Senator Jack Reed
Chairman, U.S. Senate Committee on Armed Services
U.S. Senate
Washington D.C. 20510

Senator Sherrod Brown
Chairman, U.S. Senate Committee on Banking, Housing, and Urban Affairs
U.S. Senate
Washington D.C. 20510

Senator Jeff Merkley
United States Senate
Washington, DC 20510

May 25, 2021

Re: Support for Veterans and Consumers Fair Credit Act

Dear Senators Reed, Brown, and Merkley,

Thank you for your leadership last Congress in supporting the Veterans and Consumers Fair Credit Act, which would extend the Military Lending Act's 36% interest rate cap on consumer loans to all Americans, including veterans, Gold Star Families, and unactivated reservists. The undersigned 69 civil rights, community, consumer, faith, housing, small business, and legal services organizations and individuals write to express our support for the legislation and to urge its swift passage in the 117th Congress to protect all consumers from predatory lending.

The Veterans and Consumers Fair Credit Act addresses the problems caused by unaffordable, predatory payday, auto-title, and similar forms of loans by:

- **Reestablishing a simple, common sense limit on predatory lending** by extending the Department of Defense's 36% interest rate cap to all Americans. This would reestablish usury laws effective in virtually every state throughout most of the twentieth century.

- **Preventing 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.

- **Maintaining low industry compliance costs from compromise rules already in effect**. Compliance costs for industry will be low because creditors *already* know how to comply for active-duty military and their families.

- **Upholding stronger state protections**. 36% is a relatively high rate and is appropriate only as an upper limit. States like Arkansas, Colorado, North Carolina, New Jersey, New York, and West Virginia already have strong interest rate caps lower than 36%, which will not be impacted because the bill does not preempt any provision of State law that provides greater protections to consumers. For larger loans, in particular, rates lower than 36% are appropriate.

Rate caps have long protected consumers from the harms of predatory lending. All major world religions oppose predatory lending, and rate caps actually originated in the 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 capping interest rates.

High-cost predatory loans trap families in cycles of debt. These loans are marketed as a fix to meet immediate or emergency needs. But the vast majority of payday loan borrowers are unable to repay these triple-digit interest rate loans under the original terms, forcing them to refinance these loans repeatedly. Even in normal times, more than 80% of payday loans go toward covering prior payday loans. High-cost installment loans can be an even bigger and deeper unaffordable debt trap, stretching out for years and often leading to abusive refinancing. With high-cost longer term loans, borrower 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. During the COVID-19 pandemic and economic crisis, lenders marketed themselves as "here to help" and offered to waive fees on new loans. But as a rule, their business model is to make matters worse, not provide affordable access to credit. Currently, 45 states plus DC cap the interest rates on longer term loans, but many laws have loopholes. Eighteen states and DC have interest rate caps that prevent short-term payday loans, but residents of the remaining 32 states are at the mercy of these predatory lenders.

Predatory lenders target vulnerable consumers, including veterans, senior citizens, low-income consumers, rural consumers, and communities of color. These consumers have historically been excluded from mainstream financial services, and predatory lenders see that as an opportunity to target these communities. Several research studies have shown that payday lenders target communities of color, even when accounting for income. For example, Black consumers are about twice as likely as white consumers to live within a mile of a payday lender. One study found that 45% of veterans in Texas had taken out a payday or auto title loan, in comparison to just 7% of adult Texans overall in the same year. Predatory, high-cost lending will not make up for past discrimination or help achieve financial inclusion; instead, it exacerbates existing inequities by leaving vulnerable consumers with greater access to predatory lending and pushing responsible products further out of reach.

Rate caps work and work well. The Military Lending Act protects active-duty service members and their families and currently caps interest rates on consumer loans. In 2004, before it took effect, 1577 servicemembers sought help from the Navy-Marine Corps Relief Society for paying off predatory loans; by 2010 that number had dropped to 10. Currently, only 18 states plus DC have interest rate caps that prevent short-term payday loans, which leaves the remaining 33 states at the mercy of predatory lenders.

Veterans deserve better. While the Military Lending Act (MLA) currently caps interest rates on loans to active-duty service members and their families, 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 payday loans. Predatory lenders target veterans and their families, using specialized marketing to appeal to members of the military. The protections that applied to veterans when they were active duty no longer apply, leaving them particularly exposed to financial exploitation.

Usury limits have overwhelming bi-partisan, public support. Amid the COVID-19 crisis, Americans have expressed strong support for consumer protection measures, including limitations on interest rates. A poll conducted in 2020 found 81% of voters in support of prohibiting high-interest loans across parties and regions, and 69% in support of a 36% rate cap. (Other research has demonstrated that many Americans would like to see an even lower limit on rates.) Further, every ballot measure held on the subject in recent years has passed with broad support, including most recently, in Nebraska with 83% of the vote, joining states like Colorado, South Dakota, Arizona, and Montana.

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

Thank you for your leadership and we look forward to working with you to pass the Veterans and Consumers Fair Credit Act.

Yours very truly,

Accountable.US
Americans for Financial Reform
Arizona PIRG
Arkansans Against Abusive Payday Lending
CALPIRG
Capital Good Fund
Catholic Conference of Illinois
Center for Economic Integrity
Center for Responsible Lending
Chicago Urban league
Christopher L. Peterson, John J. Flynn Endowed Professor of Law, University of Utah, S.J. Quinney College of Law
Colonel Paul E. Kantwill, USA (Ret.), Founding Executive Director, The Rule of Law Institute, Loyola University Chicago School of Law
Community Economic Development Association of MI (CEDAM)
ConnPIRG
Consumer Action
Consumer Federation of America
Consumer Reports
Consumers for Auto Reliability and Safety
CoPIRG

Credit Builders Alliance
Delaware Community Reinvestment Action Council, Inc.
Demos
Empire Justice Center
Florida PIRG
Georgia PIRG
Heartland Alliance
Illinois Asset Building Group
Illinois PIRG
Indiana Assets & Opportunities Network
Indiana PIRG
Iowa PIRG
Jesuit Social Research Institute
Main Street Alliance
Maryland Consumer Rights Coalition
Maryland PIRG
MASSPIRG
MontPIRG
MoPIRG
NAACP
National Association of Consumer Advocates
National Community Reinvestment Coalition
National Consumer Law Center (on behalf of its low income clients)
National Fair Housing Alliance
NCPIRG
New Jersey Citizen Action
NHPIRG
NJPIRG
NMPIRG
Ohio PIRG
Oregon PIRG (OSPIRG)
PennPIRG
PIRG in Michigan (PIRGIM)
Prosperity Indiana
Public Citizen
Public Counsel
Public Good Law Center
Public Justice
Public Law Center
RAISE Texas
RIPIRG
South Carolina Appleseed Legal Justice Center
Texas Appleseed
TexPIRG
Tzedek DC
U.S. PIRG

Virginia Citizens Consumer Council
Virginia Organizing
VOICE - OKC
WASHPIRG
WISPIRG
Woodstock Institute