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Chairman Shelby, Ranking Member Brown, and Members of the Committee, thank you for inviting me to testify today.

I am the Reverend Willie Gable, Jr. I serve as Pastor of Progressive Baptist Church in New Orleans. My congregation is a member of the National Baptist Convention USA, Inc. the nation's largest predominantly African American religious denomination.

I also serve as Chair of the Housing and Economic Development Commission of the National Baptist Convention USA, Inc. This Commission's mission is to develop affordable housing for low and moderate-income persons, particularly for senior citizens and the disabled, allowing them to live with pride in a place they can proudly call home. Over twenty years, the Commission has developed over a thousand homes at 30 housing sites across 14 states.

I appear before you today to bear witness to the utter devastation that predatory financial practices have wrought on my community and on communities across this nation; to the safer mortgage market we have now thanks to newly implemented reasonable rules; and to a desperate need for further regulatory action to weed out the abhorrent financial abuses in other product areas that continue today.

The financial crisis

It is impossible to overstate the damage done to the families and communities most impacted by the worst financial crisis since the Great Depression. Over 12 million homes lost, representing families displaced, lives turned upside down, life savings washed away. Over $2.2 trillion in lost property value for communities surrounding foreclosed properties, with over half of that lost value sapped from communities of color. The wealth gap, already a chasm, made wider still.

This crisis was caused by unrestrained predatory mortgage lending practices and a failure to stop them. These practices included steering borrowers with 30-year fixed-rate mortgages, and with significant equity in their homes, into toxic refinance products that would inevitably become unaffordable – exploding adjustable rate mortgages, balloon loans, loans that negatively amortized. There were no requirements to determine whether the borrower had the ability to repay the loan. Often, lenders paid brokers perverse kickbacks, or yield-spread premiums, to steer borrowers into risker, more expensive loans when they could have qualified for a safer, more affordable one – a practice that disproportionately impacted borrowers of color.

These predatory lending practices were permitted because the existing regulators, with whom consumer protection authority had been vested, failed to prohibit them. Congress gave the Federal Reserve Board rulemaking authority in 1994 to prohibit unfair and deceptive practices in the high-cost mortgage market. The Board failed to use this authority until 2008; by then, the damage had been done. The national bank and thrift regulators, the OCC and the OTS, had enforcement authority against unfair practices. But they treated their supervisee banks like clients, competing for their charters by being most willing to ignore the abusive practices that the agencies' own supervisory guidance advised against. *The existing federal regulators failed*, and the whole nation suffered. Some suffered far more profoundly than others. Many continue to suffer. Full recovery will take decades.

Mortgage market

Today, we can be thankful for a safer mortgage market, one with reasonable rules in place to prevent predatory practices. Lenders must determine a borrower's ability to repay a loan. Kickbacks for steering borrowers into more expensive or riskier loans are prohibited.

Contrary to lender predictions, the implementation of ability-to-pay rules in 2014 did not result in a constriction of the credit market, according to Home Mortgage Disclosure Act data[i] Recovery, to be sure, is slow. And there is much work to be done to increase the availability of home loans to people of color and low- and moderate-income families. But we can rest easier knowing that when a borrower receives a loan, it is a reasonably designed, affordable loan where responsible underwriting has been conducted, instead of a toxic one designed to fail; that mortgage credit will again serve to help stabilize, rather than shatter, our neighborhoods.

The Consumer Financial Protection Bureau (CFPB or Bureau) has played a critical role in the implementation of these mortgage rules. The mortgage market is, of course, an absolutely vital one. Homeownership is the primary vehicle through which families build wealth and pass it on to future generations. Homeownership brings tangible benefits to neighborhoods, schools, and cities, and carries immense intangible value as well. This is particularly important for families of color, who still lag so far behind economically. The predatory practices in the market had catastrophic consequences, and ones that became evident to all.

But other, often less conspicuous, predatory practices also wreak destruction. And in my experience working with people in need, families do not tend to experience a predatory practice in isolation. These predatory practices tend to be interconnected, raiding families' resources and assaulting their dignity from every direction.

Congress created the CFPB in the wake of the financial crisis precisely to protect consumers from abusive financial practices, be they mortgages or any other kind. The Bureau has begun good work in many areas, and there remains much more to be done.

Payday and car title loans

Payday loans and their close cousins, car title loans, are an abomination in plain sight. Consider the plight of one Louisiana mother who lost one of her two jobs when a rehabilitation center where she worked closed. Down one income stream and struggling to pay her bills, she took out a $300 payday loan. As lenders hope, she could not afford the repayment two weeks later, so a lender gave her another loan to repay the first, charging her new interest and fees. This happened five times, ultimately costing her $2,500 and, as payday loans often do, her bank account. She also lost her car and mementos from her children she pawned, all in an effort to escape the debt trap.[ii]

She is not alone. Payday lenders make loans to 57,000 Louisianans each year. In my community, we often encounter elderly individuals who have taken out payday loans. Their younger family members often don't learn of it until they are caught deep in the trap. It is not surprising these loans are kept secret. For many, payday loans carry a deep sense of shame.

