



**Testimony in Support of H 6055 Interest and Usury
Before the House Committee on Corporations
of the State of Rhode Island House of Representatives**

**by Lauren Saunders
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Chairman Solomon and Members of the Committee,

Thank you for the opportunity to testify. I am Lauren Saunders, Associate Director of the National Consumer Law Center (NCLC), a national non-profit organization that uses its consumer law expertise to work for economic justice for low-income and vulnerable consumers. NCLC publishes a treatise, *Consumer Credit Regulation*, which discusses state lending laws and attempts to evade them. We also regularly survey all 50 states' interest rate caps on installment loans and issue reports, including [Predatory Installment Lending in the States](#) (Nov. 2024) and [Larger Loans Need Lower Rates: A 50-State Survey of the APRs Allowed for a \\$10,000 Loan](#) (Mar. 2024).

I am pleased to support the H 6055 on Interest and Usury. The bill prevents evasions of Rhode Island's strong consumer protection laws by codifying the widely accepted "true lender" doctrine and by opting the state out of a federal law that allows out-of-state, state-chartered banks to charge high rates not allowed in Rhode Island. **The bill will prevent predatory "rent-a-bank" lenders that charge annual percentage rates (APRs) of 200% or more from evading Rhode Island's interest rate limits, which generally limit loans to 21% to 36% APR, depending on the size of the loan.**

Predatory rent-a-bank lenders evade interest rate limits

In a rent-a-bank scheme, a high-cost, nonbank lender launders its loan through an obscure bank (typically chartered in Utah) and claims that the loan is a "bank loan" exempt from state laws outside the bank's home state. Rent-a-bank schemes started with payday lenders and more recently have been used by online installment lenders.

These predatory lenders, among others, currently offer loans in Rhode Island at rates that vastly exceed Rhode Island's 21% to 36% interest rate limits:

- Opportunity Financial, dba OppFi or OppLoans, offers installment loans at 160%-195% APR.¹
- Enova offers NetCredit-branded installment loans at 34.99% to 99.99% APR.²
- LoanMart offers rent-a-bank auto title loans through the ChoiceCash brand at rates that could reach 170% APR.³
- Xact, a brand of CNG Holdings (which operates Check 'n Go and other payday lenders), makes installment loans at rates up to 225% APR.⁴

Loans at these rates are debt traps, with payments that go primarily to interest, high refinancing rates that extend the debt even longer, and high default rates. These loans are illegal in nearly every state.

For example, OppFi offers a \$4,000, 18-month installment loan at 160% APR in Rhode Island, where the legal rate is 24% APR – **charging nearly \$6,000 more in interest than allowed by Rhode Island law**. But OppFi ignores Rhode Island law because the loan is originated by one of its “bank partners” — FinWise Bank, First Electronic Bank or Capital Community Bank, all located in Utah.

Despite the bank's name on the loan, in a rent-a-bank scheme the bank has a minor role. The nonbank lender typically designs and owns the loan program, processes applications, approves loans, collects payments, and reaps the vast majority of the revenues -- up to 96%. The bank rubber stamps the underwriting criteria and “originates” the loan by sending the money to the consumer. The bank is then quickly paid back by the nonbank lender or sells the vast majority of the loan revenues to the nonbank lender.

DIDMCA opt out

Rent-a-bank schemes exploit a federal law, the Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA or DIDA), 12 U.S.C. § 1831d, which allows out-of-state, state-chartered banks to charge, anywhere in the country, whatever interest rate is allowed in their home state. This is called “rate exportation.” Many states do not cap interest rates for banks, and predatory lenders have exploited this fact to enable 100% to 200% APR loans in states where those rates are illegal.

However, states may opt out of DIDMCA and require the banks to comply with the rate caps of the state where the loans are made. H 6055 would exercise this right. Notably, Iowa, which has

¹ <https://www.opploans.com/rates-and-terms/rhode-island/> (last visited 4/23/2025).

² <https://www.netcredit.com/rates-and-terms/rhode-island> (last visited 4/23/2025).

³ <https://www.choicecash.com/ri/> (last visited 4/23/2025). LoanMart does not disclose its rates on its website.

⁴ <https://www.xact.com/> (last visited 4/23/2025). Xact no longer discloses its rates on its website.

long been opted out of DIDMCA, has none of the predatory lenders listed above. Predatory lenders have also exited Colorado, which recently adopted legislation to opt out of DIDMCA.

The true lender doctrine

H 6055 also codifies the “true lender” doctrine, which allows courts to look behind the name on the loan document to discover that the true lender is not a bank but rather is a nonbank lender subject to state law. The true lender doctrine is an application of anti-evasion principles that go back over two hundred years in hundreds of cases in 49 states and DC. The true lender doctrine often focuses on which party has the “predominant economic interest” in the loan. But that is not the sole factor. Anti-evasion efforts require looking at the totality of the circumstances because usury evasions are infinitely varied.

In the modern context, the true lender doctrine has been recognized in a variety of situations by over 30 court decisions. In 2020, a bipartisan vote of Congress under the Congressional Review Act repealed a regulation by the Office of the Comptroller of the Currency that would have overturned the true lender doctrine for national banks.

Many states have codified the true lender doctrine in statute including, since 2021, Connecticut, Illinois, Maine, Minnesota, New Mexico, and Washington. These laws have been effective, causing rent-a-bank lenders to leave those states.

H 6055 stops 200% APR predatory lending evasions

Rhode Island allows short -term payday loans up to \$500, but the state does not permit high interest rates on larger or longer-term loans. High-cost larger, longer-term loans can be an even deeper, more destructive debt trap than payday loans, putting people deeper in high-cost debt that is more difficult to escape, with high interest charges over a long period of time.

By opting Rhode Island out of DIDMCA and codifying the true lender doctrine, H 6055 will allow Rhode Island to enforce its law. The DIDMCA opt-out will put an immediate end to triple-digit rent-a-bank schemes by state-chartered banks. Codifying the true lender doctrine will strengthen Rhode Island’s ability to prevent predatory lenders from turning to national banks (which can still export their interest rates).

H 6055 will preserve access to affordable credit in Rhode Island

H 6055 will have no impact on credit cards, as Rhode Island does not limit the interest rates on credit cards.

The state’s interest rate limits for installment loans are reasonable and allow banks and other lenders to offer affordable forms of credit. Responsible fintech lenders can operate within Rhode Island’s interest rate limits, and most of their loans likely already do. But for larger loans, even 36% is an exorbitant and unaffordable rate. For example, raising the rate on a \$10,000, five-year loan from 21% to 36% adds a whopping \$5,448 in interest – more than half the loan itself. Many fintechs make even larger loans up to \$30,000 or larger, which would be especially

burdensome if rates approached 36%. Loans above the rates authorized in Rhode Island are likely to be unsustainable burdens, not affordable credit.

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Rhode Island has adopted reasonable interest rate limits to protect its residents from predatory lending. H 6055 will ensure that those laws cannot be evaded. Predatory credit is not access to credit. It is access to a debt trap. H 6055 will protect Rhode Island residents and I urge you to support it.

Thank you for the opportunity to testify. If you have any questions, please reach out to me at lsaunders@nclc.org.