Congress should cap interest rates

Survey confirms public support for cracking down on high-cost lending

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As Congress debates various financial reforms designed to revive the economy, the Center for Responsible Lending has conducted a national survey to measure public support for one strategy on the table: a 36 percent cap on annual interest rates for consumer loans. The survey found high levels of support for such a measure, which had very little variance across different demographic groups.

Specifically:

- **Three out of four Americans who expressed an opinion think that Congress should cap interest rates at some level.**
- **72% think that the annual interest rate cap should be no higher than 36% annually.**
- **Only one quarter of those who expressed an opinion think Congress should not cap interest rates at all.**

Bills introduced this spring in the U.S. House and Senate would cap interest rates for consumer loans at 36 percent annually.[1] One target of this measure is payday lending, the practice of making loans of a few hundred dollars at annual interest rates of 400 percent.

Payday loans are marketed as short-term, but the terms are difficult to meet and the industry depends on revenue from people caught in a cycle of long-term debt for their survival. Over 90 percent of payday lending revenue comes from borrowers caught in a cycle of repeat payday loans.[2]

Twelve million Americans are caught in this cycle every year, frequently paying more in interest than they originally borrowed. On average, a payday borrower pays back $800 for a $300 loan, with $500 purely going toward interest. At least $5 billion per year goes from the pockets of working people to these unproductive fees every year.

One recent study found that bankruptcy is more likely for payday borrowers as compared to similarly situated applicants who could not qualify for a payday loan; the applicants approved for

> **A 69-year-old** man in Raleigh, North Carolina went to a national chain payday shop every payday for over five years. His total interest paid was over $5,000 —for one loan with a principal that started at $200 and eventually increased to $300. The payday lender flipped the loan over a hundred times, collecting interest of up to $52.50 for each transaction, while extending him no new money. He fell behind on his mortgage and filed bankruptcy to save his home.
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> Unfortunately, this is a success story from the perspective of the payday lender. Loan documents show they charged this man up to **475% annual interest**.

payday loans were twice as likely to end up in bankruptcy.[3]

And a recent report from Harvard Business School found that payday lending puts families' ability to maintain a bank account at risk. The study found that payday loans are associated with more closed bank accounts due to multiple overdrafts.[4]

Fifteen states and the District of Columbia have enforced two-digit interest rates as a means of controlling these high-cost debt traps. After the Pentagon testified that predatory lenders were threatening military readiness, Congress passed a 36 percent rate cap to protect military families. Other reforms that states have passed in an attempt to stop the cycle of debt caused by high-cost lenders have not been effective.[5]

The CRL survey is consistent with the outcomes of ballot measures in Ohio and Arizona in last November's election. In both states, voters indicated a strong preference for capping interest rates at two digits. In Ohio, voters confirmed a 28 percent rate cap passed by the state legislature by a three-to-one margin. In Arizona, voters rejected by a three-to-two margin a ballot measure that would have made 391 percent interest rates legal indefinitely, cancelling the scheduled expiration of an exemption for payday lenders from the state's 36 percent rate cap.

The CRL survey indicates that policymakers who back an interest rate cap are likely to find support among their constituents. Overall, 24 percent of those who expressed an opinion support a cap that is exactly 36 percent, while 48 percent support a lower cap. Only 25 percent of Americans think Congress should not pass a cap at all. Eighty-two percent of respondents voted in last November's presidential election.

Survey Methodology

This CARAVAN telephone survey was conducted by Macro International between March 19-22, 2009 of 1,004 adults in the continental U.S.

Completed interviews are weighted by four variables: age, sex, geographic region, and race, to ensure reliable and accurate representation of the total population, 18 years of age and older. The chances are 95 in 100 that a CARAVAN survey result does not vary, plus or minus, by more than 2%.

Survey Questions:

1. "Some people say that we should crack down on high-cost lending practices in order to restore the health of our nation's economy. To that end, Congress is considering limiting the amount of interest that lenders can charge to 36% annually. This cap would apply to loans like mortgages and car loans, which are usually less than 36% anyway, but it would also cover high-cost loans, like payday loans and car title loans, which can carry annual interest rates of around 400%.

Which ONE of these statements MOST CLOSELY matches your thoughts on this issue?"

	Number	Percent	Percent of those with an opinion (a-d), total 924
a. Congress should cap annual interest rates at 36%	218	22%	24%
b. Congress should cap annual interest rates, but 36% is too HIGH	444	44%	48%
c. Congress should cap annual interest rates, but 36% is too LOW	34	3%	4%
d. Congress should not cap interest rates at all	228	23%	**25%**
e. No opinion	57	6%	
f. Don't know/refused to answer	19	2%	
Total supporting a federal interest rate cap at some level		69%	**76%**
Total supporting an interest rate cap at 36% or lower		66%	**72%**

2. Did you vote in the 2008 presidential election?

	Number	Percent
Yes	823	**82%**
No	176	18%
Refused to answer	1	

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[1] Senator Dick Durbin (D-IL) introduced S500, the "Protecting Consumers from Unreasonable Credit Rates Act of 2009" in the U.S. Senate on February 26, 2009. Representative Jackie Speier (D-CA) introduced a companion bill, H.R. 1608 on March 20, 2009.

[2] Uriah King, Leslie Parrish & Ozlem Tanik, *Financial Quicksand*, Center for Responsible Lending, November 30, 2006 available at http://www.responsiblelending.org/pdfs/rr012-Financial_Quicksand-1106.pdf.

[3] Paige Marta Skiba (Vanderbilt) and Jeremy Tobacman (U. Pennsylvania). *Do Payday Loans Cause Bankruptcy?* October 10, 2008. Available at: http://www.law.vanderbilt.edu/faculty/faculty-personal-sites/paige-skiba/publication/download.aspx?id=2221

[4] Specifically, an increase in the number of payday lending locations in a particular county is associated with an 11 percent increase of involuntary bank account closures, even after accounting for county per capita income, poverty rate, educational attainment, and a host of other variables. Dennis Campbell, Asis Martinez Jerez, and Peter Tufano (Harvard Business School). *Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures*. June 6, 2008. Available at: http://www.bos.frb.org/economic/eprg/conferences/payments2008/campbell_jerez_tufano.pdf

[5] Uriah King & Leslie Parrish, *Springing the Debt Trap*, Center for Responsible Lending, December 13, 2007, available at www.responsiblelending.org/issues/payday/reports/springing-the-debt-trap.html.