

Letter to the Editor: Predatory lending finally ending in New Mexico

Written by Gallupsun Staff
Friday, 27 January 2023 04:12



On Jan. 1, we marked the end of four decades of predatory lending in New Mexico, thanks to a new law that reduces the maximum annual interest rate on small loans from 175%, one of the highest rates allowed anywhere in the nation, to 36%.

As Think New Mexico explained in our 2020 policy report making the case for this reform, the 36% interest rate cap is actually a return to a highly effective consumer protection law that was in effect from the mid-1950s through the early-1980s.

In the 1950s, the New Mexico legislature and governor capped the annual interest rates of loans at no more than 36%. This law protected consumers while still allowing plenty of access to credit. Unfortunately, in 1983, in response to federal interest rates that spiked as high as 20%, the legislature and governor repealed the state's interest rate cap.

Even at the time, there were those who raised concerns about what unlimited interest rates would mean for New Mexicans. Then-Representative Ted Asbury spoke in opposition to repealing the 36% interest rate cap: "I wonder if the long-term effect isn't going to be disastrous."

Unfortunately, it was. After New Mexico's interest rate cap law was repealed, predatory lenders flooded into New Mexico. In 1992, there were 23 storefront lenders in our state; by 2020, there were 561, one for every 3,819 New Mexicans. By comparison, there is a McDonald's for every 23,298 New Mexicans.

These lenders were concentrated around low-income communities and communities of color, with 60% located within 10 miles of Native lands, according to research by the Center on Law

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and Poverty. Meanwhile, nearly nine out of ten predatory lenders were headquartered outside of New Mexico, meaning that they drained scarce dollars out of the pockets of low-income New Mexicans and sent those profits out of state, a form of reverse economic development.

The tide began to turn in 2006, when the U.S. Department of Defense recognized that predatory lending was impacting national security because so many members of the military were becoming trapped in high-interest loans. So Congress passed the bipartisan Military Lending Act, capping the annual interest rates of loans to military service members and their families at 36%. This federal law protected over 17,000 active duty, national guard, and reserve members in New Mexico.

States began to follow suit, enacting their own 36% interest rate caps. As they did so, they demonstrated the effectiveness of this reform: people in states with reasonable interest rate caps saved millions of dollars in interest and fees while maintaining access to credit through a variety of more affordable options, such as nonprofit credit unions – of which New Mexico has 40 with around 150 locations across the state – and responsible small lenders that offer loans at 36% or less.

During the 2022 legislative session, Think New Mexico successfully championed the passage of the 36% interest rate cap in partnership with the other members of the New Mexicans for Fair Lending Coalition, including NM Native Vote, the New Mexico Credit Union Association, the Center on Law and Poverty, and Prosperity Works, among others.

Now this coalition is working to spread the word about resources available to New Mexicans who need help paying their bills, accessing financial assistance, or locating affordable loans from responsible sources like the state's many credit unions. A link to the resource guide, which includes a map of credit union locations, can be found on our website at:

<https://www.thinknewmexico.org/end-predatory-lending/>

New Mexicans deserve access to fair credit at reasonable rates. Thanks to the newly restored 36% cap, that is finally the law in New Mexico once again.

Sincerely,
Kristina G. Fisher

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***Associate Director,
Think New Mexico***