Mulvaney Gives Payday Lenders a Free Pass

In January, the Consumer Financial Protection Bureau (CFPB), under the direction of Mick Mulvaney, dropped a lawsuit against a payday lending company with a history of charging up to 950 percent interest on small-dollar loans. This move is part of the interim director's strategic plan to deregulate and defang the consumer agency, which he repeatedly criticized as a congressman.

For far too long, payday loan lenders—who have more branches nationwide than Starbucks—have operated with little oversight, depleting consumers' bank accounts along the way. Mulvaney's actions rescind newly established, commonsense consumer protections for small-dollar loans that prevent predatory lenders from targeting vulnerable working Americans.

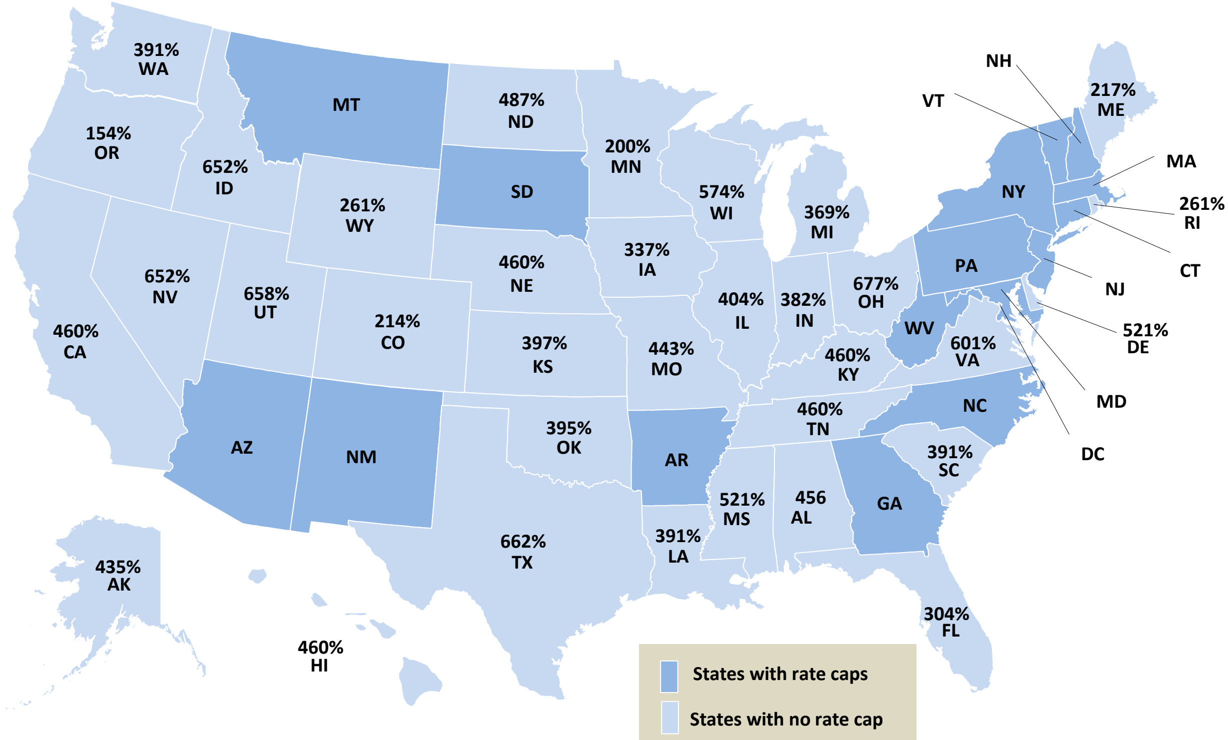
Small-dollar loans, such as payday loans, provide borrowers quick access to cash in exchange for full payment plus above-average interest rates. Many borrowers use payday loans as a quick fix when ordinary living expenses get too high—the average payday loan borrower makes about $30,000 a year with a credit score in the low 500s.

While payment arrangements like these might seem like a reasonable solution to some, the underlying rates and conditions are far from it. Lenders have historically charged annual interest rates around 400 percent or higher on a single loan, well above industry standards for credit cards or other consumer loans. These extreme interest rates and harsh fee structures on small-dollar loans can easily kick borrowers into dangerous, ongoing debt traps of loan rollovers. On an average small-dollar loan of $375, borrowers can easily pay $520 in fees and be indebted for five months. Moreover, more than 80 percent of payday loans are renewed within 14 days.

Mulvaney's decision to delay implementation of the CFPB rule establishing borrower safeguards and protections will allow lenders to make high interest loans, free from real consequences or regulatory oversight. By dropping lawsuits and changing the directive of the agency, Mulvaney signals to predatory lenders that consumers can be targeted for predatory lending practices and financial abuses similar to the kinds that led to the financial crisis.

With more than 19 million American households using payday loans to help make ends meet, including those in rural areas where access to traditional banks is limited or non-existent, small-dollar lenders can provide a critical financial stopgap. Unfortunately, for far too long these lenders have determined the rules of the game, charging borrowers exorbitant fees and interest rates. Now, they have a reliable supporter leading the very agency that is supposed to regulate these firms, completely undermining the mission of the agency and leaving consumers vulnerable.

Average Payday Interest Rates



Source: Center for Responsible Lending, 2017

Note: Map a recreation of data from the Center for Responsible Lending. Typical APR is based on an average rate for a $300 loan advertised by the largest national payday chains where operating, limiting average interest rate data.