Negative: CFPB Good

By Katherine Baker

***Resolved: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy***

Case Summary: Affirmative plan abolishes the Consumer Financial Protection Bureau. But CFPB is essential to protecting consumers from powerful banks and financial institutions that regularly try to rip them off. It’s effective at recovering defrauded monies and helps the little guys in today’s economy. Abolishing it would be a bad idea.

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Negative: CFPB - Good

NEGATIVE PHILOSOPHY / OPENING QUOTES

Working Americans need CFPB

Chris Shelton, 2017. (president of the Communications Workers of America, representing 700,000 employees telecommunications, media, airlines, public service and manufacturing.) “Point: To Keep Lenders Honest, Keep the Consumer Financial Protection Bureau” March 31, 2017. <https://www.insidesources.com/point-keep-lenders-honest-keep-consumer-financial-protection-bureau/>

For decades, corporations and banks have been lobbying to cut government regulation, especially in the financial sector. We cannot allow their greed to land us into another financial crisis, hurting millions of Americans in the process. Working Americans need the Consumer Financial Protection Bureau, and we will fight to keep it.

SIGNIFICANCE

1. CFPB helping consumers

Financial institutions are exploiting consumers, while CFPB is fighting for them. CFPB recovered $12 billion!

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Some financial institutions haven’t stopped trying to exploit consumers. The difference now is that the consumers have a real, independent advocate — a cop on the street. The CFPB was created as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 to take on these banks and lenders and take them to court when they harm consumers. The CFPB has already recovered an astonishing $12 billion on behalf of almost 30 million consumers.

CFPB fights exploitative retail banking, like the Wells Fargo ripoffs

Chris Shelton, 2017. (president of the Communications Workers of America, representing 700,000 employees telecommunications, media, airlines, public service and manufacturing.) “Point: To Keep Lenders Honest, Keep the Consumer Financial Protection Bureau” March 31, 2017. <https://www.insidesources.com/point-keep-lenders-honest-keep-consumer-financial-protection-bureau/>

The CFPB also has been a leader in fighting exploitative retail banking practices. Wells Fargo’s illegal practices cost the bank $185 million in fines, including a record $100 million levied by the CFPB, for the bank’s years of duping customers and creating fraudulent, unauthorized accounts and credit cards. As the CFPB discovered, lower wage employees were pressured or even threatened with the loss of their jobs if they didn’t engage in these tactics to meet extreme sales goals. The Wells Fargo CEO was forced to resign, and the bank ended its abusive sales quota system because of the CFPB’s work. Separately, the agency fined Santander Bank for enrolling customers in an overdraft service without their consent, then charging those customers fees for services they never wanted.

CFPB stamps out harmful banking practices that hurt the poor

Chris Shelton, 2017. (president of the Communications Workers of America, representing 700,000 working men and women in telecommunications, media, airlines, public service and manufacturing.) “Point: To Keep Lenders Honest, Keep the Consumer Financial Protection Bureau” March 31, 2017. <https://www.insidesources.com/point-keep-lenders-honest-keep-consumer-financial-protection-bureau/>

While an overdraft fee of $50 may not seem like a big deal to CEOs and top level executives, it is financially devastating for a working parent living paycheck to paycheck or a senior citizen surviving only on Social Security. These harmful practices must be aggressively stamped out, and the CFPB is doing just that. There’s much more work to do. Ordinary Americans need this agency more than ever.

CFPB helps people of color

Sharon Velasquez 2018. (Greenlining’s Economic Equity Manager. Common Dreams is a non-profit progressive news source.) “Trump Administration War on CFPB Is Bad News for Communities of Color” 7 July 2018. <https://www.commondreams.org/views/2018/07/07/trump-administration-war-cfpb-bad-news-communities-color>

The Bureau’s vigilance and investigations were particularly important for consumers of color because it refused to be race-blind in its oversight. And for good reason: Ample research shows that people of color face modern redlining in the mortgage market, discrimination in auto lending and car insurance premiums, credit card redlining, and other barriers to credit. In short, the CFPB regulated in a way that was long overdue, placing consumer interest – including the well-being of consumers of color — front and center.

