RIN 3170-AA80

May 15, 2019

2019-NPRM-PaydayReconsideration@cfpb.gov
Director Kathleen Kraninger
The Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

RE: Notice of Proposed Rulemaking on Payday, Vehicle Tile, and Certain High-Cost Installment Loans RIN 3170-AA80

Dear Director Kraninger,

The Local Initiatives Support Corporation (LISC) is pleased to offer comments in response to CFPB's notice of proposed rulemaking on payday, vehicle title, and certain high-cost installment loans. We strongly encourage the CFPB to preserve the CFPB's 2017 final rule. The final rule is a thoughtful compromise that addresses the core problem of unaffordable balloon-payment loans while allowing for credit to remain widely available. The 2017 rule was carefully developed over six years of research and a 30-month rulemaking process. It incorporated feedback from a broad cross-section of financial institutions, regulators, non-governmental stakeholders, researchers, state and local governments and other policymakers.

CFPB's 2017 final rule, which (1) determines the borrower's ability to repay, (2) limits the number of loans taken out over a period of time, and (3) extends the payment period, contains important guardrails in protecting residents and communities where LISC works. Typical borrowers of payday loans are low-income, with a disproportionate number of borrowers being from households of color. Black and Latino households have a fraction of wealth owned by White households, and communities of color are more likely to be exposed to and targeted by predatory lenders. The above mentioned provisions are necessary to protect consumers.

LISC is a non-profit housing and community development organization and certified Community Development Financial Institution (CDFI) with offices in 35 cities throughout the country and a rural network encompassing 90 partners serving 44 different states. LISC's work supports a wide range of activities, including affordable housing, economic development, building family wealth and incomes, education, community safety, and community health. LISC mobilizes corporate, government and philanthropic support to provide local community development organizations with loans, grants and equity investments; technical assistance; and policy support.

As part of our efforts to improve low-income families' financial well-being, LISC provides community organizations financial support and technical assistance to operate Financial Opportunity Centers (FOCs). Through LISC's FOCs, clients receive three bundled services – financial counseling, employment services and benefits counseling – frequently enhanced with low-cost financial products that help build credit, savings and assets. FOCs' mutually reinforcing program components have proven to help people stay motivated, as evidenced by improved job retention; and to improve their economic prospects, as evidenced by improvements in credit scores and in credit building behavior.

Support for the 2017 Payday Rule

We support the 2017 final CFPB rule because it limits the harms of balloon-payment payday and auto title loans while preserving access to credit for borrowers with low credit scores. It requires lenders either 1) assess applicants' ability to repay (ATR), 2) limit payday loans to $500, restrict total indebtedness to 90 days within a given 12 months, and make subsequent loans to repeat borrowers smaller, or 3) give borrowers more than 45 days to repay. The rule discourages repeat short-term, balloon-payment loans but leaves lenders free to offer installment loans that last longer than 45 days.

The CFPB's 2019 notice of proposed rulemaking asserts that the agency's 2017 safeguards would reduce access to credit but that concern is unfounded. A large majority of consumers would maintain access to credit under the 2017 final rule as the market continues to shift away from balloon-payment loans and toward installment loans. One national bank has started to market a small installment loan product up to $1,000 in compliance with the rule, and over the last few years, affordable and responsible alternatives have been developed and accessible through employers, non-profits, and utility and telecommunications companies.

How LISC is Serving Low- and Moderate-Income Populations

LISC's FOCs, which are operated at nonprofit partner organizations, take an innovative and data-driven approach to improving economic mobility for residents in our communities who are hand to employ and hard to reach. The FOC's integrated services delivery model makes our approach different and more successful in improving longer term outcomes for clients we serve. Data is used to guide FOCs' work with individual clients. The integrated service components are:

1) Access to income supports,

2) Financial coaching, and

3) Job placement.

After recognizing a dearth in financial credit building products tailored for low- to moderate income individuals, LISC created the Twin Accounts™ program. Building off of the FOC program, which combines workforce services with financial coaching and access to income supports to promote financial stability for largely low-income participants, Twin Accounts™ is available around the country.

LISC Twin Accounts™ combines the incentives provided in an Individual Development Account (IDA) with credit building to achieve a high level of impact on an individual's financial bottom line. Participants are issued a 12-month, $300 loan which is transferred into a "locked" savings account, where it remains until the loan is paid off. By the end of the twelve month program, participants have not only saved $300, but they have also earned a match on every on time payment, doubling their savings to $600, and their payments are reported to the major credit bureaus.

By participating in this program, individuals not only build their savings, they also begin to build their credit. For many, the LISC Twin Accounts™ is the first connection point to traditional banking. Over one thousand clients have participated – with over 80% completing successfully. Most clients pay off the loan in full within 12 months, and to help them continue building credit beyond the term of the loan, they must use their matched funds to open a secured credit card. On average, clients with a positive impact on their credit score saw a 40 point increase. For those who are scored, median score at entry is 582 and at exit is over 610.

Conclusion

LISC helps move people out of poverty by providing counseling/coaching support and a bridge to appropriate services. We operate as a responsible and relationship based lender throughout low-income communities nationwide. Without the guardrails in CFPB's 2017 final rule, unaffordable payday and car title loans set debt traps—long series of loans that drive borrowers deeper into financial distress and often to financial ruin. Predatory lenders tend to trap communities of color in a cycle of indebtedness and financial distress, and thus expanding the current wealth divide.

The CFPB's 2017 final payday loan rule was carefully crafted to reduce consumer harm and allow credit to remain widely available. We implore you to maintain these critical guardrails in the final rule which protect borrowers from dangerous short-term balloon payment loans, improving the market for consumers and responsible lenders.

We thank you for considering these comments. Please contact LISC's Policy Officer, Abigail Santos, at ASantos@lisc.org with any questions.

Sincerely,

Matt Josephs
Senior Vice President for Policy