September 19, 2023

The Honorable Charles Schumer
Majority Leader
United States Senate
Washington, DC, 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC, 20510

Dear Majority Leader Schumer and Minority Leader McConnell:

On behalf of America's credit unions and their 135 million members, we are writing in opposition to Amendment 1225 to H.R. 4366, the legislative vehicle for the "Minibus" Appropriations bill. The amendment, sponsored by Senator Josh Hawley, is comprised of the text of S. 2760, the *Capping Credit Card Interest Rates Act*. Representing not-for-profit and member-owned credit unions, we oppose this amendment and its underlying legislation as it would impose government price controls by capping the annual percentage rate (APR) of credit cards at 18 percent.

This amendment would not only cap credit card interest rates but would also include all associated fees and penalties in an arbitrary formula. Such government intervention would decrease consumer choice and credit availability and drastically lower the number of credit unions that would have the resources and scale to continue offering credit cards. This would mean that numerous credit unions and other small financial institutions would have to eliminate their credit card portfolios and notify their members and customers that they will have to take their business elsewhere. Concerns about consumer financial debt are certainly warranted, but there is a better way to address this problem.

Credit unions have provided safe, affordable financial services for those who have been left behind by the banking industry for more than a century, with a focus on consumers' financial well-being. While we share your desire to protect consumers, capping credit card rates would reduce access to credit for millions, especially those who face challenges accessing safe and affordable credit products. It could also create barriers, pushing people with marred credit histories and those on the financial fringe to payday lenders, as well as discourage future innovation and new products.

As member-owned financial cooperatives, credit unions have a vested interest in minimizing fees on products and services, including for credit card programs. Nevertheless, the services offered by credit unions, such as credit card programs, have associated costs. It is reasonable for credit unions to assess appropriate fees and charge fair interest rates for such services, particularly because the costs of these features are borne by credit union members. Credit unions also face regulatory pressures to maintain net worth (capital) that often exceeds the well-capitalized level and unlike publicly traded banks, credit unions have limited sources from which they can build capital, which is from retained earnings such as fee income. Therefore, credit card fees or interest charges are necessary for credit unions to maintain these programs for their members.

Federally chartered credit unions are required by law to have credit card rates at or under 18 percent. Also, most state-chartered credit unions, even in states without usury caps, have rates lower than 18 percent on the cards they issue to their members. While credit union credit card rates typically fall under 18 percent, and credit unions work hard to provide the best and most economical financial options for their members, the government imposing an unnecessary pricing restriction on credit unions creates significant concern with this legislation.

Although the average credit union credit card interest rate is significantly below the statutory limit, the cap does potentially affect credit unions' ability to compete with other credit card issuers. For example, credit unions can struggle to match other issuers' rewards and signing bonuses when consumers chase extras instead of focusing on interest rates alone. There are also challenges associated with supporting a credit card program during a rapidly increasing interest rate environment.

Innovation in the financial services sector has made credit more available, cheaper, and convenient than at any time in history. The credit card is one such innovation. However, credit cards are rarely collateralized so the risk of borrower default rises with this type of credit line. This forces credit card issuing financial institutions to impose relatively higher costs, fees, and re-pricing practices on credit cards.

Small dollar loans, credit cards, and other forms of short-term credit are critical to help people meet emergency expenses, disruptions in pay, and misalignments in the timing of their expenses and income. This amendment's proposed 18 percent fee and interest cap would make it more difficult for many consumers to obtain credit, thereby harming the very consumers the amendment seeks to protect. Congress should reject these legislative measures.

Proponents of a cap on credit card fees and interest believe that it would help consumers, especially subprime borrowers with less-than-perfect credit histories. In reality, many consumers who currently rely on credit cards would be forced to turn elsewhere for short-term financing needs, including pawn shops, online lenders—or worse—loan sharks, unregulated online lenders, and the black market.

A credit card rate and fee cap, however calculated, will mean depository institutions like credit unions will be unable to offer these affordable, unsecured small dollar loans. For a loan product like a credit card to be sustainable, depository institutions must be able to recover costs. Costs include not only the cost of funds, but also costs related to compliance, customer service, IT, underwriting, administration, and defaults (including losses).

Credit unions already protect consumers and comply with numerous regulations and requirements when issuing credit cards. These include the Fair Credit Reporting Act (FCRA), the Equal Credit Opportunity Act (ECOA), the Fair and Accurate Credit Transactions Act (FACTA), state consumer credit laws, the Consumer Financial Protection Bureau (CFPB), and the NCUA.

Credit card customers will also be impacted by the proposed all-in rate cap. Including annual fees and other fees in the calculation will cause credit cards to easily exceed the cap, resulting in the elimination or reduction of popular and valued credit card features like cash-back and other rewards programs.

We recognize that there are legitimate concerns about abusive credit card practices, and we applaud efforts to end discriminatory, predatory, deceptive, and abusive lending practices. However, even well-intentioned legislation, like S. 2760, that caps interest and fees on credit cards, would have unintended consequences which would ultimately harm credit union members by making credit more expensive and less available. Many credit unions and their industry partners offer credit counseling, debt restructuring, loan consolidation, and general consumer financial education. This is what credit unions do every day – people helping people!

As responsible and well-regulated financial institutions, we urge Congress to work with us to address excessive consumer debt. This is a goal that can be achieved without creating barriers in accessing safe and affordable credit products, pushing people with marred credit histories and those on the financial fringe to unscrupulous and unregulated lenders, and discouraging future innovation and new products. On behalf of America's credit unions and their more than 135 million members, thank you for considering our views on this important issue.

Sincerely,

Jim Nussle
President and CEO
CUNA

Anthony Hernandez
President and CEO
DCUC

Dan Berger
President and CEO
NAFCU

cc: Members of the U.S. Senate Committee on Banking, Housing and Urban Affairs