

## **THE LOAN SHARK PREVENTION ACT**

If we are going to create a financial system that works for all Americans, we have got to stop financial institutions from ripping off Americans by charging sky-high interest rates and outrageous fees. Millions of Americans should not be paying credit card interest rates of 25 or 30 percent.

Senator Sanders and Representative Ocasio-Cortez are introducing the Loan Shark Prevention Act to establish a national usury rate of 15 percent on credit cards and other consumer loans, the same interest rate cap that Congress imposed on credit unions almost 40 years ago.

Under this bill, the Federal Reserve would have the authority to allow lenders to charge higher rates, if the Fed determines that the national usury cap would threaten the safety and soundness of financial institutions as evidenced by adverse trends in liquidity, capital, earnings, and growth; or if money market interest rates have risen over the preceding six-month period. Interest rates could only be raised above 15 percent for a maximum of 18 months. This bill would not preempt state laws establishing lower maximum interest rates.

### **WHY IS THIS BILL NEEDED?**

- Americans now hold over \$1 trillion in credit card debt, the [highest](#) amount in history.
- The average household with credit card debt has over \$15,000 in credit card [debt](#).
- In 2018, credit card companies generated over [\\$178](#) billion in interest and fees.
- The average credit card interest rate for 100 cards monitored by [CreditCards.com](#) is now a record-breaking 17.71 percent.
- The average maximum credit card interest rate for those 100 cards CreditCards.com is up to [24.98](#) percent, including those cardholders with good or excellent credit.
- The average interest rate on a retail credit card is [27](#) percent.
- The average interest rate on payday loans is 391 percent. According to [Pew](#), the average payday loan customer borrows \$375 over five months and pays \$520 in fees.

### **STRONG STATE INTEREST RATE CAPS ERADICATED IN 1978**

Establishing a national usury law is not a radical concept. Up until 1978, about half of the states in the country had usury laws on the books capping interest rates on credit cards and other consumer loans. But, those state interest rate caps were obliterated by a 1978 Supreme Court decision (*Marquette National Bank v. First of Omaha Service Corp*) which concluded that national banks could charge whatever interest rate they wanted if they moved to a state without a usury law.

## **CONGRESS IMPOSED 15% INTEREST RATE CAP ON CREDIT UNIONS IN 1980**

This bill simply applies the same statutory interest rate cap on credit cards that Congress imposed on credit unions in 1980 as a result of an amendment to the Federal Credit Union Act that capped interest rates on credit union loans, including credit cards, at 15%. (From 1934-1980, Congress capped interest rates on credit union loans at 12 percent.)

The National Credit Union Administration (NCUA) has the authority to raise interest rates, if it determines that the 15% cap threatens the safety and soundness of credit unions. The Loan Shark Prevention Act would give this same authority to the Federal Reserve to raise the 15% interest rate cap on credit cards.

The reasonable interest rate cap Congress imposed on credit unions has protected consumers from being charged usurious interest rates; it has not harmed the safety and soundness of these institutions; and it has not negatively impacted the access to credit of credit union members.

Credit union members with good credit scores are still able to receive credit cards and loans that they need at reasonable interest rates. And, unlike banks, credit unions have not received hundreds of billions of dollars from U.S. taxpayers from the Treasury Department of the Federal Reserve. The time has come to extend this reasonable interest rate cap to all financial institutions that issue credit cards.

## **IN 1991, THE SENATE VOTED 74-19 TO CAP CREDIT CARD INTEREST RATES AT 14%.**

In 1991, the Senate voted 74-19 in favor of the D'Amato-Lieberman-Specter-Conrad amendment to cap credit card interest rates at 14%.

Here is what former Senator D'Amato said about his amendment on the floor of the Senate in 1991:

“Fourteen percent is certainly a reasonable rate of interest for banks to charge customers for credit card debt. It allows a comfortable profit margin but keeps banks in line.”