Millions need CFPB

John Arensmeyer, 2018. (economics expert and former small- business owner who is the founder and chief executive of Small Business Majority.) “BankThink Mulvaney’s proposed CFPB reforms are bad for small business, too” April 11 2018. <https://www.americanbanker.com/opinion/mulvaneys-proposed-cfpb-reforms-are-bad-for-small-business-too>

Mulvaney, as acting director of the Consumer Financial Protection Bureau, just proposed watering down his own agency in order to make it less capable of fulfilling its mission to protect consumers. In doing so, he showed he has no regard for the millions of American small businesses that need fraud protection and want to see Wall Street held accountable for practices that harm our economy. Not one of Mulvaney’s recommendations would help the CFPB do its job better. He asked lawmakers to put the agency at the mercy of politics by subjecting it to congressional appropriations, instead of funding it through the Federal Reserve as it is now, and said he wants CFPB rules to be subjected to legislative approval. He also believes the president should have direct oversight of the bureau’s director, including the option to remove the director for purely political reasons. Finally, Mulvaney asked for more policing of the agency through the creation an inspector general’s office housed at the agency that would monitor the CFPB’s work.

1. Things were worse before CFPB

Before CFPB, small businesses and consumer without protection

John Arensmeyer, 2018. (economics expert and former small- business owner who is the founder and chief executive of Small Business Majority.) “BankThink Mulvaney’s proposed CFPB reforms are bad for small business, too” April 11 2018. <https://www.americanbanker.com/opinion/mulvaneys-proposed-cfpb-reforms-are-bad-for-small-business-too>

Ever since its establishment under the Dodd-Frank Act, the CFPB has been a popular Republican villain — even though it exists to curb many of the abuses that contributed to the 2008 financial crisis. Given its mission of consumer protection, and particularly its work to prevent predatory lending practices, entrepreneurs overwhelmingly support the agency. In fact, Small Business Majority’s opinion polling found 84% of entrepreneurs support the CFPB and believe it’s needed to prevent predatory financial practices and to ensure all financial institutions treat small businesses and consumers fairly. What’s more, nearly six in 10 entrepreneurs agreed that, for too long, Wall Street banks and financial companies wrote their own rules, leaving small businesses and consumers vulnerable and without protection.

1. A/T “Expensive / adds consumer costs”

400% return in investments in CFPB

Janna Herron, updated 2018. (former Senior Writer at ValuePenguin covering banking, credit cards and credit scores. She has spent more than a decade writing and reporting on personal finance, real estate and business) “What the CFPB Has Cost, & What It's Helped Consumers To Recoup” Updated January 29, 2018. <https://www.valuepenguin.com/2018/01/cfpb-good-investment>

Given the attention to the CFPB and its budget, ValuePenguin analyzed what the bureau has in fact cost to run since its inception in 2010, and what that investment has reaped, primarily by returning funds to consumers from banking institutions. We’ve found that for every $1 the Federal Reserve has transferred since 2010, the CFPB has delivered $3.69 to consumers in monetary compensation, principal reductions, cancelled debts and other consumer relief from its supervisory and enforcement actions over that same period. That’s nearly a 400% return.

29 million consumers helped by CFPB, total benefit was $11.9 billion – far more than its $3.2 billion budget

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The CFPB estimated that 29 million consumers received some kind of relief from its efforts, totaling $11.90 billion as of mid-2017. By contrast, the bureau has requested only $3.23 billion from the Federal Reserve since 2010 for its budget.

A/T “CFPB taxpayer cost”- CFPB Doesn’t use taxpayer dollars

Janna Herron, updated 2018. (former Senior Writer at ValuePenguin covering banking, credit cards and credit scores. She has spent more than a decade writing and reporting on personal finance, real estate and business) “What the CFPB Has Cost, & What It's Helped Consumers to Recoup” Updated January 29, 2018. <https://www.valuepenguin.com/2018/01/cfpb-good-investment>

The CFPB receives its funding from the Federal Reserve and not through congressional appropriations in an effort to safeguard the bureau’s independence from politics. The Fed itself also doesn’t rely on taxpayer money and instead finances its operations from the interest earned on the securities it has acquired through open market operations as well as fees for providing banks with check clearing, funds transfers, and automated clearinghouse services.

