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COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Board of Supervisors

Date: August 25, 2015
Board Meeting Date: September 1, 2015
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Supervisor Carole Groom
Supervisor Warren Slocum

Subject: Resolution requesting that the Federal Consumer Financial Protection Bureau, the United States Congress and the California State Legislature take action to protect consumers from usurious payday lenders

RECOMMENDATION:
Adopt a resolution requesting that the Federal Consumer Financial Protection Bureau, the United States Congress and the California State Legislature take action to protect consumers from usurious payday lenders.

BACKGROUND:
Payday loans frequently trap many borrowers in a cycle of debt that can exacerbate the financial challenges faced by many lower income families. According to the Silicon Valley Community Foundation's "Report on the Status of Payday Lending in California," published in 2009, consumers who use payday loans encounter more hardship through predatory payday lending processes and payday lenders are eight times as concentrated in neighborhoods with the largest shares of African Americans and Latinos.

Research provided by Community Legal Services in East Palo Alto (CLSEPA) determined that, in California, there are over 2,000 high-cost payday lending storefronts, making over $3 billion in triple-digit interest rate loans to California families each year. CLSEPA estimates that the loss of economic resources resulting from these high-interest loans amounts to a net loss of $135 million in economic activity and 1,975 jobs annually. Furthermore, according to the 2013 Consumer Financial Protection Bureau's (CFPB) "Payday Loans and Deposit Advance Product White Paper," during a 12-month period, borrowers took out a median of 10 loans, and more than 80% of loans were rolled over or renewed within two weeks, and that borrowers who take out 11 or more loans each year account for roughly 75% of fees generated.

In 2012, Supervisor Rose Jacobs Gibson introduced a Payday Lending Ordinance in San Mateo County that sought to curb predatory payday lending activity that impacted many unincorporated areas of the county, and particularly North Fair Oaks. This ordinance sought to add non-chartered financial institutions as a use that required a use permit and established certain criteria in order to obtain such a permit. This ordinance was formally adopted by the Board of Supervisors June 26, 2012.

Since passage of the county ordinance, the cities of Daly City, South San Francisco, Menlo Park and San Mateo have adopted similar ordinances to protect residents from predatory lending practices. The cities of Redwood City and East Palo Alto placed zoning limits on payday lending establishments prior to the County's passage of the ordinance.

DISCUSSION:
The Consumer Financial Protection Bureau (CFPB) conducted hearings and presented research since 2012, including the 2013 "Payday Loans and Deposit Advance Product White Paper" to strengthen federal consumer protections through its rule making authority. In June 2015, Congresswoman Eshoo joined colleagues as a signatory to a letter to the CFPB supporting its payday lending proposals.

As early as September, the CFPB is slated to release proposed rules on payday lending that will protect consumers and significantly reduce the ability of payday lenders to cause financial distress and hardship to families. Through proposed new rules, the CFPB seeks to maintain the need for accessible credit and short-term loan options, while protecting vulnerable families from exorbitant interest rates, short repayment periods and abusive collection practices.

In June 2015, the city of Daly City adopted a resolution in support of the Consumer Financial Protection Bureau's (CFPB) preliminary proposals to address high-cost payday lending practices. The Board of Supervisors seeks to adopt a similar resolution urging the CFPB, United States Congress and California State Legislature to enact and support rules and/or laws that require lenders to determine a borrower's ability to repay a loan, not sanction any series of repeat loans or provide safe harbor to poorly underwritten loans, establish an outer limit on length of indebtedness that is at least as short as FDIC's 2005 guidelines, restrict lenders from requiring post-dated checks or electronic access to a borrower's checking account as a condition of extending credit, and limiting the annualized percentage interest rates of loans to 36% or less.

FISCAL IMPACT:
None