



**Testimony of the Honorable Glenn Grothman, United States House of Representatives,  
before the United States Senate Committee on Banking, Housing, and Urban Affairs on  
Protecting Americans from Debt Traps by Extending the Military's 36% Interest Rate Cap  
to Everyone**

July 29, 2021

Chairman Brown, Ranking Member Toomey, and distinguished Members of the Committee,

Thank you for inviting me to testify today in support of extending the Military Lending Act's 36 percent rate cap to all consumers. The history of usury prohibitions dates back to Biblical times. In the United States, it has been very common for individual states to put caps on interest.

It is hard to imagine a situation in which it is advisable to take out a loan greater than 36 percent. While I normally do not like the federal government regulating business, the fact that so many loans are provided online today leaves the federal government no choice but to act on this issue.

I am sure you will be contacted by lobbyists for the payday loan industry. They will tell you that they provide a necessary service. Congress passed the Military Lending Act in 2006. I am not aware of any problems with loan sharks abusing servicemembers because of the cap or military members unable to buy necessary goods. Currently, 18 states and the District of Columbia have rate caps.<sup>1</sup> They seem to get along just fine. Maybe this is why when Nebraska became the 17th state to adopt a rate cap in November 2020, it was passed by referendum with 83 percent support.<sup>2</sup> There are Libertarians who believe "let the buyer beware." But the government regulates all sorts of transactions including insurance contracts, offers to purchase, and annuities. These are examples of legal documents that are regulated to prevent consumers from entering into foolish contracts.

In 2016, 76 percent of voters in the state of South Dakota supported lowering rates on payday loans, car-title loans, and other costly loans.<sup>3</sup> Within the first two years of the rate cap, the number of unsecured and Payday Alternative Loans in the state rose by 11 percent, suggesting

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<sup>1</sup> Annie Millerbernd, "More states pushing interest rate caps on payday loans," July 27, 2021, <https://www.syracuse.com/business/2021/07/more-states-pushing-interest-rate-caps-on-payday-loans.html>.

<sup>2</sup> Megan Leonhardt, "Nebraska becomes the latest state to cap payday loan interest rates," July 27, 2021, <https://www.cnbc.com/2020/11/04/nebraska-becomes-the-latest-state-to-cap-payday-loan-interest-rates.html>.

<sup>3</sup> Charla Rios, Diane Standaert, and Yasmin Farahi, "The Sky Doesn't Fall: Life After Payday Lending in South Dakota," July 27, 2021, [https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-the-sky-doesnt-fall-jan2020\\_1.pdf](https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-the-sky-doesnt-fall-jan2020_1.pdf).

these borrowers do, in fact, have access to credit that is not attached to a predatory lender's pockets.<sup>4</sup> The Center for Responsible Lending predicts the rate cap in South Dakota will save their people over \$81 million per year in interest and fees.<sup>5</sup>

Throughout my time in the Wisconsin legislature and now in Congress, I have been told borrowers typically take out these loans for a one-time emergency. But in reality, the data suggests these loans are taken out for ongoing issues. In 2012, the PEW Charitable Trusts released a report titled, "Payday Lending in America: Who Borrows, Where They Borrow, and Why." They asked "who borrowers are demographically; how people borrow; how much they spend; why they use payday loans; what other options they have; and whether state regulations reduce borrowing or simply drive borrowers online."<sup>6</sup>

I think their findings may be eye-opening to some of you. In their report, PEW provided these key findings:

### **1. Who Uses Payday Loans?**

- 12 million Americans use payday loans annually.
- On average, a borrower takes out eight loans of \$375 each per year and spends \$520 on interest.
- Most payday loan borrowers are white, female, and 25-44 years old.
- 8 percent of home renters earning \$40,000 to \$100,000 have used payday loans, compared with 6 percent of homeowners earning \$15,000 to \$40,000.

### **2. Why Do Borrowers Use Payday Loans?**

- 69 percent used it to cover a recurring expense, such as utilities, credit card bills, rent or mortgage payments, or food.
- 16 percent dealt with an unexpected expense, such as a car repair or emergency medical expense.

### **3. Does Payday Lending Regulation Affect Usage?**

- In states that enact strong legal protections, the result is a large net decrease in payday loan usage; borrowers are not driven to seek payday loans online or from other sources.<sup>7</sup>

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<sup>5</sup> Charla Rios, Diane Standaert, and Yasmin Farahi, "The Sky Doesn't Fall: Life After Payday Lending in South Dakota," July 27, 2021, [https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-the-sky-doesnt-fall-jan2020\\_1.pdf](https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-the-sky-doesnt-fall-jan2020_1.pdf).

<sup>6</sup> "Payday Lending in America: Who Borrows, Where They Borrow, and Why," July 27, 2021, <https://www.pewtrusts.org/en/research-and-analysis/reports/2012/07/19/who-borrows-where-they-borrow-and-why>.

<sup>7</sup> "Payday Lending in America: Who Borrows, Where They Borrow, and Why," July 27, 2021, <https://www.pewtrusts.org/en/research-and-analysis/reports/2012/07/19/who-borrows-where-they-borrow-and-why>.

- 2.9 percent of adults reported payday loan usage in states with the most stringent regulations, compared with 6.3 percent in moderately regulated states and 6.6 percent in states with the least regulation.<sup>8</sup>

I will leave you with this interesting anecdote. I am always reminded of my days as a state legislator when this issue comes up. One of my staffers doing research on this topic visited a payday loan store in Wisconsin. She was told by an employee, “Don’t tell your husband. It’s really not a very good deal.”

Thank you again for holding this important hearing today. I look forward to seeing the Senate advance legislation to cap rates and I urge my colleagues in the House to support this endeavor.

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<sup>8</sup> “Payday Lending in America: Who Borrows, Where They Borrow, and Why,” July 27, 2021, <https://www.pewtrusts.org/en/research-and-analysis/reports/2012/07/19/who-borrows-where-they-borrow-and-why>.