1. Opens doors to innovation

CFPB encourages innovation

Julie Stitzel, 2019. (Vice President of the U.S. Chamber’s Center for Capital Markets Competitiveness and leads the team’s efforts on consumer finance and FinTech policy.) “CFPB Making the Connection for Good Ideas” Sep 18, 2019. <https://www.uschamber.com/series/above-the-fold/cfpb-making-the-connection-good-ideas>

Innovators often face a common barrier prior to making their idea or product public—testing it in a complex regulatory environment. This is where regulators have an opportunity to play a pivotal role in incentivizing U.S. innovation. Allowing companies, new and established, to test the feasibility of a product or idea in areas that lack regulatory certainty is important for all industries, not just financial services. In the health sector, these efforts are called “demonstration projects.” In the transportation sector, these efforts are called “pilot programs.” And now, thanks to three new policies released last week by the CFPB, the financial services sector has the space to innovate in a way that benefits consumers.

Streamlined Review Process

Julie Stitzel, 2019. (Vice President of the U.S. Chamber’s Center for Capital Markets Competitiveness and leads the team’s efforts on consumer finance and FinTech policy.) “CFPB Making the Connection for Good Ideas” Sep 18, 2019. <https://www.uschamber.com/series/above-the-fold/cfpb-making-the-connection-good-ideas>

No-Action Letter (NAL) Policy: The new NAL Policy improves on the Bureau’s 2016 NAL Policy by having, among other things, a more streamlined review process focusing on the consumer benefits and risks of the product or service in question. The CFPB filed its first NAL in response to a request by the Department of Housing and Urban Development (HUD) on behalf of more than 1,600 housing counseling agencies (HCAs) that participate in HUD’s housing counseling program.

Allows for market testing

Julie Stitzel, 2019. (Vice President of the U.S. Chamber’s Center for Capital Markets Competitiveness and leads the team’s efforts on consumer finance and FinTech policy.) “CFPB Making the Connection for Good Ideas” Sep 18, 2019. <https://www.uschamber.com/series/above-the-fold/cfpb-making-the-connection-good-ideas>

Trial Disclosure Program (TDP) Policy: Under the new TDP Policy, entities seeking to improve consumer disclosures may conduct in-market testing of alternative disclosures for a limited time upon permission by the Bureau. The Dodd-Frank Act gives the Bureau the authority to provide certain legal protections for entities to conduct trial disclosure programs, as outlined in the TDP Policy. The new policy streamlines the application and review process.

Safe place for market testing

Julie Stitzel, 2019. (Vice President of the U.S. Chamber’s Center for Capital Markets Competitiveness and leads the team’s efforts on consumer finance and FinTech policy.) “CFPB Making the Connection for Good Ideas” Sep 18, 2019. <https://www.uschamber.com/series/above-the-fold/cfpb-making-the-connection-good-ideas>

Compliance Assistance Sandbox (CAS) Policy: The CAS Policy enables testing of a financial product or service where there is regulatory uncertainty. After the Bureau evaluates the product or service for compliance with relevant law, an approved applicant that complies in good faith with the terms of the approval will have a “safe harbor” from liability for specified conduct during the testing period. Approvals under the CAS Policy will provide protection from liability under the Truth in Lending Act, the Electronic Fund Transfer Act, or the Equal Credit Opportunity Act.

