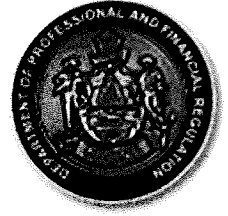




Janet T. Mills
Governor

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL & FINANCIAL REGULATION
BUREAU OF CONSUMER CREDIT PROTECTION



Linda Conti
Superintendent

Joan F. Cohen
Commissioner

**TESTIMONY OF LINDA CONTI
SUPERINTENDENT
BUREAU OF CONSUMER CREDIT PROTECTION
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
L.D. 314**

An Act to Establish Consumer Protections Regarding Small Dollar Loans

**Presented by
Before the Committee on Health Coverage, Insurance and Financial Services**

February 12, 2025 at 10:00 a.m.

Senator Bailey, Representative Mathieson and Members of the Committee on Health Coverage, Insurance and Financial Services, I am Linda Conti and I serve as the Superintendent of the Bureau of Consumer Credit Protection (BCCP). I am here today to testify in opposition to LD 314 for two reasons. The first relates to principles of federalism and the second concerns protecting consumers.

This bill pertains to creditors who make short-term small-dollar loans in Maine at or near the State's maximum allowable interest rate of 24% for loans with balances between \$2,000.00 and \$4,000.00. For loans with balances up to \$2,000.00, Maine's maximum interest rate is 30%. For loans with balances over \$4,000.00, the interest rate is capped at 18%. Maine has had these interest rate caps since 1997. Under the National Bank Act, states interest rate caps are "preempted" by federal law and do not apply to federally chartered banks. This means that federally chartered banks are able to do business in Maine and "export" their respective state's higher interest rate into Maine.

For example, Utah law does not set an interest rate cap, therefore, a federally chartered bank that's domiciled in Utah may legally lend in Maine at a rate far exceeding 18%. For the last several years, so-called "fintech" companies have developed advanced lending technology which they market to federally chartered regional banks who do not have the resources themselves to develop such consumer lending products. These relationships between the non-bank fintech businesses have been criticized by consumer protection advocates because consumers may be confused about who the "true lender" is. In an effort to protect consumers and illuminate who the "true lender"

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TTY: Please Call Maine Relay 711

Consumer Assistance: 1-800-332-8529

Fax: (207) 582-7699

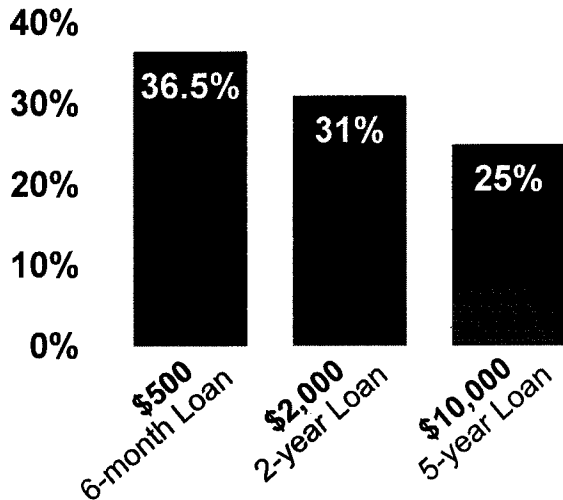
is, some states – such as Maine in 2021 – have passed (or are considering passage of) anti “rent-a-bank” laws with the intent to make it clear who the true lender is. If this LD is passed, it will result in the repeal of Maine’s anti rent-a-bank law and the non-bank fintech companies will be allowed to continue to partner with out-of-state federally chartered banks to offer consumer credit at rates that will exceed present Maine law. In exchange for the right to avoid Maine interest limits and to charge unlimited interest, LD 314 offers some specific standards that the lender must meet as offering sufficient consumer protection. These standards appear to be similar¹⁰³⁰ to the now dead CFPB Pay Day Rule but extends it to larger loans. However, the CFPB payday rule focused on the borrower’s ability to repay only because it was prohibited from creating rate caps. Rate caps, like the one in place in Maine for loans of this size, are the most effective deterrent to predatory lending. Maine's cap on a \$2,000 loan - 30% - is only slightly below the median 32% for loans of this size.

Thank you for your time and I would be happy to answer any questions now or at the work session.

