

November 1, 2023

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing, and Urban
Affairs
United States Senate
Washington, DC 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing, and Urban
Affairs
United States Senate
Washington, DC 20510

Dear Chairman Brown and Ranking Member Scott:

On behalf of the American Financial Services Association (AFSA)¹, thank you for conducting the hearing entitled, “Ensuring Financial Security for Servicemembers, Veterans, and their Families” and respectfully request that this letter be placed into the record.

Servicemembers, veterans, and all Americans deserve access to responsible and accessible small dollar credit to meet their financial needs and protect them from harmful financial disruption. However, some legislation and regulations have made access to credit more difficult, not less, for military members and their families.

Traditional installment lenders have served customers, many with less than prime credit, with safe and affordable loans for unexpected financial needs. Consumer finance companies make more than three times as many personal loans to non-prime borrowers than credit unions make. This access to credit would be dramatically hindered under a 36 percent all-in rate cap like the one Congress passed in the Military Lending Act (MLA), leaving consumers with few options other than unregulated or illegal predatory lenders.

The federal government has even recognized the importance of traditional installment loans: the Consumer Financial Protection Bureau (CFPB) excluded these loans from its Payday Lending Rule. Furthermore, a Federal Reserve study confirmed that few if any reputable lenders can afford to offer a small-dollar loan capped at 36% interest, demonstrating how harmful arbitrary rate caps can be. Also, difficulty with small dollar loans was not mentioned as an issue in the CFPB’s Office of Servicemembers Affairs latest annual report on the top financial concerns of military families.

The National Foundation for Credit Counseling 2020 financial readiness survey of servicemembers found that active-duty military members were more than twice as likely to take out a predatory cash advance or payday loan in 2020 than in 2019. Furthermore, the service members were forced to take out payday loans because there were “fewer loan options” in part due to rate cap restrictions.

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.

Veterans' groups have also weighed in with Congress expressing concern with broadening the Military Lending Act due to the Act's creating barriers to financial assistance for those who need it most.

The nonpartisan Urban Institute² found earlier this year that expansion of the Military Lending Act "did not lead to better credit and debt outcomes for service members most likely to be affected by this policy." The study actually found that "the most vulnerable service members—those with deep subprime credit scores, the policy may have had negative effects by limiting their access to credit." The Urban Institute concluded that expansion of the MLA would not be effective in improving Americans' credit health. Congress should heed this study and not expand the MLA.

AFSA's members offer fixed-rate, fully amortizing, small-dollar loans repaid in substantially equal monthly payments. The average loan amount is \$2,000, with no balloon payments or hidden costs. These loans have been some of the safest and most affordable forms of consumer credit in the United States for over a century. Lenders determine a borrower's ability to repay, and repayment history is reported to credit bureaus, which gives consumers the opportunity to build or strengthen their credit history. Congress should encourage these types of safe, affordable loans rather than expanding legislation and regulations that result in harm, not financial stability, for Americans.

Furthermore, AFSA's Education Foundation promotes the delivery of quality personal finance education. For over 30 years, the foundation has been dedicated to providing free personal finance curricula, resources, and training to educators of all types so that consumers can learn responsible money management and gain a better understanding of the credit process. Programs like this rather than government overreach should be utilized to help Americans gain greater financial stability.

Access to reliable, transparent financial services should be available to all Americans: servicemembers, veterans, and civilians. For many consumers, safe access to credit enables opportunities that might otherwise be out of reach, and credit access should not be a privilege reserved for the elite. All Americans deserve access to safe and reliable credit, and AFSA and its members stand ready to work with you to ensure that economic opportunity is accessible for all.

As the Committee moves forward, please know that AFSA and its members are committed to working with you to ensure that American consumers are not harmed by the expansion of arbitrary rate caps that would deny credit to those most in need. Should you have any questions or need further information, please contact me at cwinslow@afsamail.org or (202) 776-7300.

Thank you for the opportunity to comment on these important issues.

Sincerely,



Celia Winslow
Senior Vice President
American Financial Services Association

² <https://www.urban.org/sites/default/files/2023-01/The%20Effects%20of%20APR%20Caps%20and%20Consumer%20Protections%20on%20Revolving%20Loans.pdf>.