DCUC
DEFENSE CREDIT UNION COUNCIL

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Jason Stverak
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The Honorable Bernie Sanders
United States Senate
332 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Sanders,

I am writing on behalf of the Defense Credit Union Council (DCUC) and nearly 200 defense credit unions representing almost 40 million members regarding your proposal to impose a 10% cap on credit card interest rates. While well-intentioned, we believe such a policy would have serious unintended consequences, including reduced access to credit for low-income and underserved Americans, diminished ability of credit unions to meet their members' needs, and a contraction of consumer financial options during a time when they are needed most.

A 10% Cap Would Harm Access to Credit for Underserved Communities

Credit unions, particularly those serving low-income and underserved populations, work tirelessly to offer affordable and accessible credit options. However, a federally imposed 10% cap would disproportionately impact these members by forcing credit unions to tighten lending criteria or eliminate credit card offerings entirely for higher-risk borrowers.

1. **Higher Costs of Serving Vulnerable Borrowers:** Lending to underserved populations inherently involves greater risk. For example, according to the National Credit Union Administration (NCUA), the average delinquency rate for credit union credit cards in 2023 was 1.43%, compared to 0.77% for other consumer loans. Credit unions offset these risks through carefully structured interest rates while remaining below those of many for-profit lenders.
2. **Reduced Access to Credit:** Evidence from state-level usury caps demonstrates the risks of overly restrictive interest rate ceilings. Research from the Federal Reserve Bank of New York (2021) found that states with lower rate caps experienced reduced credit availability for low-income households, pushing these consumers toward non-traditional and often predatory lending sources such as payday loans or pawnshops.
3. **Impact on Small-Dollar Lending:** Many credit unions offer small-dollar loans to help members cover unexpected expenses or consolidate debt. According to the Consumer Financial Protection Bureau (CFPB), these loans often carry higher administrative costs relative to larger loans. A 10% cap would render many of these essential products unsustainable.

Credit Unions Operate Differently From Banks and Predatory Lenders

Credit unions are not-for-profit cooperatives owned by their members. Unlike large banks or payday lenders, credit unions reinvest earnings to benefit their members, offering lower fees, better rates, and financial education programs. For example, in 2022, credit unions provided an estimated $16 billion in direct financial benefits to their members (Credit Union National Association, 2022).

The proposed interest rate cap would penalize credit unions for serving precisely the populations Congress has tasked them with supporting. Defense credit unions, in particular, play a critical role in providing financial readiness to service members and their families—a mission that requires flexibility to meet diverse financial needs.

Unique Impact on Military Members

Defense credit unions play an essential role in supporting military members, veterans, and their families. These credit unions provide tailored products such as low-rate credit cards, emergency loans, and financial counseling that directly address the unique challenges faced by service members. For example:

- **Deployments and Relocations:** Military families often experience frequent moves and deployments, creating unique financial stresses. Defense credit unions—with their flexible lending practices—offer solutions that help members maintain financial stability during these transitions.
- **Emergency Financial Assistance:** When emergencies arise, defense credit unions provide immediate access to funds at lower rates than payday lenders or other high-cost alternatives. Removing flexibility in pricing through a 10% cap would jeopardize these lifelines.
- **Financial Education:** Defense credit unions deliver robust financial readiness training for service members, equipping them with tools to manage debt and avoid predatory lenders. Restricting credit union capabilities would weaken this essential support structure.

A rate cap would directly undermine these efforts, forcing many defense credit unions to reconsider their offerings, ultimately harming military families who rely on these tailored financial services.

Real-World Consequences of Rate Caps

History shows that rigid rate caps often lead to unintended harm:

1. **Credit Availability Shrinks:** After the introduction of rate caps in Arkansas during the 1980s, over half of banks stopped offering credit cards altogether. A similar outcome on a national scale would leave millions of Americans without access to traditional credit.
2. **Shift Toward Predatory Lending:** A study from the Brookings Institution (2020) found that restrictive rate caps often drive consumers toward higher-cost alternatives. In states with strict usury laws, consumers are five times more likely to use payday loans than in states with more flexible lending policies.
3. **Higher Costs for Remaining Products:** To compensate for reduced revenue from credit cards, financial institutions often increase fees or restrict other affordable loan products. Credit unions would be forced to make similar adjustments, directly harming the very members they seek to serve.

Policy Alternatives

Rather than imposing an inflexible cap that would harm consumers and limit credit unions' ability to serve their members, we urge Congress to consider more targeted solutions to address high-cost lending practices:

- **Support for Financial Education:** Credit unions invest heavily in financial literacy programs that empower members to make informed decisions. Expanding support for these programs would address the root causes of financial distress without restricting access to credit.
- **Encourage Responsible Lending Models:** Credit unions' cooperative structure inherently promotes fair lending practices. Policymakers should consider expanding access to federal programs that support small-dollar lending by community financial institutions.
- **Focus on Predatory Lenders:** Rather than penalizing responsible institutions like credit unions, Congress should target exploitative practices by payday lenders and other high-cost providers.

While we share your commitment to protecting consumers, a one-size-fits-all cap on credit card interest rates would create significant challenges for credit unions and harm the very communities it aims to help. Credit unions are a vital part of the solution to financial inequity, but their ability to serve depends on maintaining the flexibility to price products responsibly and sustainably.

We welcome the opportunity to work with you on policies that advance financial inclusion without unintended consequences and request the opportunity to sit down with you and your team soon to discuss the issues raised in our letter. We are happy to coordinate participation with our member institutions from Vermont and the region.

Please do not hesitate to contact me at 202.557.8528 or by email at jstverak@dcuc.org.

Sincerely,

Jason Stverak
Chief Advocacy Officer
DCUC