July 28, 2021

The Honorable Sherrod Brown
Chairman
Senate Committee on Banking,
Housing, and Urban Affairs
Washington, D.C. 20510

The Honorable Pat Toomey
Ranking Member
Senate Committee on Banking,
Housing, and Urban Affairs
Washington, D.C. 20510

Dear Chairman Brown and Ranking Member Toomey,

On behalf of our organizations and the millions of American individuals, families, and business owners we represent, we write in strong opposition to mandatory federal interest rate caps and urge Congress to reject such proposals. Interest rate caps represent artificial barriers to lending services that will restrain consumer choice and ultimately harm low-income individuals.

Ensuring affordable access to credit for lower-income individuals is a worthwhile public policy goal. However, legislative proposals such as the imposition of a 36 percent interest rate cap run counter to achieving these ends. Lower-income individuals rely on safe and affordable small-dollar lending offered by financial institutions to cover unexpected expenses. But an artificial interest rate cap will provide fewer incentives for financial institutions to provide such small dollar lending services to subprime borrowers. Without access to these vital products, such borrowers, who often do not meet the requirements of a personal loan from a bank, will find themselves with few, if any, options.

Experience at the state level bears this out, with interest rate restrictions for consumer loans causing access to capital to dry up. As Mercatus Center scholar Thomas Miller wrote in his 2016 testimony to the House Financial Services Committee, "the result of outdated interest rate caps is that legal loan deserts exist in the small-dollar loan landscape." Such loan deserts leave consumers with less desirable alternatives, such as resorting to illegal loan sharks or simply choosing not to pay overdue bills. As is often the case, such policies hurt the least well-off the most.

It should also be noted that top-down interest rate advocates fail to justify their proposals by merely citing the Annual Percentage Rate (APR) of a loan. To suggest that small-dollar loans from reputable financial institutions are excessively expensive by pointing to their APR fails to recognize the reality of how such products are utilized. These small loans are designed to cover emergency expenditures and are often paid back by borrowers within a short period of time. To justify rate caps by discussing such a loan's cost in terms of a year is, as the economist Thomas Sowell has pointed out, "like saying that a $100 a night hotel room costs $36,500 a year, when virtually nobody rents a hotel room for a year."

Beyond the world of small-dollar loans, obtaining a loan and accessing capital is often the first step taken by families, entrepreneurs, farmers, and business owners trying to make their dreams a reality. Policies that expand consumer choice, including removing barriers to the availability of an array of small dollar loan instruments, can have a significant impact on ensuring access to credit. Additionally, eliminating burdensome financial regulations will allow for a vibrant ecosystem of community banks, credit unions, online lenders, bank-fintech partnerships and other financial institutions that are able to meet the financial service needs of consumers.

For these reasons, we urge Congress to reject one-size-fits all interest rate caps that will cut off access to credit and eliminate choices in lending products.

Sincerely,

Brent Wm. Gardner
Chief Government Affairs Officer
Americans for Prosperity

Grover Norquist
President
Americans for Tax Reform

Ryan Ellis
President
Center for a Free Economy

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