May 21, 2025

The Honorable John Thune
Majority Leader
United States Senate
511 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Chuck Schumer
Minority Leader
United States Senate
322 Hart Senate Office Building
Washington, D.C. 20510

Dear Majority Leader Thune and Minority Leader Schumer:

The undersigned trade associations, representing credit unions, community banks, and both large and small financial institutions that serve hundreds of millions of American consumers, are united in opposition to Amendment 2239 to S. 1582. By imposing government price controls on private products through an all-in annual percentage rate (APR) cap for credit cards at 10 percent, this amendment would severely restrict the availability of this type of credit for everyday consumers and effectively harm the very people the amendment seeks to protect.

Research clearly shows that government price setting, even APR caps, hurts consumers

This amendment would eliminate access to credit cards for millions of consumers and drive them to sources of credit which are far more costly and less regulated.[1] Many consumers who currently rely on credit cards would be forced to turn elsewhere for short-term financing needs, including pawn shops, auto title lenders, or worse– such as loan sharks, unregulated online lenders, and the black market. One in nine Missourians already uses payday loans,[2] almost double the national average. Payday lenders in Missouri charge annual interest rates of more than 300 percent.[3]

When Illinois imposed an all-in rate cap, Federal Reserve Board research shows that the "cap decreased the number of loans to subprime borrowers by 38 percent."[4] As the authors explained, "[l]egislators motivated by genuine public interest rationales might not recognize the harmful consequences of their actions for these higher-risk borrowers with few credit alternatives." Separately, Dartmouth researchers showed that a similar 36 percent all-in APR cap in Oregon was responsible for "harming, not helping, consumers on average." Ultimately, "restricting access caused deterioration in the overall financial condition of Oregon households."[5] Importantly, this research was conducted on much higher interest rate caps than the 10 percent cap that this amendment would impose. The prime rate is also higher due to current monetary policy considerations. This indicates that the impacts of a 10 percent cap would be even more draconian and counterproductive than that of higher caps.

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[1] https://consumerbankers.com/press-release/why-imposing-credit-card-interest-rate-caps-would-harm-millions-of-consumers/
[2] https://www.pewtrusts.org/-/media/data-visualizations/interactives/2014/state-payday-loan-regulation-and-usage-rates/report/state_payday_loan_regulation_and_usage_rates.pdf
[3] https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/04/payday-loans-cost-4-times-more-in-states-with-few-consumer-protections
[4] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4315919
[5] https://www.sciencedirect.com/science/article/abs/pii/S0378426609002283

Credit cards are a primary vehicle for expanding financial inclusion

Research shows that credit cards are the number one way that people who are 'credit invisible' can become credit visible and grow their credit history, helping them gain access to other products like mortgages and auto loans.[6]

Credit cards bring more consumers into the well-regulated credit markets than ever before through underwriting innovations that offer credit to previously "credit invisible" consumers and deep subprime consumers. At the same time, more consumers are paying their credit card balances off in full each month than in previous years. Consumers are paying down a higher share of credit card balances, reducing their debt burdens and increasing their credit scores. These improvements in consumer financial resilience are partially due to actions banks have taken, such as higher minimum payment requirements, to ensure consumers make more progress paying down their balances.[7]

Customers benefit from using regulated financial institutions that provide extensive consumer protections and comply with numerous regulations and requirements including, but not limited to, those under the Truth in Lending Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Fair and Accurate Credit Transactions Act, and state consumer credit laws.

Interest rate caps such as those proposed in Amendment 2239 hurt consumers and have disproportionate negative effects on high-risk borrowers, the exact population they are intended to help

Perhaps the title of one of multiple World Bank studies on the effect of rate caps in more than 76 countries puts it most clearly, finding "Interest rate caps around the world: still popular, but a blunt instrument."[8] [9] That study found that in the countries that implemented interest rate caps, "the evidence points to more negative effects" such as (1) withdrawal of financial institutions from the poor or from specific segments of the market, (2) an increase in illegal lending, (3) a decrease in the licensing of new lending institutions, (4) an increase in the total cost of the loan through additional fees and commissions, and (5) a decrease in product diversity (as in France and Germany). The study concluded that there were more effective ways to combat high interest rates, such as implementing measures that enhance competition and product innovation, improving financial consumer protection frameworks, increasing financial literacy, promoting credit bureaus, enforcing disclosure of interest rates, and promoting microcredit products.

Other research demonstrates that when consumers lose access to credit, they often reduce spending on essentials such as healthcare, education, and food, and are more likely to fall behind on bill, mortgage, and rent payments. Lacking a credit card would also likely reduce their

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[6] https://files.consumerfinance.gov/f/documents/BecomingCreditVisible_Data_Point_Final.pdf
[7] https://consumerbankers.com/press-release/facts-matter-card-act-report-highlights-banks-positive-impact-on-consumers-financial-resilience/
[8] https://documents1.worldbank.org/curated/en/876751468149083943/pdf/WPS7070.pdf
[9] *See also* https://crsreports.congress.gov/product/pdf/IF/IF12861

consumption of items like furniture and clothing which not only negatively affects consumers, but also negatively affects the broader economy.[10]

As responsible and well-regulated financial institutions, we share the goals of reducing the cost of consumer credit and increasing financial inclusion. Unfortunately, the 10 percent rate cap proposed in this amendment would stifle our shared financial inclusion goals, reduce access to credit, and push consumers to far more costly and less regulated lenders.

Sincerely,

Consumer Bankers Association
Association of Military Banks of America
American Financial Services Association
America's Credit Unions
Bank Policy Institute
Independent Community Bankers of America
National Bankers Association
American Bankers Association

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[10] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3282910