Partnership for innovation

Julie Stitzel, 2019. (Vice President of the U.S. Chamber’s Center for Capital Markets Competitiveness and leads the team’s efforts on consumer finance and FinTech policy.) “CFPB Making the Connection for Good Ideas” Sep 18, 2019. <https://www.uschamber.com/series/above-the-fold/cfpb-making-the-connection-good-ideas>

But CFPB didn’t stop there. The CFPB seized the opportunity to connect state and federal regulators with the launch of the American Consumer Financial Innovation Network (ACFIN). According to its charter, ACFIN is a partnership between state and federal policymakers intended to facilitate innovation that benefits consumers through greater competition, consumer access, or financial inclusion in markets for consumer financial products and services. Members of ACFIN facilitate innovation within the United States through cross-jurisdictional coordination and information-sharing. The CFPB invited all state regulators to join ACFIN, and the initial members are the Attorneys General of: Alabama, Arizona, Georgia, Indiana, South Carolina, Tennessee, and Utah.

US businesses and consumers benefited from CFPB innovation

Julie Stitzel, 2019. (Vice President of the U.S. Chamber’s Center for Capital Markets Competitiveness and leads the team’s efforts on consumer finance and FinTech policy.) “CFPB Making the Connection for Good Ideas” Sep 18, 2019. <https://www.uschamber.com/series/above-the-fold/cfpb-making-the-connection-good-ideas>

Why does this matter? Simply, promoting responsible financial services innovation while creating an environment that allows it to flourish benefits U.S. businesses and consumers. Businesses will continue to reside and innovate in the United States with greater regulatory clarity while consumers will increasingly benefit from improved financial services products. Further, the U.S. signals to the global financial services sector that we continue to lead in the space.

REVERSE ADVOCACY – against abolishing CFPB

Majority of small businesses support CFPB

John Arensmeyer, 2018. (economics expert and former small- business owner who is the founder and chief executive of Small Business Majority.) “BankThink Mulvaney’s proposed CFPB reforms are bad for small business, too” April 11 2018. <https://www.americanbanker.com/opinion/mulvaneys-proposed-cfpb-reforms-are-bad-for-small-business-too>

Ever since its establishment under the Dodd-Frank Act, the CFPB has been a popular Republican villain — even though it exists to curb many of the abuses that contributed to the 2008 financial crisis. Given its mission of consumer protection, and particularly its work to prevent predatory lending practices, entrepreneurs overwhelmingly support the agency. In fact, Small Business Majority’s opinion polling found 84% of entrepreneurs support the CFPB and believe it’s needed to prevent predatory financial practices and to ensure all financial institutions treat small businesses and consumers fairly. What’s more, nearly six in 10 entrepreneurs agreed that, for too long, Wall Street banks and financial companies wrote their own rules, leaving small businesses and consumers vulnerable and without protection.

Bipartisan support for CFPB among small businesses

John Arensmeyer, 2018. (economics expert, former small- business owner; founder and chief executive of Small Business Majority.) “BankThink Mulvaney’s proposed CFPB reforms are bad for small business, too” April 11 2018. <https://www.americanbanker.com/opinion/mulvaneys-proposed-cfpb-reforms-are-bad-for-small-business-too>

Even though the CFPB has been championed primarily by Democrats, it’s important to note that the bureau transcends partisanship for small businesses. Indeed, business owners who identified as Republican outnumbered those who identified as Democrats (52% to 34%) in the survey.

Small business owners support CFPB independence

John Arensmeyer, 2018. (economics expert and former small- business owner who is the founder and chief executive of Small Business Majority.) “BankThink Mulvaney’s proposed CFPB reforms are bad for small business, too” April 11 2018. <https://www.americanbanker.com/opinion/mulvaneys-proposed-cfpb-reforms-are-bad-for-small-business-too>

Small-business owners largely disagree with Mulvaney’s desire for political oversight of the CFPB — six in 10 argue that its funding should remain independent, so financial industry lobbyists cannot block its work whenever the agency makes decisions they don’t like. Just 29% believe the CFPB’s funding should go through the congressional budget process.

