May 7, 2009

The Honorable Barack H. Obama
President
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear President Obama:

As American families struggle to make ends meet in the current troubled economy, the astronomical rates that many creditors charge are draining scarce borrower resources, trapping them in unaffordable debt, and diverting public funds meant to stimulate the economy into payments for unproductive debt. We hope you can work with the undersigned consumer, community and faith-based groups to curtail the outlandish interest rates for small loans that some lenders are charging consumers who are struggling to make ends meet.

We urge your active support for the **"Protecting Consumers from Unreasonable Credit Rates Act"** (S. 500, Durbin and H.R. 1608, Speier) to implement a key part of the Obama-Biden Plan issued at the start of your Administration to revitalize the economy. By limiting the total cost of consumer credit to 36 percent per year per loan, we can keep billions of dollars in the hands of low and moderate-income consumers, helping to stimulate the economy without costing taxpayers a penny.

Many protections that once curbed abusive lending practices in America have been shredded, and some consumers are paying astronomical rates for credit, especially those who have the fewest resources. The ability of states to enact meaningful reforms on high-cost bank products has been severely restricted as a result of federal preemption. Banks are now permitted to locate in a state without consumer protections and then engage in unregulated lending in the other forty-nine states, which are powerless to protect their citizens against high-cost credit cards, bank overdraft loans, and tax refund anticipation loans.

Payday and car title lenders have won safe harbor status in many states, with lenders permitted to charge triple-digit rates and put key family assets at risk. Just a few of these high-cost credit products include:

- Tax refund anticipation loans cost 50 to 500 percent APR and drain $900 million from borrowers' Earned Income Tax Credits and expected tax refunds from the working poor. Banks making these loans include HSBC, JPMorganChase, Republic Bank & Trust, and Santa Barbara Bank & Trust.
- Bank overdraft loans permit borrowers to overdraw their accounts without the borrower's permission and then cost $35 per transaction. Most banks provide overdraft loans, which are their most expensive credit product, without the

affirmative consent of consumers. Banks collect at least $17.5 billion annually for extending less than $16 billion in overdraft credit. The FDIC reports that a typical debit of $20 on a debit card would cost 3,520 percent APR as an overdraft loan if it is not repaid for two weeks.

- Payday loans typically cost 400 percent APR or more and trap families in repeat borrowing at a cost of $5.5 billion in payday loan store revenue in 2008. These loans undermine family financial welfare, and increase the likelihood borrowers will file for bankruptcy, fall behind on credit card payments, and eventually have their bank accounts closed involuntarily.
- Car title loans, which are legal in fewer than half the states, can cost 300 percent APR and often result in repossessions and loss of family transportation.
- Direct deposit loans (made by US Bank, Wells Fargo and Fifth Third Bank) cost 120 percent APR if the advance is outstanding an entire month. If these cash advances last just a week before the direct deposit of a paycheck or Social Security repays the loan, the cost if computed like a payday loan is 520 percent APR.

In 2006, Congress enacted a 36 percent inclusive rate cap to protect active duty Service members and their families from outrageously expensive credit that harmed the financial security of families and the military security of our nation. The Durbin/Speier bills will extend that same rate cap to all Americans. While high, a 36 percent annual rate cap permits responsibly priced loans to be extended to consumers with less-than-perfect credit while closing the door on abusive lending that undermines the economic stability of low and moderate income families.

We urge your strong support for enacting an effective federal usury cap.

Sincerely,

Jean Ann Fox
Consumer Federation of America

Lauren Saunders
National Consumer Law Center, on
behalf of its low income clients

Edmund Mierzwinski
U.S. Public Interest Research Group

Michael Calhoun
Center for Responsible Lending

Pam Banks
Consumers Union

Ira Rheingold
National Association of Consumer Advocates

John Taylor
National Community Reinvestment Coalition

Bertha Lewis
ACORN

Linda Sherry
Consumer Action

Jim Campen
Americans for Fairness in Lending (AFFIL)

Jonathan Njus
National Community Tax Coalition

Pedro de la Torre III
Campus Progress Action

Dory Rand
Woodstock Institute

Karen Harris
Sargent Shriver National Center on Poverty Law

Thomas Geoghegan
Attorney and Author

Rosemary Shahan
Consumers for Auto Reliability and Safety

Irene E. Leech
Virginia Citizens Consumer Council

Bill Newton
Florida Consumer Action Network

Beth Givens
Privacy Rights Clearinghouse

Bill Jordan
New Mexico Voices for Children

Richard Seckel
Kentucky Equal Justice Center

Michael D. Kinkley
Consumer Attorney, Oregon

Dana Wiggins
Virginia Partnership to Encourage Responsible Lending

David Rothstein
Policy Matters Ohio

H. C. "Hank" Klein
Arkansans Against Abusive Payday Lending

Dr. Terry Brooks
Kentucky Youth Advocates

Lynn Drysdale
Jacksonville (FL) Area Legal Aid, Inc.

Michael Shames
Utility Consumers' Action Network (CA)

Lynda DeLaforgue and William McNary
Citizen Action Illinois
Monsignor John Egan Campaign for Payday Loan Reform

Suzanne Strassberger
Metropolitan Family Services, Chicago

Neil Fogarty
Consumers League of New Jersey

Deirdre Cummings
MASSPIRG

Jay Speer
Virginia Poverty Law Center

Walt Dartland
Consumer Federation of the Southeast (FL)

Corky Neal
Memphis Responsible Lending Collaborative (TN)

Peter Skillern
Community Reinvestment Association-North Carolina

Dan McCurry
Chicago Consumer Coalition

Michael DeStefano
El Valor Corporation

Rev. Alexander Sharp
Protestants for the Common Good (IL)

Diane E. Brown
Arizona PIRG

Charles Shafer
Maryland Consumer Rights Coalition

Victor Elias
Child and Family Policy Center
Coalition Against Abusive Lending (IA)

Stephen Conn
Alaska advocate

Michael H. Lane and Ward D. Scull III
Virginians Against Payday Loans

Richard Holober
Consumer Federation of California

Linda Hilton
Coalition of Religious Communities (UT)

Wayne Hungerford
United Autoworkers Region 4 Community Services (IL)

Karen Uhlich
Southwest Center for Economic Integrity

Rose Mary Meyer
Project IRENE (IL)

Phyllis Rowe
Arizona Consumers Council

Liana Molina
California Reinvestment Coalition

Carol McCullough
Coalition for Responsible Lending in Tennessee

CC: Senator Christopher J. Dodd
Senator Richard J. Durbin
Senator Richard C. Shelby
Representative Jackie Speier
Representative Barney Frank
Representative Spencer Bachus