



Consumer Financial
Protection Bureau

PROPOSED NEW RULE

**PAYDAY LOANS,
TITLE LOANS AND
CERTAIN INSTALLMENT LOANS**

TWO TYPES OF LOANS:

1. loans with a term of 45 days or less;
2. loans with a term longer than 45 days where
 - ❖ total cost of credit over 36%
 - ❖ AND (1) takes a security interest in the borrower's vehicle, or
(2) allows the lender to directly access the borrower's bank account or payday source to retrieve payments.
 - ❖ loans with balloon payments at the end are lumped in with the longer term loans

EXCLUDED

- “purchase money security interest” loans—loans made solely to finance the purchase of a car or other consumer good;
- Home mortgages;
- Credit cards;
- Student loans;
- Non-recourse pawn loans; and
- Overdraft services and lines of credit.

“REGISTERED INFORMATION SYSTEMS”

businesses, licensed and regulated
by the federal government,

will take mandatory reports of loan information on
all these covered loans:

- ✓ when they are made
- ✓ if they are updated and
- ✓ when they are paid

“REGISTERED INFORMATION SYSTEMS”

lenders will be required to obtain
(buy) a consumer report from them
before any covered loan is made

“REGISTERED INFORMATION SYSTEMS”

**new set of
compliance regulations**

UDAAP

illegal for a lender to make a loan, as described above, without reasonably determining that the consumer will have the ability to repay the loan

UDAAP

Things a lender will have to do in order to determine that the consumer will have the ability to repay the loan:

- Verify the consumer's net income;
- Verify the consumer's debt using a consumer report AND a "registered information systems" report;
- Verify the consumer's housing expense (or estimate it based on averages);
- forecast the consumer's living expenses during the term of the loan; and
- project whether the consumer will have the income necessary to maintain his or her health, welfare and ability to produce income, in addition to making the loan payments

UDAAP

illegal for a lender to make a loan,
as described above

to a consumer that has taken too many
of these short-term loans in succession
(more than three)

PRESUMPTION that the
consumer does **NOT** have the
ability to repay the loan

Overcoming this presumption will require the LENDER
to prove to the government that there has been an
improvement in the consumer's financial capacity.

EXEMPTED

National Credit Union Administration's Payday Alternative Loan "NCUA PAL Loan"

These loans:

- are between \$200 and \$1000 fully-amortized;
- have a term between 46 days and six months; and
- have an interest rate that is capped by the PAL program.

EXEMPTION:

“does little to help credit unions; instead, the proposal layers numerous costly, burdensome, and unnecessary regulations on credit unions currently offering NCUA PAL compliant loans”

EXEMPTED

lenders will be
specifically prohibited from
taking a security interest in a vehicle
in connection with the exempted
short-term loans

EXEMPTED

if the **total default rate** for a previous year
is more than 5%
(which they can only know **AFTER** the year),
they will be subject to having to repay **all fees**
taken from consumers
on all loans made during the year



THE POTENTIAL IMPACTS OF THE FINALIZED CFPB RULE

- Small-dollar lending is likely to be materially impacted with most of the industry **eliminated**.
- Many lenders are already modifying their products by migrating away from small-dollar, single-payment products toward installment loans.

OCTOBER 7, 2016

[https://www.regulations.gov/
docket?D=CFPB-2016-0025](https://www.regulations.gov/docket?D=CFPB-2016-0025)

COMMENT

- ❖ how these types of loans help consumers in need
- ❖ how your small business will be affected if this regulation becomes law