DISADVANTAGES

1. Financial Crisis

Link: CFPB cracked down on unethical practices that lead to financial crisis

Sharon Velasquez, 2018. (Greenlining’s Economic Equity Manager. Common Dreams is a non-profit progressive news source.) “Trump Administration War on CFPB Is Bad News for Communities of Color” July 07, 2018. <https://www.commondreams.org/views/2018/07/07/trump-administration-war-cfpb-bad-news-communities-color>

By mandating the Bureau’s creation in the Dodd-Frank Wall Street Reform and Consumer Protection Act, the U.S. government sought to prevent another financial catastrophe by designing an independent agency to protect consumers by cracking down on unethical practices by banks, mortgage servicers, credit unions, payday lenders and other financial service providers. Under this mandate, the CFPB did just that. It reformed mortgage lending and loan disclosures, worked to close the payday lending debt trap, fined credit card companies like American Express and Discover for duping consumers, pursued payday lenders, protected student loan borrowers, explored the implementation of small business data collection, and secured almost $12 billion in restitution for 29 million consumers harmed by the financial industry.

Link: CFPB cracked down on those responsible for ’08 crisis, plus various other bad actors

Chris Shelton, 2017. (president of the Communications Workers of America, representing 700,000 working men and women in telecommunications, media, airlines, public service and manufacturing.) “Point: To Keep Lenders Honest, Keep the Consumer Financial Protection Bureau” March 31, 2017. <https://www.insidesources.com/point-keep-lenders-honest-keep-consumer-financial-protection-bureau/>

It has moved against the worst of the worst — payday lenders that pull customers into spiraling debt, debt collectors who push homeowners toward foreclosure, lenders who discriminate against people of color, and for-profit colleges that exploit Americans trying to obtain an education. The CFPB has cracked down on many of those responsible for the financial crisis of 2008, including shady mortgage companies who misled customers and then foreclosed on their homes, and reverse-mortgage companies whose deceptive advertisements have harmed vulnerable senior citizens.

Link & Brink: Before CFPB, regulatory agencies didn’t have power and organization to prevent crisis

Megan Slack 2012 (Former Deputy Director of Digital Content for the Office of Digital Strategy) 4 Jan 2012 “Consumer Financial Protection Bureau 101: Why We Need a Consumer Watchdog” <https://obamawhitehouse.archives.gov/blog/2012/01/04/consumer-financial-protection-bureau-101-why-we-need-consumer-watchdog>

Before CFPB was established, seven different Federal agencies were responsible for various aspects of consumer financial protection. No single agency had effective tools to set the rules or oversee the whole market, and that is part of what led to an economic crash of epic proportions. As President Obama explained in his speech in Osawatomie: We all know the story by now: Mortgages sold to people who couldn’t afford them, or sometimes even understand them. Banks and investors allowed to keep packaging the risk and selling it off. Huge bets – and huge bonuses – made with other people’s money on the line. Regulators who were supposed to warn us about the dangers of all this, but looked the other way or didn’t have the authority to look at all.

Link and Impact: CFPB designed to protect against financial crisis with trillions of dollars in impact

Sharon Velasquez, 2018. (Greenlining’s Economic Equity Manager. Common Dreams is a non-profit progressive news source.) “Trump Administration War on CFPB Is Bad News for Communities of Color” July 07, 2018. <https://www.commondreams.org/views/2018/07/07/trump-administration-war-cfpb-bad-news-communities-color>

Two years into the Trump administration, communities of color — and anyone using financial products, for that matter – are losing hope of finding an independent, dogged champion in Trump’s iteration of the Consumer Financial Protection Bureau. A brain-child of Senator Elizabeth Warren, CFPB was originally designed to protect consumers from fraudulent and abusive financial actors as a response to the 2008 financial crisis. In gutting the CFPB and corrupting its mission, the Trump Administration disregards struggling families, and how the crisis brought our economy to its knees. And Trump’s latest move will make things even worse. According to the Treasury, the crisis cost taxpayers and our workforce approximately $20 trillion in lost household wealth, nine million jobs, and by some estimates 10 million lost homes and $14 trillion in taxpayer-funded Wall Street bailouts.

