PROTECT CONSUMERS FROM PREDATORY, TRIPLE-DIGIT INTEREST RATE LOANS

H C L

High Cost Lending Advocacy Campaign

Pass the Bipartisan Veterans and Consumers Fair Credit Act (S. 2508/H.R 5974)

Congress should establish a simple, common sense limit on predatory lending by extending the Military Lending Act's 36% interest rate cap to veterans, Gold Star Families, unactivated reservists, and all Americans.

Interest rate caps are the most straightforward and effective way to protect consumers from the harms of usurious lending.

Interest rate caps have a long history. All major world religions oppose predatory lending, and rate caps have been around as early as the 1700 BCE Code of Hammurabi. In the United States, states have had the power to set rate caps since the American Revolution, and all thirteen original states had traditional usury limits.

The Military Lending Act, which institutes a rate cap on consumer loans for active-duty service members and their families, has curbed predatory lending for servicemembers. In 2004, before it took effect, 1,577 servicemembers sought help from the Navy-Marine Corps Relief Society to pay off predatory loans; by 2018 that number had dropped to 3.

Most states limit rates, but gaps remain. 45 states plus DC cap the interest rates of at least some installment loans, though loopholes and evasions make protection imperfect. 18 states and DC cap rates on short-term payday loans, but residents of the remaining 32 states are at the mercy of these unscrupulous lenders.

Predatory lenders target vulnerable consumers and trap families in cycles of debt.

Predatory lenders target vulnerable consumers, including veterans, senior citizens, low-income consumers, rural consumers, and communities of color, who have historically been excluded from mainstream financial services, and predatory lenders use that exclusion as a ticket to exploitation.

Research studies have consistently shown that payday lenders target communities of color, even controlling for income. Indeed, these lenders are more likely to locate in more affluent communities of color than in less affluent white communities. One study found that Black consumers are about twice as likely as white consumers to live within a mile of a payday lender. Predatory lending exacerbates existing inequities and, in particular, widens the racial wealth gap.

High-interest loans leave people worse off than before they took out the loan. Both payday and high-cost installment loans have high default and reborrowing rates, showing that the loans are unaffordable. For instance, 80% of payday loans are reborrowed every two weeks. High-cost installment loans can be an even bigger and deeper debt trap. Payments go heavily to interest, not repayment, allowing lenders to profit even if borrowers eventually default or if the loans lead to overdraft fees or inability to pay other expenses.

Veterans deserve better. The Military Lending Act (MLA) currently protects active-duty service members and their families; however, Gold Star Families, veterans, and unactivated reservists are not protected. These members of the military community are especially susceptible to the financial and mental health problems associated with predatory high-interest loans.

Check out the text of S. 2508/H.R. 5974 and current lists of sponsors of S. 2508/H.R. 5974

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Usury limits have overwhelming and bipartisan public support.

Polls consistently show that at least 70% of American voters, across partisan lines and regions, support capping rates at no higher than 36%.

Every ballot measure held on the subject in recent years has passed with broad support. Most recently Nebraska, with 83% of the vote, joined states such as Colorado, Montana, and South Dakota with ballot initiatives that capped rates at 36%.

For more information, visit:
StopTheDebtTrap.org

The Veterans and Consumers Fair Credit Act (VCFCA) would:

PREVENT hidden fees and loopholes. The 36% rate cap is based on the Pentagon's successful rules that include not just periodic interest but fees and add-ons. Loopholes in the Truth in Lending Act's annual percentage rate have undermined cost transparency and emboldened evasions.

MAINTAIN low industry compliance costs by simply expanding rules already in effect. Compliance costs for industry will be low because creditors already know how to comply with this rate cap for active-duty military and their families.

UPHOLD stronger state protections. 36% is a relatively high rate and is appropriate only for smaller loans and as an upper limit. Half of U.S. states, including Arkansas, Colorado, North Carolina, New Jersey, Montana, New York, West Virginia, and Wyoming, have interest rate caps lower than 36% for some loans, which will not be impacted because the bill allows for state law that provides greater protections to consumers. For larger loans, in particular, rates lower than 36% are appropriate.

COVER all lenders, including banks, preventing evasions. The vast majority of banks already keep rates below 36%. However, since banks are almost entirely exempt from state rate caps, some predatory lenders launder their loans through a few rogue banks so they can charge high rates in states where such loans from non-bank lenders are illegal. Congress needs to enact a national 36% rate cap on all lenders to protect consumers across the country.