

February 15, 2022

The Honorable Gregory Baca
Minority Floor Leader
New Mexico Senate
P.O. Box 346
Belen, NM 87002

The Honorable James Townsend
Minority Floor Leader
New Mexico House of Representatives
69 W. Compress Rd.
Artesia, NM 88210

Dear Leaders Baca and Townsend:

We write to you to express our opposition to H.B. 132, a bill that would impose a 36% rate cap on most consumer loans. New Mexico Republicans must stand united for consumer choice and access to credit. There has been a great deal of misinformation spread on the matter of interest rate caps, but little attention focused on what a rate cap would mean for the citizens of New Mexico.

Making small dollar loans more affordable for consumers is a goal we can all get behind, but this bill will eliminate consumer choice and hurt consumers. In other states with a 36% rate cap on small dollar loans, we've seen what happens: responsible lenders are forced out of the state taking jobs and financial opportunities with them. Workers and families that need credit to make ends meet some months are left with fewer choices – and less desirable ones at that.

The fact of the matter is 40% to 50% of New Mexicans have access to bank accounts, savings, credit cards, and lines of credit to draw upon to meet their financial needs. But there are more than 500,000 New Mexicans, whether because they do not have bank accounts or due to subprime credit scores, who do not have access to *any* form of credit other than short-term installment loans.

It is an indisputable fact that financial institutions cannot make a small dollar loan at 36% and make a profit unless it for an amount of about \$3000. The National Commission on Consumer Finance study confirmed it.ⁱ The CFPB's Taskforce on Federal Consumer Financial Law report confirmed it.ⁱⁱ A Federal Reserve study on interest rate caps confirmed it.ⁱⁱⁱ

But most customers don't want or need a \$3000 loan. In New Mexico, more than 60% of small dollar loans are for less than \$1000.

Credit unions in New Mexico claim they will "step up" to fill the vacuum in the wake of this legislation's passage and offer small dollar loans. But New Mexico's credit unions haven't offered these small dollar loans to the subprime customers who will be impacted the most.

The president and CEO of the credit unions' national association, Jim Nussle, has stated that rate caps will not work for his members. "[T]he establishment of a national all-in rate cap applicable to all creditors is an unproven one-size-fits-all policy, the consequences of which will likely include reduced access to credit from reputable lenders."^{iv}

State financial regulators in North Carolina and Georgia have reported real economic suffering in the wake of 36% rate cap impositions.^v Should you support this legislation you will be denying more than

500,000 of your fellow New Mexico citizens and constituents access to the only form of credit they have today.

There must be a more responsible way to approach this issue.

Conservative advocates agree. Oppose HB 132.

Respectfully,

Paul Gessing
President, Rio Grande Foundation

Carla Sonntag
President and Founder, New Mexico Business Coalition

Heather R. Higgins
CEO, Independent Women's Voice

David Williams
President, Taxpayers Protection Alliance

Jeffrey Mazzella
President, Center for Individual Freedom

Matthew Kandrach
President, Consumer Action for a Strong Economy

Saulius "Saul" Anuzis
President, 60 Plus Association

Mario H. Lopez
President, Hispanic Leadership Fund

Stephen Pociask
President and CEO, American Consumer Institute

CC: All Members of the New Mexico Legislature

ⁱ National Commission on Consumer Finance. Consumer Credit in the United States. Washington, DC: US Government Printing Office, 1972.

ⁱⁱ Consumer Financial Protection Bureau, Taskforce on Federal Consumer Financial Law [hereinafter CFPB Taskforce]. (2021, January). Taskforce on Federal Consumer Financial Law Report. Retrieved from https://www.consumerfinance.gov/documents/9449/cfpb_taskforce-federal-consumer-financial-law_report-volume-1_2021-01.pdf.

ⁱⁱⁱ Chen, L., Elliehausen, G. Board of Governors of the Federal Reserve System (2020, August). The Cost Structure of Consumer Finance Companies and Its Implications for Interest Rates: Evidence from the Federal Reserve Board's 2015 Survey of Finance Companies. Retrieved from <https://www.federalreserve.gov/econres/notes/feds-notes/the-cost-structure-of-consumer-finance-companies-and-its-implications-for-interest-rates-20200812.htm>.

^{iv} Credit Union National Association. (2021, July 15). Proposed 'all-in' rate cap would reduce access to credit. Retrieved from <https://news.cuna.org/articles/119673-proposed-all-in-rate-cap-would-reduce-access-to-credit>.

^v North Carolina Office of the Commissioner of Banks (2018). Consumer Finance Annual Report. Retrieved from https://www.nccob.gov/Public/docs/News/Pub%20And%20Research/2018_Annual_Report_Final.pdf.