

Americans for Fairness in Lending  
Consumer Action  
Consumers Union, nonprofit publisher of Consumer Reports  
Demos: A Network for Ideas & Action  
National Association of Consumer Advocates  
National Consumer Law Center (on behalf of its low income clients)

March 27, 2009

The Honorable Bernard Sanders  
United States Senate  
Washington, DC 20510

Re: S. 582, Interest Rate Reduction Act

Dear Senator Sanders:

The undersigned organizations applaud you for introducing S. 582, the Interest Rate Reduction Act. This bill would extend to all lenders the interest rate caps that have long protected federal credit union members from usurious interest charges.

For most of this nation's history, state laws protected consumers from exorbitant interest rates on various forms of credit. With the deregulation movement of the 1970s and 1980s, however, state laws governing bank lending were preempted, and many states repealed the laws that applied to other lenders.

The results have been predictable. Banks routinely induce consumers to incur thousands of dollars of credit card debt, then double or triple their interest rates to unaffordable levels once the consumer is on the hook. Other lenders also charge unreasonable interest rates, including some auto loans, installment loans to our military service members, tax refund anticipation loans, and payday loans at triple digit interest rates.

These trends are only exacerbated by the current financial crisis. As bank losses mount, they are attempting to compensate by notifying millions of customers of interest rate hikes. Other families who cannot find affordable credit are increasingly turning to legalized loan sharking by payday and other predatory lenders.

Members of federal credit unions are protected from usurious interest rates by the Federal Credit Union Act. Since 1980, that law has capped annual percentage rates on loans at 15 percent, though the National Credit Union Administration has exercised its statutory authority to raise this cap to 18 percent APR, where it has been for many years. This reasonable APR, which does not include certain fees, has protected consumers at credit unions from being charged usurious interest rates; it has not harmed the safety and soundness of these institutions; and it has not negatively impacted the access to credit of credit union members.

The Interest Rate Reduction Act would apply this same APR cap to banks, state credit unions, and other lenders. The Federal Reserve could allow higher rates if a lower rate would threaten the safety and soundness of lenders and if money market interest rates have risen over the prior six months. These are the same exact exceptions that apply to credit unions under the Federal Credit Union Act. The legislation would also provide that lenders may not impose excessive fees in order to evade the rate cap.

We thank you for introducing this legislation to protect American consumers from exorbitant interest rates as the moment when they most need affordable credit.

Sincerely,

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