HCL

High Cost Lending Lobby Campaign

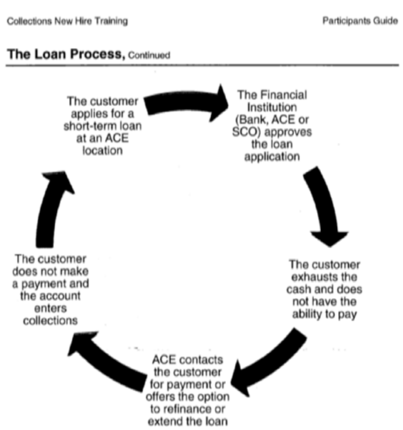
VETERANS AND CONSUMERS FAIR CREDIT ACT (VCFCA)
H.R. 5050/ S. 2833

The bipartisan Veterans and Consumers Fair Credit Act extends the Military Lending Act's 36% interest rate cap on consumer loans to all Americans, including Veterans and Gold Star Families.

Americans are suffering from high-cost, predatory loans. Payday loans and similar forms of high-cost credit force too many people into spiraling debt that destabilizes families and ruins futures. The COVID-19 pandemic and economic crisis have exacerbated an already difficult situation. Families saddled with high-cost, payday, car-title, and installment loans can find themselves unable to afford basic living expenses, are subject to vehicle repossessions, abusive debt collections, high bank fees, bank account closures, bankruptcy, and face harmful health effects including high blood pressure, anxiety, depression, and even suicide. At a time when big banks and corporations are getting nearly free credit from the Federal Reserve and new government programs are protecting some businesses, consumers and their families remain at the mercy of predatory lending and these high rates are particularly unfair.

High-cost predatory loans trap families in cycles of debt. In many states, consumers can take out loans, marketed as a short-term fix to meet immediate or emergency needs. Yet these loans carry triple-digit interest rates and the vast majority of borrowers are unable to repay the loan under the original terms. Borrowers are forced to renew these loans—stacking debt atop of debt—leaving them worse off than before taking the loan. Even in normal times, more than 80% of payday loans go toward covering prior payday loans. We can expect that this cruel cycle would inflict more misery under the pressure of the current financial crisis.

Veterans deserve better. While the Military Lending Act (MLA) currently caps interest rates on loans to active duty service members and their families, Veterans and Gold Star Families are not protected. These members of the military community are especially susceptible to the financial and mental health problems associated with predatory payday loans. Predatory lenders target Veterans and their families, using specialized marketing to appeal to members of the military. The protections that applied to Veterans when they were active duty no longer apply, leaving them particularly exposed to financial exploitation.



Predatory lenders are eyeing the pandemic as an opportunity. Payday lenders have often been called "legalized loan sharks," and they started circling consumers the moment it was clear the country was facing an economic crisis. During the pandemic, these lenders have been sending out emails marketing themselves as "here to help" and offering to waive fees on new loans. But as a rule, their business model is to trap borrowers in a cycle of debt. Now they want to profit from widespread misery, weighing people down with extra, lasting financial burdens. Payday lenders are sending advertisements to consumers with promises that they have the solution to mounting bills. But that solution is more of the same: catching people when they are the most vulnerable and trapping them in expensive loans.

Rate caps work, work well, and preserve economic freedom: All thirteen original states had traditional usury limits capping interest rates. The founders of the Republic including Washington, Hamilton, Jefferson, and Franklin all believed interest rate caps protect human liberty because they prevent citizens from becoming ensnared in debt traps. The Military Lending Act protects active duty service members and their families and currently caps interest rates on consumer loans. In 2007, the year before it took effect, 700 members sought help from the Navy-Marine Corps Relief Society for paying off predatory loans; a year later, that number dropped to 81. Currently, only sixteen states plus DC have interest rate caps that prevent short-term payday loans, so Veterans, Gold Star families, and the rest of us in the remaining 34 states are at the mercy of predatory lenders.

Usury and faith. All major world religions oppose predatory lending. For example, over a dozen passages in the Bible condemn usurious lending.

Usury limits have overwhelming bi-partisan, public support. Amid the COVID-19 crisis, Americans have expressed strong consumer protection measures, including limitations on interest rates. A poll conducted this spring found 81% support for prohibiting high-interest loans across parties and regions, and 69% support for a 36% rate cap. (Other research has demonstrated that many Americans would like to see an even lower limit on rates.) When contrasted with the cheap credit going to corporations during the pandemic, three-quarters of adults support rate caps. Further, every ballot measure held on the subject in recent years has passed with broad support, including a ballot measure in South Dakota in 2016 which was supported by more than 75% of voters.

The *Veterans and Consumers Fair Credit Act* would eliminate high-cost, predatory payday loans, auto-title loans, and similar forms of toxic credit across America by:

- Reestablishing a simple, common sense limit on predatory lending. The bill would extend the Department of Defense's 36% interest rate cap to all Americans. This would simply reestablish usury laws that were in force in virtually every state throughout most of the twentieth century.
- Preventing hidden fees and loopholes. The 36% rate cap is based on the Pentagon's successful rules that include all additional fees or add-ons. A federal law is necessary to stop evasions and protect all Americans.
- Preserving options to address budgetary shortfalls. The Department of Defense's approach is time-tested and proven. Active duty service members are still able to make ends meet including through non-credit means, such as payment plans with utilities, and with credit from banks, credit unions, finance companies, fintech companies, and retailers.
- Maintaining low industry compliance costs from compromise rules already in effect. Compliance costs for industry will be low because creditors should *already* know how to comply for active duty military and their families.
- Upholding stronger state protections. States like Arkansas, South Dakota, North Carolina, New Hampshire, New York, and Montana already have strong interest rate caps. Existing laws will not be impacted because the bill does not preempt any provision of State law that provides greater protections to consumers

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