

U.S. House Votes to Weaken State Limits on High-Cost Loans

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Bill Would Allow Lenders to Launder Loans through Banks to Evade State Interest Rate Caps

Washington – Today, the U.S. House of Representatives passed a bill, H.R. 3299, that would allow lenders to launder loans through banks to override state limits on high-cost loans, potentially paving the way for loans of up to 300 percent APR or more in states where those rates are prohibited. The U.S. Senate's companion piece of legislation is S. 1642 and was introduced by Senator Mark Warner of Virginia.

"This legislation could eviscerate limits on high-cost loans," **said National Consumer Law Center Associate Director Lauren Saunders.** "Make no mistake: payday lenders will try to exploit this bill to obliterate interest rate caps, which are the simplest and most effective method to protect consumers from unaffordable loans."

More than 200 local, state, national, faith, and veteran groups oppose the legislation. Twenty attorneys general also oppose the same provisions in another pending bill (the CHOICE Act), noting in a letter to the U.S. House: "It is essential to preserve the ability of individual states to enforce their existing usury caps and [we] oppose any measures to enact a federal law that would preempt state usury caps."

The pending legislation would override the Second Circuit's *Madden v. Midland* decision to state that if a loan's interest rate is legal when the loan is made, the loan remains valid even if it is assigned to another lender that cannot charge those rates. Marketplace lenders and some high-cost lenders have used banks (which are not subject to state interest rate caps) to originate loans that they cannot make directly, which the bank then instantly assigns to the real lender. However, some courts have questioned if the bank is the true lender. A separate bill, HR 4439, would specify that the true lender is determined by the paperwork, not the company that has the predominant interest in the loan.