FreedomWorks Foundation

Comments of the Regulatory Action Center
Re: Payday, Vehicle Title, and Certain High-Cost Installment Loans
Docket ID: CFPB-2019-0006-0001

May 15, 2019

The Regulatory Action Center at FreedomWorks Foundation is dedicated to educating Americans about the impact of government regulations on economic prosperity and individual liberty. FreedomWorks Foundation is committed to lowering the barrier between millions of FreedomWorks citizen activists and the rule-making process of government bureaus to which they are entitled to contribute.

On behalf of over 5.7 million activists nationwide, FreedomWorks Foundation appreciates the opportunity to offer these comments regarding the notice of proposed rulemaking on Payday, Vehicle Title, and Certain High-Cost Installment Loans (CFPB-2019-0006-0001), and to participate in the discussion surrounding this issue. This notice seeks to rescind the Bureau's 2017 rule declaring it unfair to make covered short-term and longer-term balloon payment loans.

FreedomWorks Foundation strongly supports the Bureau's effort to rescind the 2017 rule. The previous framework reflects a fundamental mistrust of markets and would deprive vulnerable, low-income Americans of short-term banking options. Furthermore, detractors of the current rulemaking have failed to provide any legitimate justification for why such lending is either harmful or predatory in nature.

Critics of this proposed rule call the payday loan industry "manipulative" and allege that it traps "millions in a cycle of systemic poverty." The only legitimate statistics or data these critics show to back up their point is the abnormally high interest rates that go along with such loans. However, this is neither an effective argument, nor an argument at all. If one is to make the case that short-term, high interest loans are predatory, the argument cannot boil down to, "Because the interest rates are high." High rates are inherent to this industry and lenders are not shy about that fact. Critics cannot seem to provide a substantive case for why these loans are particularly harmful other than merely describing them with terror in their voice on cable news.

In a free market, organizations and individuals will act in their own self-interest. Proponents of the 2017 rule failed to adequately explain why lenders would issue a loan from which they did not expect to recoup their money. They also fail to explain why people would enter into loan agreements that would keep them mired in the aforementioned "cycle of systemic poverty." When both parties enter into that agreement, they have both made rational decisions that such an agreement meets their needs. The lender is provided an opportunity to profit from the loan, and the recipient gains access to much-needed short-term capital.

The only rationalization they do provide rests on the assumption that recipients of payday loans do so out of desperation. The word "desperation" implies that these recipients have no other choice. This would beg a question that asks why they have no other choice. Looking at it from a market perspective, low-income loan recipients are risky for lenders, as there is a higher probability that they will not be able to repay the loan. In order for that loan to become a worthwhile risk for the lender, they need a higher interest rate. On the other hand, recipients are willing to accept the higher rates because of how important that short-term capital is to them. One can almost see the proverbial invisible hand at work.

On the flip side of this demonstration of the power of the free market there is the alternative. Banning high rate loans or placing severe restrictions on them is not suddenly going to make it worthwhile for lenders to issue short-term loans at low rates. Instead, they will recognize that it is still not their interest and see that they now have no legal recourse to make it in their interest, so they will begin denying credit to low-income borrowers. This is why the FreedomWorks Foundation supports the current proposed rule and opposed the 2017 manifestation. Excessive limits on payday lending cut off vulnerable, needy Americans from capital that could make the difference between having food on the table and going without groceries.

Furthermore, according to the Bureau's own monthly complaint reports, of the millions who utilize payday loans on an annual basis, only ten thousand complaints were lodged against lenders. This amounts to roughly one-tenth of one percent of all recipients. There is simply no crisis to be found, and continuation of the 2017 restrictions is merely the continuation of a solution without a problem.

We thank the Bureau and Director Kraninger for their leadership in taking on this issue and offering a solution that will provide millions of Americans with the access to capital that will feed their families, power their homes, and pay their bills. We hope this proposed rule will be finalized quickly to effect such change as soon as possible.

Respectfully submitted,

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