Chairman Brown
Hearing on "Protecting Americans from Debt Traps by Extending the Military's 36% Interest Rate Cap to Everyone"
July 29, 2021

Fifteen years ago, this Committee held a hearing looking for solutions to protect members of the military and their families from abusive lenders that went out of their way to target servicemembers.

Then-Chairman Shelby described these practices as "predatory lending schemes . . . that target financially inexperienced consumers and make loans without regard to the consumers' ability to repay …."
Sen. Martinez of Florida described these high-interest loans as "unconscionable."

And Sen. Elizabeth Dole highlighted the efforts her home state of North Carolina had taken to shut down high-interest, payday lending.

Following that hearing, a bipartisan consensus emerged – and Congress passed the Military Lending Act, which President Bush signed into law in 2006.

That spurred action from members of both parties around the country – states of all sizes, in all regions passed laws protecting consumers from high-interest, predatory loans.

Since 2010, Montana, South Dakota, Colorado, Nebraska, California, and Illinois have all passed laws to cap interest rates on consumer loans at 36 percent.
And like the Military Lending Act, these state laws were passed with overwhelming bipartisan support:

- 72 percent of Montana voters,
- 75 percent of South Dakota voters,
- 77 percent of Colorado voters
- And 83 percent of Nebraska voters all supported ballot initiatives to cap interest rates at 36 percent in their states.

Of course the payday lobby didn't give up.

They've spent every day since then trying to come up with new schemes to evade these laws and exploit loopholes.

And they got an assist from the last administration.

Fortunately, a bipartisan group of Senators – including members from this Committee – worked to overturn that administration's giveaway to the payday lobby, the so-called true lender rule.

It would have allowed predatory lenders to evade state interest rate caps.

We put a stop to that specific scheme.

But we know this industry isn't going to give in – not when their profits depend on tricking Americans out of their money.

We need national protections.

Now is the time for this Committee to again lead the country, by passing a federal law establishing a 36 percent interest rate cap on all consumer loans.

That's why I, and so many of our colleagues, joined Senator Reed, Chair of the Senate Armed Services Committee, to introduce the Veterans and Consumers Fair Credit Act.

Our legislation builds on the success of the Military Lending Act, and extends its 36 percent cap to everyone—including to the veterans and surviving family members left out of the original law.

The Veterans and Consumers Fair Credit Act is supported by more than 100 consumer, community, and civil rights organizations, as well as military and veterans' service organizations.

The bill is also supported by a broad coalition of faith organizations, including:

- The Southern Baptist Ethics and Religious Liberty Commission;
- The National Association of Evangelicals;
- The National Baptist Convention;
- And the U.S. Conference of Catholic Bishops.

And like the Military Lending Act, it's bipartisan – our bill's lead sponsors in the House, Republican Glenn Grothman and Democrat Chuy Garcia, are both here to testify before this Committee today.

We know the tired arguments against the bill – they're the same ones we heard about the Military Lending Act.

During the 2006 Committee hearing, the payday industry claimed we would cut off access to credit to servicemembers.

That didn't happen.

According to a May 2021 Department of Defense Report to Congress, the Military Lending Act is "currently working as intended and . . . Service members continue to have ample access to necessary credit."

We'll hear those talking points again today, I'm sure, because that's all the lobbyists have.

It's an argument we welcome: Yes, we do want to cut off access to loans at interest rates so high that they ruin people's lives. That's the whole point.

Payday lenders don't offer access to responsible credit that consumers can afford to repay.

They offer the opposite: products that trap consumers in a cycle of debt.

We've all heard the same stories: Consumers end up renewing their loans over and over, and paying more in fees than the original loan amount.

We know that more than 75 percent of loans go to borrowers who take out 11 or more loans each year.

Yesterday I spoke with Ohioan Gloria Olivencia, a mother from Lorain.

She took out a payday loan to pay her bills, and ended up trapped in a cycle of debt.

She paid $1,200 in interest on a loan that was originally between $500 and $600.

She also shared the story of her daughter, who took out a $200 car title loan, and ended up living in fear that her car would be repossessed, and that she'd be unable to get to work to pay off the loan.

As she said: "it's easy to get a loan – it's not so easy to get out of it."

These Ohioans' experiences sound a lot like the business model laid out in this actual training manual, from payday lender ACE Cash Express.

Sure looks like a cycle of debt to me.

Another argument we hear from the payday lobby is that no one can be profitable offering loans at 36 percent interest.

Really? 36 percent is still pretty darn high, and will make any company plenty of money.

I'd ask my colleagues to think about their own credit cards or mortgages or loans they've taken out – I'm betting your rates were a whole lot lower than 36 percent.

Federal credit unions across the country offer payday alternative loans at rates between 18 and 28 percent. Some banks have begun to do the same.

Even the American Fintech Council supports our bill – their members offer short-term consumer loans at rates under 36 percent.

Fifteen years ago, Republicans on this Committee described high-interest payday loans as "predatory" and "unconscionable" when made to active duty servicemembers.

If these loans are "predatory" and "unconscionable" when made to servicemembers, then they're also predatory and unconscionable when made to anybody –

- to a veteran,
- to a surviving family member,
- or to a mother trying to get her car repaired so she can get to work.

Our Committee took bipartisan action to protect servicemembers.

I'm optimistic we can come together again to protect all the Americans we serve from debt traps.

I would like to enter into the records letters in support of the Veterans and Consumers Fair Credit Act from:

- Faith in Just Lending Coalition
- American Fintech Council
- Military and Veterans' service organizations
- And a coalition of 188 community, consumer, civil rights, labor, and small business organizations.