These lenders weave themselves into the fabric of our neighborhood and purport to lend a helping hand. But they are wolves in sheep's clothing. They claim to be for a once-in-a-blue moon emergency, but three-fourths of their loan volume comes from borrowers with more than 10 loans a year. And they use this blood money to pad the pockets of legislators to prevent enactment of any reasonable restrictions. In Louisiana, this strategy has been sadly successful, despite widespread opposition from churches and other organizations who work directly with families these loans hurt.

In Louisiana, there are more than four times as many payday loan storefronts as McDonald's. They are concentrated in African American communities. I do not believe this is an indication that people "need" or "desire" payday loans. The most common reason people "need" a payday loan is because a previous payday loan was designed to be unaffordable. It's a cycle, by design – so-called "demand" that generates and feeds itself. It is intentional exploitation of the desperate.

My comments here have focused on short-term balloon-payment payday loans. But as we speak, many payday lenders are restructuring their payday loans to be high-cost, longer-term installment loans, designed to work essentially the same way – by trapping the borrower in a cycle of high-cost debt. In Louisiana, payday lenders are currently pushing a bill that would authorize loans of up to $1,500 at 240% APR. This is immoral.

In total, payday loans in Louisiana strip $146 million in fees and interest from working families, costing residents an average of over $800 for every $300 borrowed.[iii] The destructive business model caused a net loss of $42 million to the state's economy in 2013, costing the state a net 614 jobs.[iv]

My community has helped to pay the payday loan debts of many individuals. Like so many churches across the country, we wish that they would have come to us sooner, before the first payday loan, so that more of our congregation's funds could benefit people in need instead of paying off economic predators. Last year, a diverse group of faith organizations formally came together to establish Faith for Just Lending, a national coalition that shares the belief that Scripture speaks to the problem of predatory lending. Our coalition condemns usury and the exploitation of financial vulnerability.

We will continue to fight in Louisiana, and in states across this nation, for state legislators to limit the cost of credit to 36% annual interest or less. Absent Congressional action to do the same at the federal level – which, to be clear, is warranted and overdue – the CFPB is exactly who must, by the Congressional mandate it was given, address abusive payday and car title loan practices. The Bureau lacks authority to limit interest rates, but it can and should require lenders to determine whether a borrower has the ability to repay a loan, without reborrowing or refinancing. This is a reasonable requirement – far from extreme – that should serve as a federal floor for state and national regulation. Many states already go much further than this, prohibiting the loans altogether. Other states don't, but they always can, and we will continue to press for just laws at the state level.

Bank overdraft practices

Overdraft fees are the banks' version of preying on those with the least, of taking advantage of those in need and leaving them only worse off. Already, too many low-income people are unbanked or underbanked, and this is particularly so for people of color. We should be seeking to bring these individuals into the banking mainstream, which can facilitate low-cost financial transactions and saving for economic emergencies. But overdraft fees, common on bank accounts, undermine this aspiration.

Banks spin their overdraft programs as a courtesy, but they collect the large majority of overdraft fees from a select few who get hammered, some paying thousands of dollars annually. Overdraft fees fund the checking account business model, and they drive those struggling to make ends meet out of the banking system altogether. When accounts go too far negative, banks close them and report the account holder to a black list like Chexsystems, which prevents the individual from opening another checking account for years. In an environment where distrust of banks is very strong, overdraft practices only exacerbate economic disenfranchisement.

The disturbing reality is that banks design their practices to maximize overdraft incidents. They charge $35 overdraft fees on small debit card transactions they could easily decline when the account lacks funds. Why are credit practices that would no longer be permitted on credit cards permitted on debit cards? This is the sort of inconsistency the CFPB can and should address.

Overdraft is credit and should be extended only when, again, the individual can afford to repay it. With this overdraft fee cash cow, it is not surprising that banks do not more often offer reasonably priced credit to those living on the margins, or more safe bank accounts that do not carry these fees. The Bureau is rightly studying overdraft practices extensively and plans to issue rules. Curbing high cost overdraft fees would help move banks toward offering affordable products, without hidden penalty fees or gotcha fees, for people living paycheck to paycheck.

Prepaid cards

Driven out of the banking system by overdraft fees, or wary of the banking system generally, many low and moderate income families turn to prepaid cards. Well-designed prepaid cards can be a useful tool for many families. But they have lacked basic protections for far too long. High-cost credit on prepaid cards is especially concerning given that many families turn to prepaid cards precisely to avoid taking out credit, and given that prepaid cards are often sold by payday lenders. Overdraft fees on prepaid cards are a dangerous and deceptive notion, and they should be prohibited. The Bureau has taken a close look at prepaid cards and issued a proposal that would provide important protections in this area, including critical protections around credit on prepaid cards.

