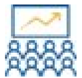
Last Updated: March 2020

H.R. 5050 Will Reduce Credit for Millions of Consumers

Introduced by Rep. Jesus "Chuy" Garcia (D-IL), H.R. 5050 would impose a national 36% "all-in" interest rate cap on most consumer loans. The bill also includes a provision that may require lenders—including credit card issuers—to adhere to any state rate cap based on where the cardholder resides rather than where the issuer is located, a significant change to current law that will make it difficult for many consumers to obtain credit.

Despite how it is advertised, the proposed 36% price cap is not an "interest rate" cap. In addition to interest, the calculation includes other fees, including annual, transaction, and cash-advance fees not included in the federal rate calculation (i.e., APR) used today.



As a result, even low-rate small dollar loans will often exceed the threshold. Some consumers who currently rely on credit cards or personal loans would be forced to turn elsewhere for short-term financing needs, including pawn shops, auto title loans, and assistance from friends and family—or worse, loan sharks and the black market. Overall, H.R. 5050 would leave most consumers worse off, especially higher-risk borrowers the bill is intended to protect .

Why it Matters

Proponents of H.R. 5050 believe the bill would help consumers—especially subprime borrowers with less-than-perfect credit histories—by limiting the interest rates they pay on short-term credit, particularly from less-regulated payday lenders. In reality, its impact would extend far beyond payday lenders to the broader consumer credit market including credit cards, personal loans, overdraft lines of credit, and small-dollar loans (e.g., accommodation loans). For example, a recent ABA analysis of data from Verisk Financial | Argus illustrates that the bill's effects on the credit card market could be devastating: tens of millions of current subprime cardholders would be at risk of losing access to credit cards if the bill became law.

Moreover, the bill's negative effect on the consumer credit market could be even more severe in certain states due to a provision that may require banks to comply with rate caps on a state-by-state basis, which in some cases are even lower than the proposed national cap. In New York and Texas, for example, rate caps are set at 16% and 21%, respectively. As a result, H.R. 5050 may cut tens of millions of borrowers out of the credit card market in New York and Texas alone (including consumers with strong credit scores) and millions more throughout the country.

Recommended Action Items

Vote No on H.R 5050

H.R. 5050 would reduce access to credit for millions of consumers, particularly subprime borrowers who rely on credit cards and other bank products for short-term financing needs. This loss would have real effects, as consumers could fall behind on bills, cut spending on essentials goods and services, or turn to riskier lenders.

ABA Expert Contact: Nessa Feddis | nfeddis@aba.com | 202-663-5433

American Bankers Association.