

United States Senate

WASHINGTON, DC 20510

April 6, 2020

The Honorable Jerome H. Powell
Chair
Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Kathleen Kraninger
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Rodney E. Hood
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

The Honorable Joseph M. Otting
Comptroller
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20551

Dear Chair Powell; Director Kraninger; Chairman McWilliams; Chairman Hood; and
Comptroller Otting:

We write today in response to your March 26, 2020, joint statement encouraging banks, savings associations, and credit unions to offer responsible small-dollar loans to consumers and small businesses affected by COVID-19. In your roles as our nation's prudential financial regulators, we urge you to issue guidance and lending principles that include a heightened emphasis on protecting our nation's ailing small businesses and consumers.

As acknowledged in your joint statement, responsibly managed small dollar loans serve a crucial role in our financial system, providing consumers the ability to seek cash in a pinch to cover emergency and unexpected expenses. When responsible short-term loan products are offered, the borrower is able to obtain a quick injection of cash with the ability to pay back the principal loan amount and any accrued interest without being trapped in a cycle of debt.

Unfortunately, your recent guidance lacks any mention of the necessary consumer protections needed to prevent predatory lending practices. We know all too well how irresponsible actors offer misleading, if not outright deceptive, loan products designed to trap hardworking individuals and families in a cycle of repeat borrowing and crushing debt. Without

clear guidance from you banning predatory lending practices, hardworking Americans are at risk of being exploited because of a financial hardship created through no fault of their own.

We understand that individuals and families sometimes fall on hard times and need a quick loan to make ends meet or to cover an emergency expense. Due to the COVID-19 pandemic, more Americans than ever will be falling on hard times. More than 40 states, representing approximately 90 percent of the nation's population, are under stay-at-home and shelter-in-place orders to stop the spread of the virus—a necessary action that will unquestionably impact a working family's household budget as workers are furloughed or laid off. More than 6.6 million unemployment claims were filed last week, doubling the previous week's record 3.2 million claims.

You are acutely aware of the shock to our economy and our nation's workforce that this public health crisis has presented. American families are hurting, and at this crucial moment in history, it falls upon our nation's financial regulators to ensure that no borrower will be price gouged with astronomical interest rates and exorbitant service fees.

As you work to construct further guidance, it is critical that you do so with a strong emphasis on consumer protections. We propose the following measures that would ensure the loan products available to our nation's small businesses and households include strong consumer protections:

- Institute a cap on interest rates for small dollar short-term loan products—preferably at a maximum rate of 36 percent APR, a rate with historical significance dating back to the early 19th century;
- Ensure the borrower meets a clearly outlined ability-to-repay standard;
- Prohibit loan products with unpaid principal from automatically enrolling the borrower in a new loan product without their knowledge and consent; and
- Eliminate the potential for one-time lump sum payments or balloon payments.

In closing, while the COVID-19 outbreak began as a public health issue, we now need to address what will be a generational shock to our economy. As our financial regulators, it is paramount that you use your regulatory authority to issue guidance that will put American consumers first. No one deserves to be taken advantage of in the midst of a crisis.

We appreciate your attention to this important matter.

Sincerely,



Richard J. Durbin
United States Senator



Sherrod Brown
United States Senator