U.S. House Subcommittee on Financial Institutions and Consumer Credit
Thursday, February 11, 2016
1:00 PM ET

Testimony of Indiana Attorney General Greg Zoeller
Re: Preemption of State lending laws

Thank you Mr. Chairman and members of the committee. I am Greg Zoeller, the Attorney General of Indiana. I appreciate the invitation and it is an honor to be in front of you today to talk about this important matter of preserving states' rights, and to raise awareness of an ongoing barrage of federal government overreach.

Over the years, Indiana, and other states, have crafted meaningful regulation and consumer protections for their citizens, including small loan lending. Indiana established consumer friendly protections for all borrowers, while providing solutions for those who need additional help. In the past year, the Consumer Financial Protection Bureau has proposed a rule creating a regulatory framework that defies the very goals my state has strived to achieve for consumers to maintain access to credit while not inadvertently driving them to unregulated, unsafe loan products. Like other states, we have worked hard to strike this balance between access to credit and protections against predatory lenders. The proposed federal regulations would throw this balance off and reduce access to short-term loans for the people in my state and others who need this type of financial assistance the most and who need it from reputable lenders.

This policy area has historically been left to states and as Attorney General I defend my state's authority. Indiana has extensive experience in crafting these regulations to protect consumers. For example, currently in Indiana, lenders are prohibited from making a small loan to a borrower if the total of the principal amount and the finance charges of the small loan to be issued, combined with any other small loan balances that the borrower has outstanding with any lender, exceeds 20% of the borrowers' monthly gross income. Indiana also requires certain disclosures about the nature of this financing option. These and other regulations promulgated under Indiana law provide Hoosier-specific protections which would be pre-empted under the proposed Bureau rules.

Moreover, the regulatory framework proposed by the Bureau is extraordinarily broad. It covers not only payday loans, but short- and medium-term loans which can be made by community banks and credit unions as a service to customers. The new rule would create an environment that discourages this type of lending by these already heavily regulated institutions. Without this legitimate source of short-term lending, consumers who need these types of funds will be forced to turn elsewhere… likely to unscrupulous lenders where they are at higher risk for abuse.

Many of my attorney general colleagues across the country have raised these concerns with the CFPB to little avail. Since the creation of the Bureau in 2010, attorneys general have continued to express concern that the Bureau's goals to help consumers have conflicted directly with the authority of states to balance the interests of financial institutions and organizations with the protections of its citizens from fraud.

As Attorney General, I take my role as protector of consumers seriously. I have been a strong advocate on behalf of consumers, especially those most vulnerable in our society. When seniors and veterans were increasingly becoming victims of scam artists, I successfully worked with the legislature to increase penalties against those who targeted these victims. We've also worked to educate and defend consumers struggling with debt and similar issues, for example refusing to tolerate unfair debt collection tactics, and funding foreclosure prevention services and debt counseling to Hoosiers. My attorney general colleagues and I are on the ground working with consumers, assisting victims and tackling these important issues. The progress we've made to advance strong consumer protections that work best for our states should not be undermined. One-size-fits-all, blanket regulations from a federal bureaucracy will only wipe out years of thoughtful, state-specific efforts to assist and protect our citizens.

So at issue is not simply whether the regulatory framework that the CFPB has proposed is best for the consumers in my state but whether the rules that provide for both access to credit and protection from predatory lending are best done in Washington for the nation or by each individual state.

Thank you for your time. I am available for any questions.