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Testimony of Representative Jesús G. “Chuy” García

Before the Senate Committee on Banking, Housing, and Urban Affairs hearing:
“Protecting Americans from Debt Traps by Extending the Military's 36% Interest
Rate Cap to Everyone”

Thursday, July 29, 2021

Good morning everyone, thank you for inviting me to speak here today. Special thanks to Chair Brown and Ranking Member Toomey for convening to discuss this important topic. And of course, thanks to all my fellow witnesses for testifying.

I applaud my colleagues in the Senate for introducing the Veterans and Consumers Fair Credit Act, and I look forward to reintroducing it in the House shortly.

Capping interest rates on consumer loans is important to me for a simple reason: my community needs it. I represent a working-class district in Chicago and suburban Cook County. My constituents are mostly Latino, and largely immigrants. They know all about the dangers of predatory lending.

Let me explain. Rents in my district have skyrocketed since the great recession. One neighborhood that I represent, Logan Square, has lost more than 10,000 black families and 20,000 Latino families since 2010. Wages simply aren't keeping up with the cost of living. All too often, working class families must turn to loans to fill the gaps. Families take out loans with double or triple-digit interest rates to pay for the necessities of life, and they quickly find themselves in a cycle of debt they can't repay.

That's what happened to Billie Aschmeller from Springfield, Illinois, who took out a loan for less than \$600 to buy a coat, crib, and car seat for her pregnant daughter, but ended up living in her car due to the 300% annual interest rate on the loan.¹

This is what we call debt traps-- loans that trap working class people in a cycle of debt. And these lenders focus on black and brown communities like mine. They know we're not paid what we're worth. They know we don't have as much access to credit.

This year a study in Houston found that payday and title-lending websites featured Latinos in more than 30% of their pictures, even though Latinos make up only 20% of their customers in Texas. Meanwhile, nearly 75% of mainstream banks did not feature a single picture of a Latino

¹ Editorial, “Hang tough, Illinois, and cap interest rates on payday loans at 36%,” *Chicago Sun-Times*, 5/7/2021, <https://chicago.suntimes.com/2021/3/7/22315829/hang-tough-illinois-cap-interest-rates-payday-loans-36-percent>

individual. That's a pretty stark difference; and the communities I represent need relief from these debt traps.²

The good news is: states are acting. I'm very proud that in my state of Illinois, Governor Pritzker signed an interest rate cap bill into law. This has been a key priority for my constituents as well as for consumer advocates, civil rights leaders, and religious organizations. It's already keeping people out of debt traps.³

And it's not a red/state blue state issue. Just last year, 82% of Nebraska voters passed a ballot measure to cap interest rates at 36%. They join states like Arkansas and South Dakota that put the interests of their citizens over the interests of predatory lenders.

It's an important step. And I'm proud that both the House and Senate passed my resolution to repeal the OCC's so-called "True Lender Rule" and allow states to protect their consumers. But we need a national standard that protects consumers across the country from getting trapped by mountains of debt they can't repay. It's time for Congress to act.

During the Obama administration the CFPB did great work to improve regulations around payday lenders. And I hope the Biden administration picks up where they left off. But only Congress has the power to step in and say: enough is enough. Our communities are suffocated by double- and triple-digit interest rates-- it holds us back from prosperity and a full economic recovery. The time is now to act.

Before Congress passed the Military Lending Act in 2006, lenders trapped servicemembers in cycles of debt while they served our country. It's a shame it took so long to protect our men and women in uniform from triple digit interest rates. But Congress capped those loans at 36%-- it worked, and it provided us with a robust model for regulating consumer loans. It's time to extend those same protections to veterans, servicemembers' families, and other consumers.

I applaud Senators Brown and Reed for introducing the Veterans and Consumers Fair Credit Act. I look forward to introducing it in the House.

Let's protect our communities from these high interest loans.

² David Lazarus, "Column: There's a racial gap in marketing by banks and payday lenders, study finds," *Los Angeles Times*, 4/9/2021, <https://www.latimes.com/business/story/2021-04-09/racist-marketing-banks-payday-lenders>

³ "Will Illinois borrowers find predatory loan alternatives? They already are, says Capital Good Fund's Posner," *Woodstock Institute*, 7/23/2021, <https://woodstockinst.org/news/blog/will-il-borrowers-find-predatory-loan-alternatives/>