

July 16, 2020

The Honorable James McGovern
Chairman
Rules Committee
House of Representatives
Washington, DC 20515

The Honorable Tom Cole
Ranking Member
Rules Committee
House of Representatives
Washington, DC 20515

The Honorable Adam Smith
Chairman
Committee on Armed Services
House of Representatives
Washington, DC 20515

The Honorable Mac Thornberry
Ranking Member
Committee on Armed Services
House of Representatives
Washington, DC 20515

Dear Representatives McGovern, Smith, Cole, and Thornberry:

On behalf of the American Financial Services Association (AFSA)¹, I am writing to request that you not include the Garcia-Grothman amendment to the National Defense Authorization Act (NDAA). This harmful amendment to the NDAA would burden consumers at a time when many need assistance during this COVID-19 pandemic.

The Garcia-Grothman amendment would apply an arbitrary rate cap of 36 percent annual percentage rate (APR) to all Americans with few exceptions. This legislation would harm consumers by restricting access to traditional installment loans under \$2600. Installment lenders provide credit to individuals and families who are often unbanked, underbanked, credit invisible, or have impaired credit histories. The most common uses for traditional installment loans are for vehicle repairs, household appliances, and medical expenses. Particularly during this time of great economic uncertainty with the effects of the pandemic, consumers need access to credit more than ever.

An arbitrary rate cap would have the unintended consequence of placing greater pressure on consumers to borrow more than they need, resulting in higher finance charges, longer repayment periods, and higher overall costs, despite having a lower interest rate. Further, they may not be able to qualify for the larger loan. Many lenders may no longer be able to offer small-dollar loans, pushing consumers to the predatory lenders that advocates claim must be avoided. Consumers must be protected from bad actors, but not with blanket rules that fail to account for their very real needs and that risk bringing real harm to their economic security.

A consumer rate cap has been rejected by the Congress on several occasions, most of all due to its negative impacts on low- and moderate- income consumers, underserved and unbanked

¹ Founded in 1916, AFSA is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including traditional installment loans, mortgages, direct and indirect vehicle financing, payment cards, and retail sales finance.

communities, and/or borrowers with little or no credit history. Not being able to access credit from the traditional banking system will force these consumers outside the banking system to entities with greater risk, higher prices, and less protections.

Also, this proposal uses a “Military APR” which by its very name and design was intended for SCRA-eligible accounts which are unique and constitute a very small percentage of the overall population/number of accounts in the US banking system. This proposal manipulates and misuses the Military Lending Act to create new lending laws that will be harmful to all consumers. Moreover, imposing this arbitrary cap will upend the Truth in Lending Act/CARD Act regulatory framework.

Moreover, these matters are best considered in the context and due course of the structure of bills and issues that are before the committees with overall jurisdiction of financial matters. Isolating and narrowing these matters to the NDAA could have unintended consequences that would reverberate with both members of the military and the financial services industry.

We respectfully request that you consider our views and are available to provide additional information to the conferees.

Sincerely,

A handwritten signature in cursive script that reads "Bill Himpler".

Bill Himpler
President & CEO
American Financial Services Association