Press Release from
Center for Responsible Lending
Consumer Federation of America
National Consumer Law Center

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# Senator Durbin introduces quick fix for predatory consumer lending

## 36 percent cap ends out-of-control 400 percent rates

Washington, DC - As a flood of high-cost and reckless lending saturates our nation, Senator Richard Durbin (D-IL) took a crucial and targeted step to clean up abusive consumer lending yesterday by introducing a 36 percent cap on annual interest, a move that will save America's working middle class billions of dollars.

Predatory payday lending strips $4.2 billion per year from cash-strapped families by trapping customers in 400 percent interest loans they can't afford to pay off. While the mortgage crisis continues to worsen, a non-controversial fix would put payday and other predatory lenders out of business in one simple step, capping consumer loans at 36 percent interest. This stops payday lenders' 400 percent debt cycle, triple-digit refund anticipation loans, and high-cost car title lending, which puts the vehicles of low-income borrowers at risk. At the same time, it protects lenders from unfair competition who play by the rules and make responsible loans that actually benefit customers.

"With the economic downturn weighing heavily on families and threatening their financial security, we have for too long neglected to take this simple step," said Kathleen Keest, senior policy counsel with the Center for Responsible Lending. "This is a fix we can all agree on whether we are concerned about repairing this broken economy or protecting the opportunity for struggling families to hold on to their middle class status. It will bring quick relief from the legal loan sharks that plague our neighborhoods all across the country."

"The Pentagon saw the problem years ago and asked Congress to pass a 36 percent cap to protect our military families, who were targeted by high cost lenders that undermined readiness and damaged military family finances," said Jean Ann Fox, Director of Financial Services for the Consumer Federation of America. "Congress did. It's time we gave all our citizens the same respect and end the access of predatory lenders to the wallets and assets of hardworking Americans."

A push to wipe out predatory consumer lending is sweeping across the country. Fifteen states and the District of Columbia have controlled predatory payday lending by enforcing interest rate caps at or around 36 percent. The Durbin bill would extend this level of protection to all states, while allowing individual states such as Ohio, which recently passed a 28 percent cap, the room to pass laws that are even more protective of families.

States that have accepted other measures from the industry, measures that are purported to reform the practice, still have some of the worst rates of loan flipping. This is what happens when a family who cannot repay in full their average $300 payday loan at the end of two weeks are forced to take out a new loan and pay a new fee to pay off the old loan. These putative reforms have been unsuccessful in stopping the payday lending debt trap. Nationally, payday borrowers have an average of eight to nine loans per year, paying more in interest than what they originally borrowed.

"Around the country, people of all stripes understand that no one should be allowed to charge more than 36 percent," said Lauren Saunders, managing attorney with the National Consumer Law Center. "That message has not gotten through to lawmakers. Sen. Durbin's bill would change that, and enact a common sense limit to predatory lending."

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