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**FOR IMMEDIATE RELEASE:**
APRIL 9, 2013

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# WHY CAP SMALL LOANS at 36%?

***Report Explains Rate Cap's History and Benefits for Borrowers and Lenders***

**(WASHINGTON, D.C.)** The move to cap interest rates on small loans at 36% or less is gaining ground with state and federal policymakers, and a new report from the National Consumer Law Center (NCLC) reviews the century-old history of a 36% interest rate cap, the modern trend, and the reasons a 36% rate results in fairer, more sustainable lending. "A 36% rate cap encourages lenders to offer more honest and responsible loans with longer terms and affordable payments, and to minimize bad loans," said National Consumer Law Center Managing Attorney Lauren Saunders and author of the report. "On the other hand, the high defaults of payday loans are a sign of predatory lending and bad underwriting, not a justification for a 300% rate."

*Why 36%? The History, Use, and Purpose of the 36% Interest Rate Cap* reinforces legislation expected to be introduced today by Senator Dick Durbin that would ensure a fair interest rate cap of 36% on all small loans across the nation. The Protecting Consumers from Unreasonable Credit Rates Act of 2013 would curb abusive triple-digit loans without undermining state laws and would extend the 36% rate cap that currently protects military families to *all* consumers. Advocates at more than 40 national and state consumer, civil rights, poverty, and faith-based groups support the bill.

The 36% rate originated with the model small loan laws of 100 years ago but is equally important today. A consumer who takes out a $300 90-day loan at 36% would have almost identical biweekly payments to those that consumers typically make on payday loans but would fully pay off the loan at the end, instead of making no progress and being trapped in a cycle of debt.

Currently, 15 states and the District of Columbia either ban payday loans or hold them to a rate of 36% or lower. Over 34 states use a 36% or lower rate somewhere in their lending regimes. Voters also overwhelmingly support a 36% rate, as evidenced by recent votes in Montana, Ohio, and Arizona, despite massive payday industry spending. Reasonable rates of 28% to 36% have also been endorsed by Congress and federal agencies, including the Federal Deposit Insurance Corporation and the National Credit Union Administration.

This report adds to the body of work that NCLC has produced that promotes better short-term lending alternatives to abusive payday loans that perpetually trap lower-income families into debt.

**Related Materials**

- Advocate letter of support for Protecting Consumers from Unreasonable Credit Rates Act of 2013: www.consumerfed.org/pdfs/Protect_Consumers_Unreasonable_Credit_Rates.pdf
- NCLC Report: *Why 36% The History, Use, and Purpose of the 36% Interest Rate Cap*, April 2013: http://www.nclc.org/images/pdf/pr-reports/why36pct.pdf and 2-page Issue Brief: http://www.nclc.org/images/pdf/pr-reports/ib-why36pct.pdf
- Leah Plunkett & Ana Lucia Hurtado, "Small-Dollar Loans, Big Problems: How States Protect Consumers from Abuses and How the Federal Government Can Help," 44 Suffolk U. L. Rev. 31, Appx. B (2011). http://suffolklawreview.org/plunkett-hurtado/

- NCLC Report: *Stopping the Payday Loan Trap: Alternatives that Work, Ones that Don't*, June 2010: http://www.nclc.org/issues/stopping-the-payday-loan-trap.html
- NCLC Report: *Small Dollar Loan Products SCORECARD* - *Update*, May 2010: http://www.nclc.org/images/pdf/high_cost_small_loans/payday_loans/cu-small-dollar-scorecard-2010.pdf and Statutory Backup: http://www.nclc.org/images/pdf/high_cost_small_loans/payday_loans/cu-small-dollar-scorecard-backup-2010.pdf
- Consumer Federation of America: http://www.paydayloaninfo.org/state-information

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