Maine Credit Union League

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In Opposition to

LD 201: An Act to Establish a Limit on the Interest Rate Charged for Revolving Loans

Committee on Health Coverage, Insurance and Financial Services

February 4, 2025

Good Afternoon, Senator Bailey, Representative Mathieson, and distinguished members of the Committee on Health Coverage, Insurance and Financial Services,

My name is Krista Simonis and I am the Director of Governmental Affairs at the Maine Credit Union League. The Maine Credit Union League is the trade association for Maine's 48 credit unions and over 750,000 members statewide. We respectfully submit the following testimony **in opposition to LD 201**.

Currently federally chartered credit unions have an interest rate cap of 18%. This level is set by federal regulators and determines the maximum that can be charged for revolving loans, including credit cards. This limit does not apply to banks, or institutions chartered at the state level, including in other states.

Due to this federal regulation, LD 201 would apply only to state-chartered credit unions. Very few Mainers hold cards that are subject to Maine interest rate caps, and rate caps have a disproportionate harm on the ability of Maine chartered credit unions to remain flexible and innovate. In 2021, joint testimony from the Bureau of Financial Institutions and the Bureau of Consumer Credit Protection cited parity concerns for state chartered institutions.

Credit unions can choose whether to be chartered at the state or federal level. Both are subject to state and federal laws and regulations, but each institution chooses the charter that best fits their needs.

It is our fear that placing a cap on interest rates in this manner would be a disadvantage to state chartered credit unions in Maine. There are currently 12 state-chartered credit unions out of the 48 credit unions in Maine. While many institutions choose a federal charter for the relative simplicity of start-up and regulation, state-chartered credit unions often benefit by being able to develop new innovative products for their members. For example, as a result of last session's bill, LD 1277, which came before this committee, state-chartered credit unions can now offer Sharia-compliant mortgage loans.

Maine's credit unions need the flexibility to be able to set their own interest rates. While the vast majority of state credit unions have rates below the cap proposed in LD 201 there are situations where a higher rate means we can extend credit to those who wouldn't otherwise qualify. This flexibility allows for broader access to credit, as institutions may make riskier loans to those in need. LD 201 would reduce the finance charge (which includes interest rate) for consumer loans of $2,000 or less, from 30% to 24.9%. These are often the loans with highest risk to the institution, as they may be made to people with low credit scores or only recently established credit histories.

Interest rates are set so credit unions can maintain specific risk profiles. If a credit union cannot raise their rates they will simply not be able to offer loans to those whose income or credit score falls below the accepted risk level.

Without access to credit, those most in need are likely to seek loans from other places, like payday lenders, whose high interest rates trap consumers in a cycle of debt. This leaves the most vulnerable open to exploitation by out-of-state companies that engage in predatory lending practices.

This well-intentioned bill would limit our state-chartered credit unions' ability to serve those most in need. As not-for-profits, credit unions are not in the business of squeezing members for additional percentage points or artificially inflating interest rates to benefit shareholders. Credit unions exist to provide credit– for a new stove, a roof, a car – to those who may have nowhere else to turn. Limiting their ability to do so would only serve to drive Mainers to payday lending loan sharks, instead of institutions dedicated to giving back to their communities.

As cooperatives, credit unions return profits back to their members. In 2024, credit unions in Maine passed more than $89M in savings to their members in the form of better interest rates for loans. Lower rates are one of the main reasons why members choose credit unions, and by mandating a lower rate for loans, credit unions may lose this competitive advantage.

State chartered credit unions need the flexibility of being able to establish their own revolving loan rates so they can increase access to credit and serve the underserved. Please continue to trust credit unions to make the business decisions that are right for them and their members and vote to oppose LD 201.