NATIONAL TAXPAYERS UNION

February 4, 2020

The Honorable Maxine Waters
Chairwoman
House Committee on Financial Services
United States House of Representatives

The Honorable Patrick McHenry
Ranking Member
House Committee on Financial Services
United States House of Representatives

Dear Chairwoman Waters and Ranking Member McHenry

On behalf of National Taxpayers Union, the nation's oldest taxpayer advocacy organization, I write to express our serious concerns regarding H.R. 5050, the "Veterans and Consumers Fair Credit Act of 2019." This troubling legislation is modeled after the 2015 update to the Military Lending Act, and mandates a nationwide 36 percent interest rate cap on consumer credit. If enacted, the VCFCA would put the federal government between consenting borrowers and lenders, hurt small businesses and consumers, and have disastrous unintended consequences across the economy. We hope you stand with taxpayers and consumers and oppose this well-intended but flawed proposal.

Government-imposed price controls do not work. As we've seen in virtually every example in history, price controls worsen the very problems they are supposed to solve. Whether placed on gasoline, interchange fees, or prescription drugs, setting price controls at below-market rates leads to shortages, squeezes the cost bubble toward some other portion of the economy, and imposes a deadweight cost on society. These laws of economics will certainly apply to the payday and installment loan industry if a price control were to come into effect.

Using the Annual Percentage Rate (APR) as the rationale to cap interest rates is entirely arbitrary and economically flawed. The APR is simply the rate of interest a borrower will pay over the course of a year due to compounding, but it is extremely rare for a loan to be outstanding for an entire year. Short-term loans act as a cash advance that are paid back in full at the borrower's next pay period. So while the loans may indeed carry a high APR, the vast majority of loans are paid back in a matter of weeks or months, not extended for an entire year.

Interest rates are incredibly important for lenders, as it allows them to price in all their fixed and unforeseen costs. Factors such as the lender's costs and risks, the institution's desire for profit, and consumer demand for credit all affect how expensive or inexpensive credit will be. Any short-term interest rate includes a number of important factors, such as the risk of lending to potentially credit-unworthy borrowers, chance of default, and fixed costs of operating a business.

More than 12 million Americans rely on short-term loans each year, with 7 of 10 borrowers using the loans for basic expenses such as rent and utilities. It is highly likely that if enacted, H.R. 5050 could make it substantially harder for Americans to access short-term, small dollar loans. Without this access, potential borrowers may either have to miss a payment or default, or seek an illicit, unregulated market for a loan.

Short-term loans are already highly regulated at the state level, and federal law requires lenders to disclose the cost of a loan before a borrower enters into a loan agreement to ensure consumers have enough knowledge ahead of time to make an informed decision. The interest rate cap empowers government to second-guess consumers—imposing their judgment on how prospective borrowers should value goods and services.

Congress has a long history of imposing regulations intended to help low-income Americans that end up causing economic pain – and they are poised to do so once again with short-term lending. For the sake of low-income consumers as well as taxpayers, we hope this committee rejects this poorly thought out proposal.

Sincerely,

Thomas Aiello
Policy and Government Affairs Associate