STATE OF MAINE
DEPARTMENT OF PROFESSIONAL & FINANCIAL REGULATION
BUREAU OF FINANCIAL INSTITUTIONS

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February 4, 2025

Senator Bailey
Representative Mathieson
Joint Standing Committee on Health Coverage, Insurance, and Financial Services
100 State House Station
Augusta, ME 04333

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

Dear Senator Bailey, Representative Mathieson, and members of the Committee:

The Bureau of Consumer Credit Protection and the Bureau of Financial Institutions provide this letter expressing a "neither for nor against" position with respect to LD 201, An Act to Establish a Limit on the Interest Rate Charged for Revolving Loans.

This bill would amend the Maine Consumer Credit Code (Title 9-A) by imposing a 24.9% interest rate cap on credit cards issued by non-banks (e.g. store cards) for use in consumer sales of goods, and on credit cards issued by supervised lenders (banks and other licensed lenders) for general use.

While the Bureaus take a "neither for nor" position on this bill, and understand the sponsors concerns about providing relief from high card rates, there are a number of limitations on the reach of the proposal and potential consequences to consumer lending in Maine that are important for the Committee to evaluate as it weighs policy changes.

1. Federal preemption of State law. The interest rate cap proposed by the bill would apply to Maine's state-chartered banks and credit unions, but not to out-of-state, state and federally-chartered institutions. It is established law that banks located in other states need only comply with the rate restrictions of their "home states," and can "export" terms allowed in their home states to residents of other states. This means that if the bill were to pass, Maine consumers would still face high rates on credit card lending. The bill would create an uneven playing field between Maine- chartered financial institutions and their out-of-state, state and

federal counterparts. Those Maine-chartered institutions that do issue cards may see a reduction in revenue, devaluing Maine's financial institution charter. Further, a limitation on credit card rates would be a reversal of business development policy set in the mid-1990s, when this Committee (similar to other states) removed the cap on credit card fees for the stated purpose of attracting card lenders and their service centers to Maine.

2. Decreased lending. An assumption by some proponents of rate caps is that lending would continue as it is now, but at lower rates. That is not necessarily true. Lenders use a concept called "risk-based lending," meaning that they charge higher rates to those whose credit scores indicate a greater chance of default. In other words, there's a chance that rate caps would reduce credit opportunities for higher-risk borrowers. In addition, consumers can shop elsewhere and receive fewer local protections. Consumers desperate for credit have many options, including internet-based non-bank lenders and unlicensed payday lenders. If rate limits reduce the ability of some individuals to obtain credit cards, we may see residents turn more frequently to these other types of loans – which are more difficult to regulate.

Thank you for considering the general information above. If we can be of further assistance, please let us know.

Sincerely,

Linda Conti

Linda Conti, Superintendent

Bureau of Consumer Credit Protection

Lloyd P. LaFountain, III, Superintendent

Bureau of Financial Institutions