Credit Union Times

Consumer Advocates Endorse 36% Interest Cap on Payday Loans

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Consumer advocates on Tuesday endorsed plans to impose a 36% interest rate cap on short-term, small dollar loans—a proposal that could easily accommodate the 28% interest cap of the NCUA's Payday Loan Alternative Loan program.

"Congress can and should enact a rate cap of 36% or less, while not pre-empting the laws of states with even stronger rate caps," Diane Standaert, executive vice president and director of state policy at the Center for Responsible Lending, told the House Consumer Protection and Financial Institutions Subcommittee.

The subcommittee's hearing came as the CFPB considers whether to roll back the 2017 strict rule governing short-term loans, which often charge triple-digit interest rates and lock borrowers into a cycle of debt.

Democrats have blasted the CFPB's proposal, which would eliminate the rule's requirement that borrowers have an ability to repay their loans before receiving the loans.

Earlier this week, Democrats circulated draft proposals that would **impose limits on payday loans**.

One draft proposal would impose a 36% usury cap for all open-end and closed-end consumer credit transactions, including mortgages, car loans, overdraft loans, car title loans and payday loans. That is the interest rate included in the Military Lending Act.

The PAL model developed by the NCUA allows a 28% cap, but some credit union officials said the program is not sufficiently profitable for them.

Standaert said many states have imposed interest rate caps on short-term loans.

Christopher Peterson, director of financial services at the Consumer Federation of America and a former CFPB official also endorsed an interest rate cap.

"Many federal credit unions offer PAL loans with interest rates of 28% and an application fee to compete with triple digit interest rate payday loans," he said. "These are relatively inexpensive, safe products that are widely available to borrowers who invest the time in developing a banking relationship with a federal credit union."

Peterson said that the Military Lending Act provides an "excellent template" for Congress to establish a national usury limit.

However, Diego Zuluaga, a policy analyst at the Center for Monetary and Financial Alternatives at the libertarian Cato Institute, said that he worries that an interest rate cap would decrease access to credit.

“Placing a cap on small-dollar loans risks leaving vulnerable households at the mercy of family members and unscrupulous providers – or forcing them to go without basic necessities,” he said.