MAXINE WATERS, CA
CHAIRWOMAN

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

PATRICK MCHENRY, NC
RANKING MEMBER

May 18, 2020

The Honorable Steven Mnuchin
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue NW
Washington, D.C. 20551

Secretary Mnuchin and Chair Powell:

I write to follow up on our recent conversations confirming that predatory consumer loans offered by payday, installment or other lenders are not eligible to be pledged as collateral to the Term Asset-Backed Securities Loan Facility (TALF) or any other Federal Reserve program or facility that is supported by funds appropriated by Congress and approved by the Secretary of the Treasury. While many Americans struggle with access to credit for a variety of reasons, research shows that the decline in credit conditions and the dramatic rise in unemployment during the Great Recession caused an uptick in borrowers' reliance on payday loans.[1] I'm glad we agree that using the Federal Reserve's TALF to directly or indirectly support such loan products with triple-digit interest rates or predatory features that target vulnerable communities is not appropriate, especially during this crisis.

Struggling consumers need relief, not predatory high cost loans that will send them into a debt-trap spiral. As the Financial Services Committee has learned from experts,[2] payday and car-title loans offer products with an annual percentage rate (APR) of 391 percent on average.[3] While some installment loans have different features than payday loans, such as having higher loan amounts and longer and multiple payment periods, predatory high cost lending is also a severe problem in the installment lending industry. Installment loans can be expensive for consumers and difficult to repay. The Consumer Financial Protection Bureau (CFPB), notes that the average APR for installment payday loans at $1,000, for example, is 237%.[4] The CFPB has also found that nearly a quarter of payday installment loans result in default.[5] With regard to how many of these loans are refinanced, the CFPB found that 1 in 5 installment car-title loans and nearly 2 in 5 of payday installment loans are refinanced by consumers.

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[1] "How did the Great Recession Affect Payday Loans," *Economic Perspectives*, (2016), https://www.chicagofed.org/publications/economic-perspectives/2016/2-agarwal-gross-mazumder
[2] https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=403646
[3] https://www.responsiblelending.org/research-publication/debt-trap-triple-digit-interest-rate-loans-payday-car-title-and-high-cost
[4] https://files.consumerfinance.gov/f/documents/Supplemental_Report_060116.pdf
[5] Id. See also https://www.nclc.org/images/pdf/high_cost_small_loans/payday_loans/report-misaligned-incentives.pdf

Experts have also found that payday and high-cost installment loans often target communities of color, military veterans, and seniors, charging billions of dollars a year in unaffordable loans to borrowers with an average annual income of $25,000.[6] Many payday and car-title loans force people that are already underbanked and struggling financially into worse circumstances. Borrowers who are unable to repay these predatory loans can lose their bank accounts or vehicles and may be forced into bankruptcy.

Now is particularly not the time to allow predatory lenders to take advantage of any Federal Reserve emergency loan program. As the Fed establishes and implements a wide range of programs and facilities to promote economic expansion during this severe recession with the approval of Treasury, it is important that it ease credit conditions only by supporting loans that facilitate sustainable and prudent lending. Bolstering the proliferation of predatory loans that exploit the economic desperation that many Americans now find themselves in will not put us on the road to recovery or help the Fed fulfill its maximum employment obligation any sooner.

Thank you for discussing this matter with me, and I ask that you please keep me apprised if the Federal Reserve or Treasury considers shifting course or is contemplating opening any emergency lending program or facility to such predatory products.

Sincerely,

Maxine Waters

MAXINE WATERS
Chairwoman

CC: The Honorable Patrick McHenry, Ranking Member, Committee on Financial Services

[6] https://financialservices.house.gov/uploadedfiles/hhrg-116-ba15-wstate-standaertd-20190430.pdf. See also https://lawyerscommittee.org/wp-content/uploads/2019/05/Report-reviewing-research-on-payday-vehicle-title-and-high-cost-installment-loans.pdf.