September 1, 2026

Chairman French Hill
Ranking Member Maxine Waters
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Honorable Chair Hill and Ranking Member Waters:

The Consumer Federation of America strongly opposes H.R. 7866, the American Lending Fairness Act, which would restrict states' ability to control loan interest rates set by out-of-state banks within their borders.

Section 521 of the Depository Institutions Deregulatory Monetary Control Act (DIDMCA) outlined new powers for out-of-state state-chartered banks to make loans at rates higher than state rates and to export their home-state interest-rate rules.[1] However, recognizing that the new law would curb important and long-standing authorities of states to regulate interest rates on loans made in their states, Congress added Section 525 of the DIDMCA to allow states, through the passage of a law or referendum, to opt out of Section 521 "with respect to loans made in such State."

To date, a handful of states have passed laws to activate this privilege. Iowa and Puerto Rico opted out in the 1980s. Colorado followed suit in 2024. Earlier this year, Oregon enacted a law to opt out. Section 525 matters for (at least) two reasons: first, it affirms states' right to control lending, and second, it is a critical tool to protect households' financial stability.

In June, CFA assembled a coalition of advocates from 34 states to highlight the urgent need to protect consumers from high-cost loans and debt traps. Because HR 7866 would strip states of their ability to protect their residents from such loans, our coalition asked elected officials to vote against this legislation. This belief has not changed. States should have the right to protect their residents from damaging credit. Legislation that denies this right is inherently harmful.

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[1] 12 U.S.C. §1831d

Empirical research puts to rest the view that consumers will be harmed without access to high-cost credit. The experience in North Carolina, where interest rate caps put permanently in place in 2001 effectively shuttered the payday lending industry, highlights the actual impact of state interest rate caps.[2] In 1999, payday lenders originated 2.9 million payday loans, for over $500 million, and received $80 million in fees.[3] In 2005, the North Carolina Commissioner of Banks found that a rent-a-bank arrangement violated the state's Consumer Finance Act, which capped loans at rates well below prevailing payday loan interest. The Commission moved to make permanent a temporary law that had effectively banned payday lending.[4]

To understand the policy change's effect on consumer financial health, researchers surveyed former borrowers. They found North Carolinians were not crossing into Virginia or South Carolina, where payday lending remained legal, or contacting internet lenders to access high-cost payday credit. In interviews with former payday loan borrowers, the researchers heard that consumers found other options to meet short-term liquidity needs, such as borrowing from friends and family, their church, employers, or other credit sources. Others opted not to use credit. Some went to banks and credit unions for short-term credit at rates below North Carolina's interest rate limits. More than 3 out of 4 respondents said they were better off without payday loans - and those findings were consistent regardless of the respondent's liquidity.[5]

The North Carolina experience is consistent with the broader story: consumers are better off without the threat of high-cost loans, and states serve the public interest when they make payday loans illegal. The research mentioned earlier highlighted how consumers found alternatives to borrowing after payday lending was extinguished in North Carolina. Other research highlights the impact these prohibitions have on households' financial health. When payday lending is outlawed, former payday loan borrowers:

…pay fewer overdraft and non-sufficient funds fees.
…are less likely to struggle to pay bills or cover their mortgage payments.[6]
…are more likely to increase balances in their savings accounts.[7]

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[2] Scott A. Hefner, Payday Lending in North Carolina: Now You See It, Now You Don't, 11 N.C. BANKING INST. 263 (2007). https://scholarship.law.unc.edu/ncbi/vol11/iss1/11
[3] Michael A. Stegman, The Public Policy Challenges of Payday Lending, 66 POPULAR GOV'T 16 (2001) http://www.kenan-flagler.unc.edu/assets/documents/CCpaydayLending.pdf.
[4] In re Advance Am., Cash Advance Centers of N.C., Inc., No. 05:008:CF, 53-54 (Comm'r of Banks, Dec. 22, 2005) (order), available at http://www.nccob.org/NR/rdonlyres/AF33D27C-2D74-40D5-88BE-E701BO31DDB4/0/43_AANCFINALORDER122205.pdf.
[5] Center for Community Capital. (2007). *North Carolina consumers after payday lending: Attitudes and experiences with credit options*. University of North Carolina. https://digital.ncdcr.gov/Documents/Detail/north-carolina-consumers-after-payday-lending-attitudes-and-experiences-with-credit-options/2601136
[6] McKee, E., Solis, O., & Zhang, W. (2025). Can payday loan bans and financial literacy benefit consumers? *Finance Research Letters*, *79*, 107326. https://doi.org/10.1016/j.frl.2025.107326
[7] Covington, Meredith, and Jennifer Johnson, Into the Light: A Survey of Arkansas Borrowers Seven Years after State Supreme Court Bans Usury Payday Lending Rates, Southern Bancorp Community Partners, April 2016. http://southernpartners.org/assets/sbcp_policy-points-vol-43-payday-lending_20160628.pdf

Since our country's founding, states have established usury laws to protect residents from these damaging services.[8] In practice, high-cost credit strips struggling households of the ability to afford the goods and services they need to make ends meet. For these reasons, the Consumer Federation of America urges members of Congress to vote against the American Lending Fairness Act.

Sincerely,

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[8] Peterson, Christopher L., "Warning: Predatory Lender" -- A Proposal for Candid Predatory Small Loan Ordinances, 69 Wash. & Lee L. Rev. 893, 899 (2012).