Baptist advocates applaud rule to rein in abusive lending

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WASHINGTON—Baptist public policy advocates affirmed the Consumer Financial Protection Bureau for issuing a payday and auto-title loan rule designed to rein in abusive lending practices.

The rule—issued by the bureau Oct. 5—requires payday and auto-title lenders to assess the ability of a borrower to repay a loan before it is granted and limits the cycle of ongoing refinances.

"The CFPB's new rule puts a stop to the payday debt traps that have plagued communities across the country," said Richard Cordray, director of the bureau. "Too often, borrowers who need quick cash end up trapped in loans they can't afford. The rule's common sense ability-to-repay protections prevent lenders from succeeding by setting up borrowers to fail."

'Important first step'

Stephen Reeves, who leads Cooperative Baptist Fellowship advocacy and partnership initiatives, called the rule "a momentous step forward in the fight to rein in predatory lending practices nationwide."

Kathryn Freeman, public policy director of the Texas Baptist Christian Life Commission and member of Texas Faith Leaders for Fair Lending, called the rule "an important first step."

"At the same time, we believe there is more work that needs to be done," she said, noting the need for caps on interest rates and fees, approved legislatively at either the federal or state level.

Texas Appleseed, a public interest center based in Austin, noted for borrowers who do not refinance their loans, a typical $500 payday loan costs $1,351 in installments over five months. Refinances quickly can bring the total to thousands of dollars, Texas Appleseed reports.

A joint statement issued by the Texas Fair Lending Alliance and Texas Faith Leaders for Fair Lending noted from 2012 to 2016, Texans paid $7.5 billion in fees for high-cost loans.

During the same period, 186,685 families lost a car to an auto-title loan—often after paying significantly more in fees than the value of the original loan, the organizations noted. On average, these types of loans in Texas range from an annual percentage rate of 200 percent to more than 500 percent.

Strong bureau needed

“We want to see both borrower and lender success,” Freeman noted. “It is not morally justifiable or an effective business model for a lender to make most of his profits on defaults.”

Freeman and Reeves both applauded the Consumer Financial Protection Bureau and its leaders for proposing the rule. They agreed the bureau serves vital regulatory and enforcement roles.

“A strong and independent CBPB is critical to preventing deceptive and unfair products,” Reeves said. “They must be allowed to vigorously enforce this new rule.”