Impact: Millions lost jobs, retirement savings, and taxpayer dollars

Chris Shelton, 2017. (president of the Communications Workers of America, representing 700,000 working men and women in telecommunications, media, airlines, public service and manufacturing.) “Point: To Keep Lenders Honest, Keep the Consumer Financial Protection Bureau” March 31, 2017. <https://www.insidesources.com/point-keep-lenders-honest-keep-consumer-financial-protection-bureau/>

Let’s remember why this financial agency was created. The 2008 Great Recession was directly caused by fraud committed by the country’s biggest banks and lenders. Millions of ordinary Americans suffered, losing their jobs, their homes and their retirement savings. Nearly 4 million mid-wage jobs, with annual earnings of about $40,000, alone were lost. Taxpayers spent about $300 billion to bail out these banks and financial firms.

1. Predatory Lending

Background: What is a payday loan?

Consumer Financial Protection Bureau, 2017. “CFPB Finalizes Rule To Stop Payday Debt Traps” OCT 05, 2017 <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-stop-payday-debt-traps/>

Payday loans are typically for small-dollar amounts and are due in full by the borrower’s next paycheck, usually two or four weeks. They are expensive, with annual percentage rates of over 300 percent or even higher. As a condition of the loan, the borrower writes a post-dated check for the full balance, including fees, or allows the lender to electronically debit funds from their checking account. Single-payment auto title loans also have expensive charges and short terms usually of 30 days or less. But for these loans, borrowers are required to put up their car or truck title for collateral. Some lenders also offer longer-term loans of more than 45 days where the borrower makes a series of smaller payments before the remaining balance comes due. These longer-term loans – often referred to as balloon-payment loans – often require access to the borrower’s bank account or auto title.

Link: CFPB regulates non-bank financial institutions that were never regulated before

Megan Slack, 2012. (Former Deputy Director of Digital Content for the Office of Digital Strategy, White House) “Consumer Financial Protection Bureau 101: Why We Need a Consumer Watchdog” January 4, 2012. <https://obamawhitehouse.archives.gov/blog/2012/01/04/consumer-financial-protection-bureau-101-why-we-need-consumer-watchdog>

Moving forward, CFPB will be the single, consumer-focused regulating authority, consolidating the existing authorities scattered throughout the Federal government under one roof. And, the Bureau’s oversight includes the large banks and credit unions that had historically been regulated by the Federal government, as well as independent and privately owned “non-bank financial institutions” that had never been regulated before. This means that for the first time, the Federal government will be able to regulate the activities of independent payday lenders, private mortgage lenders and servicers, debt collectors, credit reporting agencies, and private student loan companies.

Link: CFPB developed rules to protect from payday lending

Consumer Financial Protection Bureau, 2017. “CFPB Finalizes Rule To Stop Payday Debt Traps” OCT 05, 2017 <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-stop-payday-debt-traps/>

The Consumer Financial Protection Bureau (CFPB) today finalized a rule that is aimed at stopping payday debt traps by requiring lenders to determine upfront whether people can afford to repay their loans. These strong, common-sense protections cover loans that require consumers to repay all or most of the debt at once, including payday loans, auto title loans, deposit advance products, and longer-term loans with balloon payments. The Bureau found that many people who take out these loans end up repeatedly paying expensive charges to roll over or refinance the same debt. The rule also curtails lenders’ repeated attempts to debit payments from a borrower’s bank account, a practice that racks up fees and can lead to account closure.

Link: CFPB puts a stop to debt traps

Consumer Financial Protection Bureau, 2017. “CFPB Finalizes Rule To Stop Payday Debt Traps” OCT 05, 2017 <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-stop-payday-debt-traps/>

“The CFPB’s new rule puts a stop to the payday debt traps that have plagued communities across the country,” said CFPB Director Richard Cordray. “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.”

