

## ***The Unintended Consequences of New Consumer Regulations on Higher Risk Borrowers***

As the Consumer Financial Protection Bureau (CFPB) considers new regulations for consumer debt collection, it is important that policy makers understand the potential consequences such regulatory proposals have on the consumer. Vulnerable consumers with greater credit risk are harmed most by new regulations. While new proposals are designed to protect the consumer, they also limit flexibility in debt collection practices, indicates the recent [study](#) conducted by Professor Todd Zywicki of the Mercatus Center at George Mason University.

The [study](#) also highlights the following:

*Higher risk consumers tend to be injured most by restrictions on collection practices.* It can appear that restrictions on collections benefit those consumers who are actually subject to the collection process. But that benefit comes at the expense of other consumers that have to pay more for credit and receive less access to credit. Because riskier borrowers are predicted to be the most likely to default, they will also bear a greater proportion of the cost of regulation than others. In addition, because restrictions on collections tend to adversely impact credit card lending relative to other types of lending, higher-income consumers will be able to avoid some of these negative effects by making greater use of secured debt (such as home equity lines of credit) whereas lower income users will be forced to turn to products such as payday lending and auto title loans.

*Regulation of particular debt collection practices can have unintended consequences for those subject to collection efforts:* Debt collection practices tend to follow a sliding scale of intensity, beginning with lower-expense practices such as letters and phone calls, and escalating to higher intensity practices such as lawsuits. Restricting the use of less-intense practices can interrupt this economic calculation, leading to swifter invocation of more intensive practices, such as lawsuits.

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