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OPINION | REVIEW & OUTLOOK

# *Payday Lending Survives*

The CFPB reverses an Obama-era rule to stamp out small lenders.

By [The Editorial Board](#)

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Small-dollar borrowing shrank last quarter while Americans were stuck at home, but demand may swell soon as many workers adapt to reduced hours or wages. They'll have that option thanks to the final rule issued Tuesday by the Consumer Financial Protection Bureau on payday loans.

The new rule replaces a draft by Obama-era director Richard Cordray that would have required lenders to apply a stringent standard for assessing creditworthiness. The bureau found that the proposed rule would have reduced payday loan volume by at least 62%, driving thousands of storefront lenders out of business. In effect the revision will preserve the status quo, leaving regulation of payday loans to the states.

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This will be welcome news for millions: Americans took out \$90 billion in short-term loans in 2018. Critics focus on the “debt spiral” that traps some borrowers who fail to repay within the two-week term. But the weight of the evidence—including a 2012 study by Ronald Mann of Columbia Law School, cited in both versions of the CFPB rule—shows that most borrowers understand the risks.

The need for quick credit is broader than many admit. Like credit-card operators, the more than 12,000 payday lenders nationwide set fees at a level that allows them to sustain the model for all customers. The volume of payday loans has fallen by nearly 40% since 2007, mostly as a result of states tightening caps on monthly interest rates. But consumers keep showing up where the law permits.

Perhaps more than any agency outside the intelligence community, the CFPB has been a stage for struggle between Trump appointees and tenured staffers. A memo by a departing bureau economist that leaked in April described how midlevel employees fought to block management from rewriting the payday rule. These critics allege that Director Kathleen Kraninger and her predecessor, acting Director Mick Mulvaney, rushed the process and ignored analysis on the industry’s harms.

Yet the new final rule retains the economic research the bureau produced under Mr. Cordray. It also preserves stricter limits on how lenders can collect repayment. In revising the rule, Ms. Kraninger simply explains that consumers would suffer more from the elimination of lending businesses than they do from the fees. She has the final say over rules.

Progressives will no doubt take this fight to court. But the 2017 provisions to restrict lenders never took effect, so even a sympathetic judge should find it hard to rule that the rewrite harms consumers. Meanwhile, millions of Americans will be able to get the cash they need on short notice.

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