My bank limited the number of check bounces to three, but I was charged overdraft fees multiple times and finally, when I went to the bank to cash a check, I was told that the check would need to be deposited to balance my account and that my account would then be closed. As a result of my payday loan, I lost my bank account.

I was forced to file for bankruptcy. Since that point, the furlough has been lifted and things are better financially. Because of my bankruptcy, the debt I owed was forgiven. But still, the debt collectors keep calling. I have been harassed at my workplace, called constantly, and the debt collectors have even called my supervisor threatening to send police to my place of work. Owing debt to a payday lender is very stressful. You hate yourself for even getting into it, and you wish there were other options.

In my community, I know there are lots of people affected by the debt trap. I often pass by the storefronts – there are a few on my way to work. The signage is attractive, and the locations are really convenient. They even have people standing out on the sidewalk flagging you into the store.

The payday loan industry knows exactly who they are targeting. I don't think you would see them in affluent neighborhoods; they are everywhere in poor neighborhoods. They know where the low income areas are, and where people have received pay cuts or lost their jobs. My take-away from being caught in the payday loan debt trap: never do it. Explore all your options. Personally, I would never touch it again. With the stress it involves, and the harassment that I received and continue to receive, it isn't worth it. ■

THE WAY FORWARD

After the comment period ends, the CFPB will embark on the task of writing final rules intended to end the abusive practices of payday-style lenders. The bureau's initial proposal is based on the simple and common-sense idea of verifying a borrower's ability to repay before a loan can be issued. But the proposed rule, which would allow many loans to be made without such an advance determination, will have to be signicantly improved for it to achieve that goal.

Important lessons can be learned from a long record of past regulatory efforts, largely at the state level. A number of states have sought to regulate around the edges of the problem by, for example, limiting "rollovers" or creating mandatory "off ramps" for borrowers who remain in debt beyond a certain length of time. Lenders have come up with a variety of techniques for getting around such measures.

Other states have made the mistake of adopting rules that apply only to lenders who take out a particular kind of business license. Ohio, for example, adopted a 28 percent interest rate cap for consumer lenders,[12] only to see many of them re-register as mortgage lenders, allowing them to continue making short-term loans at annual interest rates of nearly 600 percent.[13]

The best results have come in the 14 states and the District of Columbia with annual interest rate caps – typically set at 36 percent – that apply to all loans. People in these "payday-free" states have reaped a host of positive benefits.[14]

The CFPB does not have the statutory authority to impose a nationwide limit on interest rates. Nevertheless, the bureau has the power to significantly reform the industry, and to promote affordable, non-predatory lending. To do so, it will need to improve on its proposal in the following ways:

Close the loophole allowing six loans per year at 300 percent interest: By allowing lenders to provide six high-interest payday loans per year, those who already cannot afford to make ends meet will continue to be caught in a debt trap. These high-interest loans only set up borrowers to fail.

Strengthen protections on flipping both long-term and short-term loans: Payday lenders have migrated to longer-term loans precisely because they want to continue to reap the rewards of high-interest loans that can be continuously flipped through refinancing and additional loans. When loans must be refinanced repeatedly and cannot be paid down at a reasonable rate, they are not structured for success.

Strengthen how lenders document basic living expenses and require the use of objective measures for determining if a borrower can afford the loan: The CFPB's proposal states that loans should be affordable, leaving the borrower enough to afford basic living expenses.

Clear and specific guidance and objective measurements not created by the lenders are paramount. Without them, decisions on what constitutes basic living expenses and an ability to pay are vulnerable to manipulation by lenders who have direct access to borrowers' bank accounts or are holding title to a borrower's car.

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