Consumer Federation of America

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Comments to Massachusetts Premium Finance Board from Consumer Federation of America in Support of Lower Interest Rate Cap

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Consumer Federation of America (CFA) is an association of more than 250 national, state, and local non-profit consumer organizations that was founded in 1968 to advance the consumer interest through advocacy, research, and education. CFA appreciates the opportunity to submit comments to the Massachusetts Premium Finance Board in support of amending Code of Massachusetts Regulations Title 955 CMR 2.00 to lower the permissible interest rate cap. We have fought for years to ensure that lenders treat consumers fairly. We urge the Board to take stronger action to protect consumers and ensure they are not subject to excessive interest rates.

The Massachusetts Premium Finance Board regulates rates and changes related to insurance premium finance, and has authority over premium financing contracts used for personal, family, or household purposes. This includes auto and homeowners' insurance. The Board's responsibility is to ensure that insurance rates are equitable, nondiscriminatory, and not excessive. The Board's code states that "the charge for interest on an insurance premium finance agreement shall not be in excess of 18% per annum of the unpaid balances of the amount financed calculated according to the actuarial method plus an administrative fee of $16.00 upon the granting of the credit."[1]

This upper limit was set in 1984, when financing rates were significantly higher. At that time, the Prime Rate—the underlying index for most credit cards, home equity loans, lines of credit, auto loans, and personal loans, and a measure of an interest rate benchmark for various types of loan products—was between 11-13%.[2] Over the years, the Prime Rate has declined to its current

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[1] Code of Massachusetts Regulations Title 955 CMR 2.00. Available at https://www.mass.gov/doc/955-cmr-2-the-financing-of-insurance-premiums/download.

[2] Minutes of the February Meeting of the Massachusetts Premium Finance Board. February 13, 2020. Available at https://www.mass.gov/doc/public-meeting-notice-premium-finance-board-february-13-2020-meeting-minutes-pdf/download.

position of under 5%. Moreover, the Board has changed the rate ceiling in the past to mirror the Prime Rate. In 1982, the cap was 23% before it was lowered to its current position.

Insurance is a necessity for most consumers. The vast majority of Americans need a car in order to have reliable and convenient transportation so they can commute to work, purchase groceries and other products, and generally move around. Studies have shown that consumers without access to cars often lose out on employment and educational opportunities, as well as access to health care.[3] Yet in order to legally drive, consumers must have auto insurance, which is frequently expensive. Automobiles are also expensive to the point where consumers must take out loans or pay for them in installments in order to afford them.

As a result, numerous consumers have to resort to premium financing—borrowing funds from a third party to cover the cost of a policy and paying it back in installments. These consumers must pay the premium as well as interest and fees accrued during the payback period, which are subject to the 18% interest rate ceiling plus administrative fee. The 18% interest rate ceiling is far higher than the current Prime Rate, and consumers can owe even more annually than the allowable interest due to the addition of the administrative fee. Many consumers live paycheck to paycheck[4] and can fall into debt traps if they are unable to keep up with the payment of their premium plus excessive interest and fees. Consumers may even be forced to take out additional loans to pay for their car insurance, a necessity for many, which creates a cycle of growing debt. In some cases, they can end up owing far more than they originally borrowed, and struggle to pay for housing, utilities, or other basic needs due to the cost of their loans. Allowing high interest rates on these insurance policies puts an unnecessary financial burden on Massachusetts consumers that can lead to these harmful outcomes.

The Board must also take into consideration the current economic circumstances. A great many Americans have lost their jobs, had their hours cut, or experienced a decline in income due to the COVID-19 pandemic and its economic impact. As a result many consumers have fallen behind on their payments and are struggling to make them up, including loan and installment payments. A reduction in the interest rate charge ceiling would help protect consumers from exorbitant interest rates during this depression.

For the reasons outlined above, CFA urges that the Board reduce the interest rate ceiling to 6%. This is a long overdue reform that is in line with the decline of the Prime Rate over time. The current cap is far too excessive, especially in light of current economic hardships faced by many consumers. Consumers should not have to pay excessively high interest rates on their insurance policies, a necessity for many, and the Board should encourage insurance to be affordable as possible. 6% is a reasonable amount that will ensure low- and moderate-income consumers have easier access to insurance, help make insurance more affordable, and provide indirect assistance to consumers during these difficult economic times.

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[3] "Subsidizing Car Ownership for Low-Income Individuals and Households." By Nicholas J. Klein. Journal of Planning Education and Research. September 9, 2020. Available at https://journals.sagepub.com/doi/full/10.1177/0739456X20950428.

[4] "63 Percent of Americans Have Been Living Paycheck to Paycheck Since Covid Hit." By Megan Leonhardt. CNBC. December 11, 2020. Available at https://www.cnbc.com/2020/12/11/majority-of-americans-are-living-paycheck-to-paycheck-since-covid-hit.html.