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State Annual Percentage Rate (APR) Caps For \$500, \$2,000 and \$10,000 Installment Loans

Median State APR* Limit by Size of Loan In States that Cap Rates



More than three quarters of the states cap the maximum annual percentage rate (APR) on small - to mid-size installment loans. For a \$500 six-month loan, 44 states and DC limit the rate; 42 states plus DC cap rates on a \$2,000 two-year loan; and 38 states plus DC do so for a \$10,000 five-year loan.

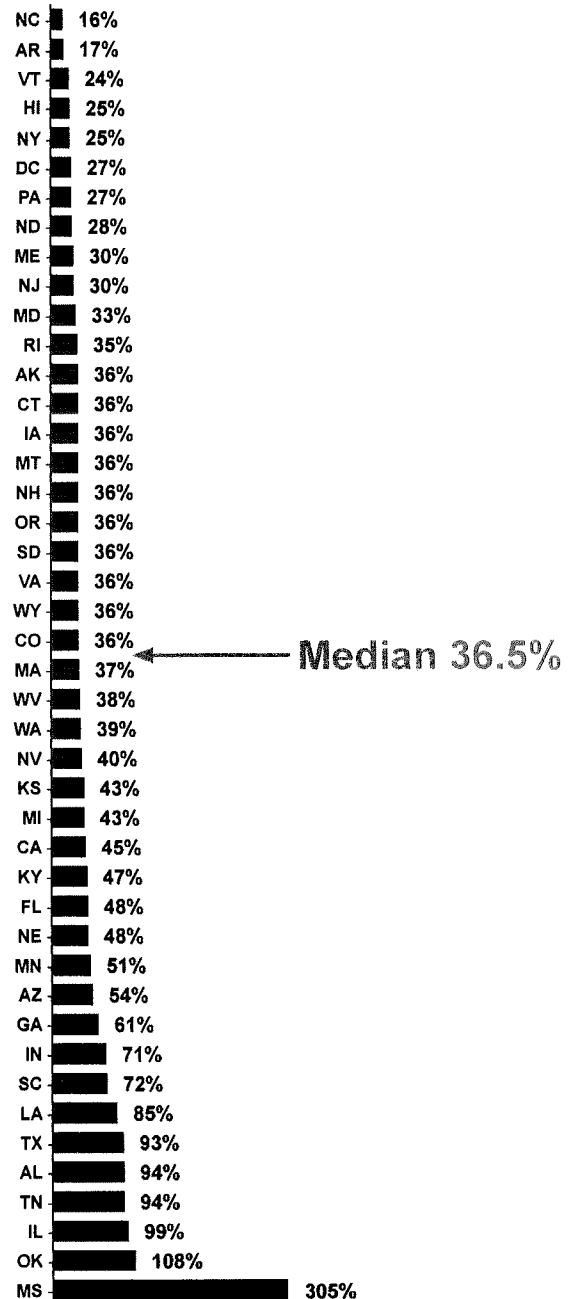
Voters, regardless of political party, strongly support rate caps. In the past ten years, overwhelming majorities in five states have capped rates at 36% or less: Arizona (2008), Colorado (2018), Montana (2010), Ohio (2008) and South Dakota (2016).

There is a strong historic and contemporary consensus that 36% should be the top rate for small loans. But for larger loans, 36% is a very high rate and most states impose lower caps. As the size of a loan increases, the maximum APR,* including fees, tends to decrease—from a median of 36.5% for a \$500 five-year loan to 31% for a \$2,000 two-year loan to 25% for a \$10,000 five-year loan.

Some states have no rate cap at all. Depending on the size of the loan, 4 to 7 states only prohibit unconscionability, and 3 to 5 states have no limit.

