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VIA FEDERAL EXPRESS AND ELECTRONIC MAIL (FSCDems@mail.house.gov)

Honorable Maxine Waters, Chair
United States House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Re: Impact of Proposed Legislation on African American Business Ownership

Dear Chair Waters:

On behalf of the National Black Chamber of Commerce, I am writing to request help from you and the Financial Services Committee with the Protecting Consumers from Debt Traps and Unreasonable Rates Act, the Military Veteran and Vulnerable Consumer Usury Protection Act of 2019, and any related legislation, to make sure that potential negative impacts on the African American community and especially on African American entrepreneurs are identified and mitigated well before the legislation is considered. For several reasons, we are especially concerned about the idea of imposing a 36% usury rate cap.

First, there are currently many popular loan products that carry APRs greater than 36%, and African American customers are more than twice as likely than white customers to use these products. Over sixteen percent of African Americans do not have a bank account and therefore often rely on alternative forms of credit, which sometimes carry higher interest rates. Instituting a rate cap could run the risk of excluding millions of Americans from the credit community by completely “unbanking” them. We believe it is imperative that research be conducted to understand the full impact of instituting a 36% rate cap on the African American community.

Second, women are more likely than men to be “underbanked” and therefore to rely on consumer loan products that carry high interest rates. Consequently, African American women could be especially at risk of being excluded from the credit community if 36% rate caps were imposed. Therefore, we believe there needs to be research on how a 36% rate cap could affect women and specifically how it could impact African American women before being considered in Congress.

Third, as you know, in recent years, banks have closed branches, and the closures have taken place disproportionately in African American communities. As banks shutter branches and in the absence of credit alternatives, credit “deserts” appear. When this happens, there are many people who are left with no good or convenient alternatives to obtain credit. Without robust options available, including loans of 36% or higher, people who are desperate to pay their bills and make ends meet are more likely to gravitate toward less desirable options like bouncing a check, bankruptcy, piling up debt on a credit card and paying only the monthly minimum, or worse. We believe there needs to be a comprehensive review of how a 36% rate cap would affect people who reside in places without a physical banking presence.

Fourth, we are very much concerned about the impact of a 36% interest rate cap on African American start-up businesses—especially startups owned by African American women. It is well documented that the average African American’s personal wealth is lower than that of the average White American. While the average African American wealth level is \$5,446, the average White American wealth is 11 to 16 times higher. Low levels of wealth and liquidity constraints create a substantial barrier to entry for minority entrepreneurs because an owner’s wealth can be invested directly in the business, used as collateral to obtain business loans, or used to acquire other businesses. Also, outside investors frequently require a substantial level of an owner’s investment of his or her own capital. Moreover, African American entrepreneurs are more likely than White entrepreneurs to rely on personal credit, rather than business credit, to raise the capital to launch their businesses. And regrettably, African American business owners are two to three times more likely as business owners to report “lack of access to business loans/credit” or “lack of access to personal loans/credit” as a reason for their businesses’ closures. Our organization is concerned that instituting a 36% credit rate cap could reduce options for African American would-be entrepreneurs. We believe research is needed to understand the impact of a 36% rate cap and that other options potentially will need to be made available to help African American entrepreneurs to level—and enter—the playing field.

In summary, we believe that there are several factors that need to be understood and quantified before a 36% rate cap can even be considered in Congress. At this point, there are just too many unknowns to upend a system that is at least a known and reliable one.

Sincerely,

Harry C. Alford
President/CEO

Cc: Members of the United States House Committee on Financial Services