How Reversing the 2017 Payday Lending Rule Can Affect Consumers

The 2017 Payday Lending Rule, initiated under the Obama administration, was designed to protect small consumers from the dangers of cash advance loans or small-dollar loans, as payday loans are also called.

However, in February 2019, the Consumer Financial Protection Bureau, now headed by Kathy Kraninger, proposed reversing these regulations on payday loans. While some financial experts and advocates of consumer interests are voicing their concerns about the rollback, supporters of the cash loan industry have welcomed the move.

Here’s a quick overview of the positives of the Payday Lending Rule and how it’s reversal can affect credit seekers.

Understanding the Key Features of the Payday Lending Rule

The regulations on payday loans proposed in 2017 required lenders to ensure that borrowers are able to repay the credit before giving them the funds. The rule made it mandatory for loan makers to check pay stubs and verify with employers, or use any other methods to confirm that borrowers were good for the credit.

Lenders must check the income of the applicants and compare it against monthly expenses. The income would have to be adequate enough to cover the expenses, interest, and principal sum for which the consumer was applying.

Alternatively, lenders could offer better repayment options where the customers could repay the amount over a longer period, either in a single lump-sum payment or broken up into smaller installments.

These conditions protected small consumers from getting into a debt trap where they would continue to reborrow until the loan became too big to repay. Considering that many payday loans are taken to repay existing debt, this credit option is notorious for entrapping people in a vicious cycle of debt that they'll find impossible to break.

When the Payday Lending Rule was first introduced, Richard Cordray, director of the Consumer Financial Protection Bureau revealed, "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."

Lenders Are Not Allowed to Withdraw Funds Without Customer Consent

The Payday Lending Rule has several other provisions. For instance, lenders must inform loan takers in writing before trying to withdraw funds from their bank accounts for repayment of their loans. Further, cash advance loan providers cannot exceed more than two attempts to withdraw funds from borrower accounts. If there are insufficient funds and withdrawal attempts have failed, loan providers must ask for written consent from account holders before requesting for payment again, just as this feature on MarketWatch explains.

Existing Regulations on Payday Loans Limit the Maximum Amount

Laws in different states have limitations on the maximum amount of funds borrowers can take. For example, states like Montana and California permit a maximum of $300 while Idaho, Illinois, and Delaware have the highest limits of $1,000. Around 32 states have caps on payday loans, but the states of Wyoming, Maine, Wisconsin, and Utah have no regulations on payday loans. Many states have instead levied caps on the cost of the loan and fees lenders can charge for making loans. Then there are states like New Mexico and Nevada that calculate the permissible amount according to the borrowers' incomes. Such states don't permit payday loans of more than 25% of the income levels. You'll find more details on this article published on the

Experian website.

Borrowers Can Take Only a Fixed Number of Loans

In an attempt to prevent borrowers from rolling over their cash advance loans repeatedly, regulations on payday loans barred lenders from giving more than three back-to-back loans just as the folks at NerdWallet outline.

Each time a person takes a loan, the information is added to a secure database. Before approving the loan, lenders must check the database for the number of times the debt has been rolled over. After three renewals, borrowers go through a 30-day cooling-off period before they can take another loan. This rule protects consumers from racking up a huge debt when the interest amount adds up with each renewal.

Regulations, where loan providers were required to check the credit history of the applicant before issuing the cash advance, are especially applicable in instances where the lender is not offering a principal reduction option. The rule also applies to single-payment vehicle title loans where borrowers offer their trucks, cars, or any other vehicles as collateral for the loans.

Payday Lending Rule May Not Come into Effect Before November 2020

Lawmakers are debating the positives of the 2017 regulations with many arguing that the non-availability of credit can create bigger problems for small consumers. Statistics show that maximum borrowers need payday loans to cover essentials like gas, rent, utilities, and food. Further, Americans who regularly take cash advance loans live from paycheck to paycheck often lacking the funds to see them through emergency situations.

The main downside for such short-term loans is the extremely high APR rates that can be a maximum of 400%. Borrowers must also deal with the unfair and unscrupulous collection practices of lenders. The inability to repay loans makes customers vulnerable to huge debts that are almost impossible to pay off. Many must resort to loan consolidation options to help get out of the debt trap.

Educating Customers About the Alternative Sources of Credit Could be a Solution

Customers looking for small loans could do better than rely on payday loans. All it takes is a little research and anyone can find various options that carry much lower interest rates with far easier repayment terms and conditions. Some examples include:

- Low-interest credit cards that carry interest rates of 12% to 30%
- Applying to credit unions
- Signing up for a membership with lending circles
- Pawning off unwanted personal belongings
- Contacting friends and family members for assistance
- Getting secured credit cards
- Withdrawing cash on credit cards
- Seeking advice from a nonprofit, community-based credit counselor
- Getting loans from the bank