Brink: Payday loans set up people to fail

Consumer Financial Protection Bureau, 2017. “CFPB Finalizes Rule To Stop Payday Debt Traps” OCT 05, 2017 <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-stop-payday-debt-traps/>

These loans are heavily marketed to financially vulnerable consumers who often cannot afford to pay back the full balance when it is due. Faced with unaffordable payments, cash-strapped consumers must choose between defaulting, re-borrowing, or skipping other financial obligations like rent or basic living expenses such as buying food or obtaining medical care. Many borrowers end up repeatedly rolling over or refinancing their loans, each time racking up expensive new charges. More than four out of five payday loans are re-borrowed within a month, usually right when the loan is due or shortly thereafter. And nearly one-in-four initial payday loans are re-borrowed nine times or more, with the borrower paying far more in fees than they received in credit. As with payday loans, the CFPB found that the vast majority of auto title loans are re-borrowed on their due date or shortly thereafter.

Brink: potentially dangerous non-bank financial institutions weren’t supervised prior to CFPB

Megan Slack, 2012. (Former Deputy Director of Digital Content for the Office of Digital Strategy, White House) “Consumer Financial Protection Bureau 101: Why We Need a Consumer Watchdog” January 4, 2012. <https://obamawhitehouse.archives.gov/blog/2012/01/04/consumer-financial-protection-bureau-101-why-we-need-consumer-watchdog>

Non-bank institutions offer important services like access to credit and access to payment systems for many people who are unable to rely on banks. But, these entities haven’t typically been subject to Federal supervision, and providers are often less clear about costs, terms, and penalties than better-regulated alternatives. As a result, hidden fees and undisclosed fines can make these services more expensive for the people who use them.

Impact: Debt trap, harassment

Megan Slack, 2012. (Former Deputy Director of Digital Content for the Office of Digital Strategy, White House) “Consumer Financial Protection Bureau 101: Why We Need a Consumer Watchdog” January 4, 2012. <https://obamawhitehouse.archives.gov/blog/2012/01/04/consumer-financial-protection-bureau-101-why-we-need-consumer-watchdog>

Nearly 20 million Americans use payday lenders. Studies have found that payday lenders charge their clients, on average, $16 for a $100, two-week loan—a 400 percent annual percentage rate. If borrowers miss payments they begin to accumulate huge penalty fees and can fall into a debt-and-fee spiral that may be hard to escape, and end up with even fewer funds to pay for essentials. In the run-up to the financial crisis, unregulated, non-bank lenders were among the largest originators of subprime mortgages. The default rate on subprime mortgages issued in 2006 now exceeds 50 percent. Nearly 50 percent of claims made against debt collectors cite harassment. Currently there is about $1.2 trillion of delinquent consumer debt, and many people who fall behind on their debt payments lack the resources to protect themselves from predatory collection behavior, which can lead them to make financial decisions without having all the facts.

Impact: Families and society harmed

Ron Elwood 2014 (supervising attorney, Legal Services Advocacy Project, Mid-Minnesota Legal Aid) July-Aug 2014 “The Verdict is In – Payday Lending is Guilty As Charged” <https://www.povertylaw.org/clearinghouse/articles/payday>

Payday lending does not relieve financial stress; it exacerbates financial problems. Payday borrowers are more likely to end up in bankruptcy. Borrowers also often find themselves buried under a cascade of defaults regarding other expenses, such as mortgage, rent, utility bills, medical bills, and credit card bills. Payday lending has been linked to the destruction of military families. Such lending is associated with negative effects on societal externalities that have an adverse impact on state and local economies.

Impact: Debt Trap

Consumer Financial Protection Bureau, 2017. “CFPB Finalizes Rule To Stop Payday Debt Traps” OCT 05, 2017 <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finalizes-rule-stop-payday-debt-traps/>

The cycle of taking on new debt to pay back old debt can turn a single, unaffordable loan into a long-term debt trap. The consequences of a debt trap can be severe. Even when the loan is repeatedly re-borrowed, many borrowers wind up in default and getting chased by a debt collector or having their car or truck seized by their lender. Lenders’ repeated attempts to debit payments can add significant penalties, as overdue borrowers get hit with insufficient funds fees and may even have their bank account closed.

Works Cited

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