Protecting Credit Since 1916
American Financial Services Association

May 15, 2019

The Honorable Elijah Cummings
Chairman
Committee on Oversight and Government Reform
House of Representatives
Washington, DC 20515

The Honorable Jim Jordan
Ranking Member
Committee on Oversight and Government Reform
House of Representatives
Washington, DC 20515

Dear Chairman Cummings and Ranking Member Jordan:

On behalf of the American Financial Services Association (AFSA)[1], I am writing in strong support of the traditional installment loan industry in advance of your hearing, "CFPB's Role in Empowering Predatory Lenders: Examining the Proposed Repeal of the Payday Lending Rule." For more than a century, traditional installment lending has proven an affordable and responsible form of consumer credit for working Americans and a safer alternative to predatory loans.

Many consumers use traditional installment loans as a thoughtful process to manage their finances. Seventy-six percent of Americans live paycheck to paycheck, so if something unexpected happens, many need quick access to credit. In fact, a recent survey by the Federal Reserve found a lack of economic preparedness among many Americans. Only 53 percent of survey respondents indicated that they could cover a hypothetical emergency expense costing $400 without selling something or borrowing money. Using a home equity line of credit or a credit card is not necessarily an option for people with impaired credit and little or no home equity.

Installment loan companies' customers are Americans of almost all professions and socioeconomic classes. Sometimes, these customers are "unbanked" or "under-banked." They may be "credit invisible" or have credit histories containing insufficient or stale information. The customers often have impaired credit histories, so they may not be served by banks or credit unions. Most need access to credit to assist with basic needs: vehicle repairs (transmission, tires), household appliances (washer, dryer, water heater – repairs or replacement), furniture, back to school expenses, debt consolidation, baby items (crib, car seat), funeral expenses, and medical expenses – generally, the everyday items and services essential to live productive and enjoyable lives, as well as to meet obligations. Traditional installment loans are a good option for Americans who need financial assistance.

Unlike payday loans, installment loans are the best way for consumers to manage credit and build a positive payment history with credit bureaus. In fact, former Consumer Financial Protection Bureau Director Richard Cordray, in his testimony before the full Financial Services Committee, expressed his desire to "make sure there is room for responsible lending … room for installment

[1] Founded in 1916, AFSA is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including traditional installment loans, mortgages, direct and indirect vehicle financing, payment cards, and retail sales finance.

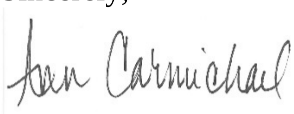
lenders who are traditional and have responsible products…" As a result, Cordray's CFPB excluded traditional installment loans from its final Payday Loan Rule in October 2017. Installment loans are radically different from payday loans in their structure, price, and regulations. Installment loans do not charge penalties for early repayment or prepayment, nor do they require large one-time balloon payments. Traditional installment loans are paid off through equal monthly payments of principal and interest that provide consumers with the ability to repay and eliminate their debt. As Congress and the CFPB reevaluate the payday loan rule, they should continue to allow traditional installment loans to exist in the marketplace so that consumers have access to responsible credit products.

Because traditional installment lenders engage in underwriting, traditional installment loans are designed to be affordable and to allow borrowers to budget their finances. Traditional installment lenders underwrite loans based on consumers' credit reports and other factors. Though it varies by lender, the average loan is for $1,500, the average monthly payment is $120, and the average term is 15 months. At the time of origination, each and every loan is made with the highest confidence and expectation that it will be paid back in full and on time. Installment lenders determine customers' ability to repay so that consumers do not fall into a cycle of debt.

Both the National Black Caucus of State Legislators and the National Hispanic Caucus of State Legislators ratified resolutions in recent years supporting small-dollar closed-end credit in the form of traditional installment loans, emphasizing that they are an affordable means for borrowers to establish and secure small-dollar credit while preventing cycle of debt issues.[2]

Traditional installment loans are a safe alternative to predatory loans and have a place in the lives of American consumers. Thank you for the opportunity to comment on the value of this important financial product. If you have any questions, please feel free to contact me at acarmichael@afsaonline.org or (202) 466-8606.

Sincerely,



Ann Carmichael
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American Financial Services Association

[2] NBCSL, *Resolution BED-16-21: A Resolution Promoting Safe and Affordable Lending Practice* (Dec. 2015); NHCSL, *Resolution 2013-10: Promoting Safe and Affordable Lending Practices* (July 2013).