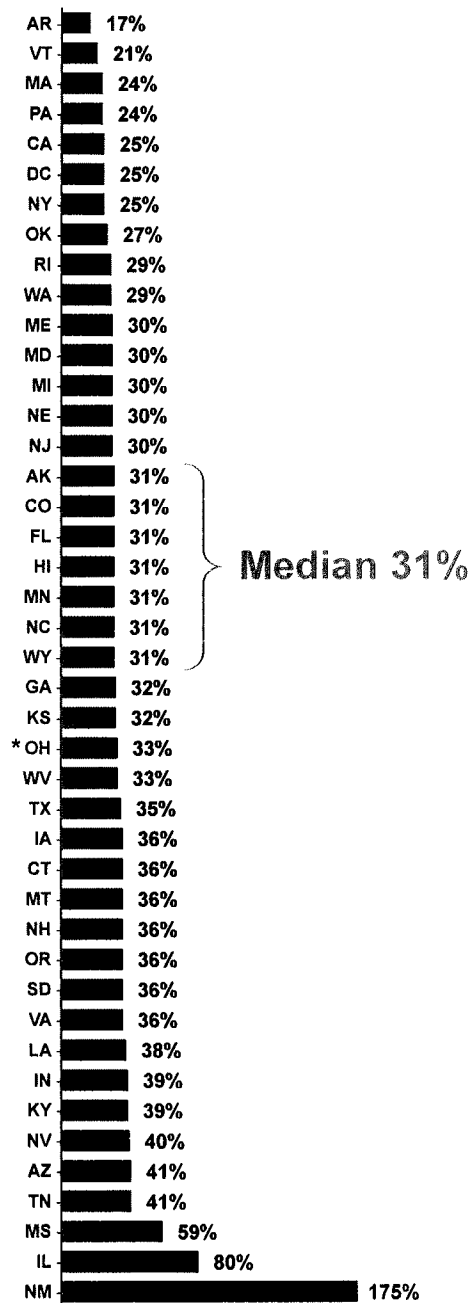
Interest rate limits are the simplest and most effective protection against predatory lending.

\$500 Six-Month Loan
Maximum APR* in States with Cap
(43 states plus DC)



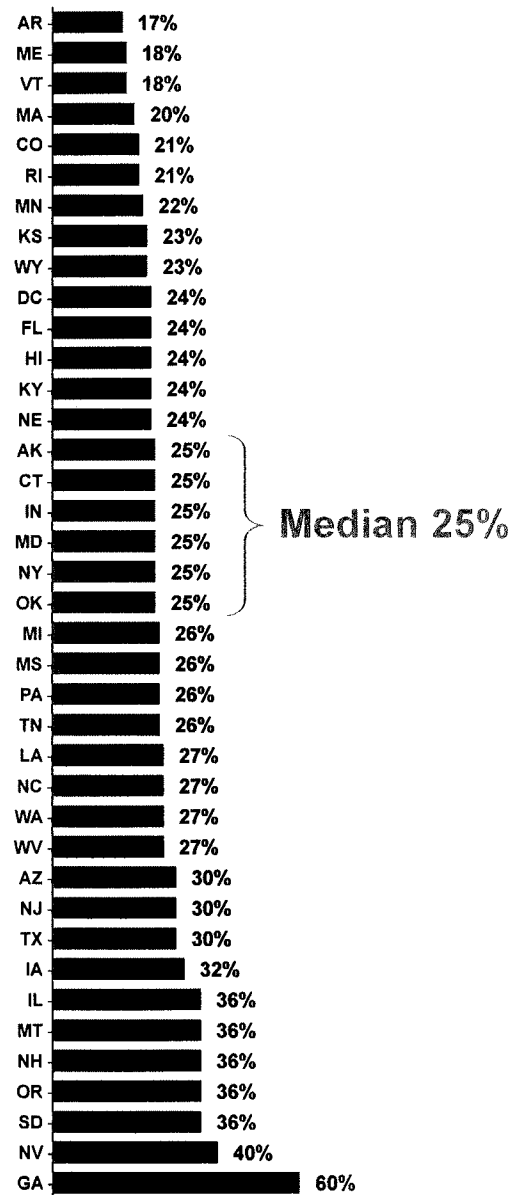
No cap except unconscionability:**
ID, NM, UT, WI
No cap:
DE, MO, OH*

**\$2,000 Two-Year Loan
Maximum APR* in States with Cap
(42 states plus DC)**



No cap except unconscionability:**
AL, ID, SC, UT, WI
No cap:
DE, MO, ND

**\$10,000 Five-Year Loan
Maximum APR* in States with Cap
(38 states plus DC)**



No cap except unconscionability:**
AL, CA, ID, NM, SC, UT, WI
No cap:
DE, MO, ND, OH,* VA

*APRs are based on calculations done in 2017 for \$500 loans and in 2018 for \$2,000 and \$10,000 loans, except that the rate for a \$500 loan in Colorado reflects the 2018 voter initiative. Ohio's 2019 rates have not been calculated. The current maximum APR in some states may have changed due to changes in the law and other variables. Rates are for closed-end loans. Rates will differ for lines of credit and other open-end credit.

** Unconscionability refers to rates that are so high that they shock the conscience.