Auto lending

After one's home, the largest purchase many will make is their car. Here, too, predatory practices abound. Car dealer interest rate mark-ups, much like yield-spread premiums in the mortgage market, make car loans more expensive for many consumers. This is also a practice with a long history of discriminatory impact on borrowers of color. However, this is not the only abusive practice in auto lending, and the Federal Trade Commission's car lending roundtables five years ago brought many to the surface. Yo-yo scams force consumers into higher priced financing than they agreed to – the dealer claims the original financing deal fell through after the borrower has left the lot with the new car. Consumers are faced with the loss of a down payment or trade-in if they don't agree to more expensive financing. Expensive and sometimes worthless add-on products are financed into the loan. Evidence suggests these products are sold disproportionately to borrowers of color, who are more frequently told their loans require these products when they do not. And buy-here, pay-here operators churn high-cost used car loans through our communities, using, as the CFPB has found, high-pressure and sometimes illegal collections tactics to extract payments.

Abuses are in this industry have escaped attention until recently. But CFPB has taken important action in this area, including providing guidelines aimed at preventing discriminatory practices and taking much-needed enforcement actions. As a result, the Bureau has come under fire from members of Congress. This fire is misplaced. Instead, the focus should be directed at why, for more than two decades, auto lenders' and dealers' practices have operated under a cloud of discrimination and abuse of low-income borrowers. Rather than defending a system that continues to fail many of our communities, Congress should push for a more transparent, fair system of auto finance.

Debt collection

Debt collectors commonly engage in harassment and threats; they commonly attempt to collect debts consumers never owed, or no longer owe. They induce dread, fear, embarrassment, panic in good, honest, hard-working individuals and in their family members, their children. Though existing laws are not as strong as they must be, debt collectors routinely break them.

The CFPB has taken strong enforcement actions to address illegal debt collection practices. And it has indicated it will propose rules in this area in the coming months. These new rules will permit collection of debts while, we hope, requiring that this collection be done without employing abusive tactics. This is reasonable and necessary. This is not extreme.

Forced arbitration

There is no question that predatory practices are a violation of both biblical and social moral norms. Often, they also violate the law. But remedies are seldom available, as the financial industry has cloaked itself in a shield of impunity in the form of pre-dispute mandatory arbitration clauses.

These clauses, often in the fine print of take-it-or-leave-it contracts for payday loans, bank accounts, auto financing, student loans, and other products, deprive ordinary Americans of their liberty and constitutional rights. They require that complaints be brought on an individual basis to a private arbitration system where the arbiter has every incentive to rule in favor of the private company that brings them repeat business. The fine print also often prohibits individuals – with little power standing alone – from joining together with others in class actions. The effect is to strip individuals of their ability to secure redress when they have been wronged by a clearly illegal practice.

This is wrong. And we need the Bureau to exercise its authority to limit pre-dispute mandatory arbitration clauses and restore the right of individuals to join together to seek justice when they are cheated.

Conclusion

The Bureau has taken important action in other areas as well, like credit cards, student loans, and, an often-overlooked rampant problem, prevention of elder abuse. To date, CFPB has returned over $10 billion to consumers through enforcement actions against illegal practices. To be sure, this is to be commended. But relative to the funds predatory practices strip, this amount is quite modest; some individual predatory practices cost consumers more over the course of only a single year. This means that the Bureau has far more work to do.

Other federal regulators have an important role to play as well – the Department of Education with student lending; the Department of Defense with important new rules limiting costs on consumer loans made to our military service members; the prudential banking regulators, who have worked to prevent the payments system from being used to violate the law and reined in abusive payday lending directly by banks.

But it is clear that a strong, well-funded, independent agency whose job it is to wake up in the morning thinking about protecting the most vulnerable among us is necessary – to ensure that financial services practices do not drain hard-earned income and savings from my constituents, and from the millions of other Americans who are affected by predatory lending every day.

Please let me be clear: The notion that struggling Americans need access to products like those the Bureau has been working so hard to address is, at best, an insult to the basic dignity of every vulnerable person. At worst, it is a thin veil for the influence corporate money and power hold in our nation's politics at every level. The predatory practices CFPB is addressing drain what little resources targeted persons have and leave them worse off. Not controlled, they will relegate some communities to a state of perpetual poverty.

I implore you to let the CFPB be the consumer watchdog this body mandated that it be in the wake of the financial crisis. We have seen what happened when there was none. And we all deserve far better.

Thank you for the opportunity to share my experiences with you. I look forward to your questions.

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[i] http://www.federalreserve.gov/pubs/bulletin/2015/pdf/2014_HMDA.pdf.
[ii] Addo Koran, *Lawmakers eyeing limits on payday loan industry,* The Advocate, March 24, 2014.
[iii] Together Louisiana. (April 2014). The economic impact of payday lending in Louisiana, *An analysis of the Office of Financial Institutions report "Deferred Presentment and Small Loans 2013 Data" issued on April 1, 2013*. Available at http://www.togetherbr.org/wp-content/uploads/2010/09/Economic-impact-of-payday-lending-in-Louisiana_4-5-14.pdf.
[iv] *Id.*, applying methodology from Lohrentz, T. (March 2013). The New Ecomonic Impact of Payday Lending in the U.S. Insight Center for Community Economic Development.