

Statement by

Congressman Barry Loudermilk (GA-11)

before the

U.S. Senate Committee on Banking, Housing, and Urban Affairs

Hearing titled: “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 members of the committee, thank you for the opportunity to testify today.

My district is in northwest Georgia and is a snapshot of all different types of American life: urban and rural, high income and low income, families who have been in Georgia for five generations and immigrants who have just arrived in America for the first time. I am here to tell you that a national 36% interest rate cap would be devastating to my constituents and would harm the very people it is intended to help.

We often hear that a 36% interest rate cap would cause short term, small dollar consumer loans to disappear. That is not a hypothetical— that is reality. To break even on a \$2,600 loan, factoring in losses and the costs of producing the loan, lenders have to charge a 36% APR.¹ In other words, if the maximum APR is 36%, lenders will experience a net loss on loans under \$2,600 because the break-even APR for those loans is more than 36%. This would have wide ranging consequences, none of which are good for consumers. Many lenders simply would not offer small loans anymore, or consumers would be forced to borrow more money than they need or have a longer term loan to get the APR under 36%. This theory has been proven correct in practice. When the state of Oregon established an interest rate cap in 2007, access to credit decreased dramatically, borrowers switched to inferior alternatives, and consumers on average were financially harmed more than they were helped.²

There is no question that consumers have significant need for small dollar credit. Current Federal Reserve data indicates that more than one third of American adults would not be able to pay for a \$400 emergency expense without having to borrow money,³ and tens of millions of Americans do not qualify for traditional bank loans.

A 36% interest rate may sound high, but that is because the annual percentage rate is an inappropriate and misleading way to measure the cost of a short term loan. The terms of these loans are usually much less than a year— so measuring the cost in annual increments is like saying a \$100 a night hotel room is actually a \$36,500 a year hotel room.

Take for example a \$500 loan with a term of three months and a \$55 fee. That results in a 44% APR,⁴ and under this bill, that loan would be illegal nationwide. Furthermore, the military APR

¹ <https://www.mercatus.org/system/files/mercatus-durkin-installment-cash-lending-v1.pdf>

² https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1335438

³ <https://www.federalreserve.gov/consumerscommunities/sheddataviz/unexpectedexpenses.html>

⁴ <https://bpi.com/what-is-the-break-even-cost-of-small-dollar-loans>

includes both interest and fees, which overstates and distorts the true cost. Under a 36% “all in” rate cap, credit cards with interest rates as low as 25% would be impacted, which risks eliminating access to credit cards for more than a quarter of subprime borrowers in Georgia⁵ and half of subprime borrowers nationwide.⁶

What do Americans frequently use small dollar installment loans to pay for? Funerals, weddings, emergency car repairs, and medical bills. Who are we to tell our constituents that they can no longer access credit to cover those expenses?

I should also take a moment to dispel the commonly stated myth that opposition to a national interest rate cap is rooted in a desire to protect payday lenders. Georgia has an outright ban on payday lending,⁷ so that has nothing to do with my opposition to this bill. Instead, my constituents have been fortunate to access affordable personal loans thanks to the growth of bank-fintech partnerships and nationwide online lending programs. But if this bill becomes law, my constituents will not have access to installment loans or any other type of short term, small dollar credit.

Finally, it is incredibly ironic that the majority is attempting to override state laws with this bill. Just a few weeks ago, they described the OCC true lender rule as “a shameful attack on states’ ability” to determine their own policies.⁸ It is disappointing to see my colleagues selectively pick and choose when they think state laws matter and when they do not. The states, the CFPB, and multiple other agencies regulate these loans rigorously, and there is no justification for legislating them out of existence.

Thank you again for the opportunity to testify, and I yield back.

⁵ <https://www.aba.com/-/media/documents/extranet/cpc/cpc-rate-caps-georgia-factsheet.pdf>

⁶ <https://www.aba.com/-/media/documents/extranet/cpc/cpc-rate-caps-georgia-factsheet.pdf>

⁷ <https://www.ncsl.org/research/financial-services-and-commerce/payday-lending-state-statutes.aspx>

⁸ <https://www.vanhollen.senate.gov/news/press-releases/van-hollen-brown-garcia-announce-congressional-review-act-legislation-to-repeal-trump-era-rent-a-bank-rule>