



CFPB Issues Proposed Rules Regulating Payday, Vehicle Title and Other Loans, as Permitted by Dodd-Frank

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On Friday, July 22, 2016, the Consumer Financial Protection Bureau (the "Bureau") published proposed rules and a request for public comment in the *Federal Register* to establish a new consumer regulation, 12 CFR 1041, which would regulate payday loans, vehicle title loans, and certain high-cost installment loans ("Covered Loans").

The Bureau is concerned that lenders that make Covered Loans have developed business models and practices that are substantially different from those established in other credit markets, and that are harmful to consumers. In particular, the Bureau is concerned about these lenders' failure to assess the consumer's ability to repay the loan and the practice of withdrawing loan payments directly from the consumer's accounts.

The proposed regulation divides Covered Loans into two categories:

1. Short-Term Loans. These are loans having terms of 45 days or less and would include standard payday loans and short-term vehicle title loans. Both of these loans are typically for 30 days or less.
2. Long-Term Loans. These are loans having terms of more than 45 days, and that provide for (i) a total cost of credit that exceeds 36%, and (ii) either a security interest or other lien on the consumer's automobile, or a "leveraged payment mechanism," whereby the lender is able to access the consumer's deposit account directly for payments, or receives an automatic payroll deduction from the consumer's employer for payments. Also included as a long-term loan are balloon payment loans, where all of the principal is due in one payment, or one payment (usually the final payment) is more than twice the amount of the other payments.

Certain types of consumer loans will be excluded from coverage under the new regulation:

- Purchase-money loans for motor vehicles or other consumer goods
- Home mortgages and other loans secured by real property or a dwelling if the lien is recorded or otherwise perfected
- Credit Cards
- Student loans
- Non-recourse pawn loans
- Overdraft services and lines of credit

The comment period ends October 7, 2016.

Creditors and others involved in these services may comment, and should do so if they think that these changes, or the specifics of the implementation of these changes as published in the notice, will have an adverse effect on their businesses. Comments must be identified by Docket Number CFPB-2016-0025 or RIN 3170-AA40. The options available for sending the comments are set forth in the notice, which is published in the *Federal Register* of July 22, 2016 (Volume 81, No. 141) at page 47864.

Related People

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