

Attorney General Raoul Challenges Fdic Rule That Allows Predatory Lenders To Bypass State Interest-rate Caps

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Chicago – Attorney General Kwame Raoul today, as part of a coalition of eight attorneys general, [filed a lawsuit](#) challenging the Federal Deposit Insurance Corporation's (FDIC) final rule that exempts buyers of high-interest loans from state interest-rate caps. These caps play a critical role in regulating payday loans and other high-cost lending.

Under existing federal law, federally-insured, state-chartered banks are exempt from state interest-rate caps. The FDIC's final rule extends these exemptions to any non-bank lender that buys loans originated by an exempt bank. The final rule allows predatory lenders that would otherwise be subject to interest-rate caps to charge consumers interest that far exceeds the rates permissible under the law. Additionally, the final rule worsens the problem of "rent-a-bank" schemes, in which predatory lenders partner with banks that act as the lender in name only, allowing predatory lenders to evade state interest-rate caps.

"Predatory lenders should not be allowed to avoid laws that protect the most vulnerable consumers," Raoul said. "The FDIC's rule allows predatory lenders to sidestep state law and makes it easier for these lenders to prey upon Illinois residents. I will fight to protect Illinois residents from predatory lenders, which disproportionately target low-income and minority residents."

States long have played a critical role in protecting their residents from high-cost loans. While federal law provides a carve-out from state interest-rate caps for federally-regulated banks, state law continues to protect residents from predatory lending by non-banks such as payday, auto title and installment lenders. The FDIC's final rule extends the Federal Deposit Insurance Act exemption for federally-insured, state-chartered banks to non-bank debt buyers, a dramatic expansion that facilitates lenders' deliberate efforts to evade state laws that are designed to protect residents from predatory lending.

In the lawsuit, Raoul and the coalition argue that the FDIC's final rule conflicts with the Federal Deposit Insurance Act, exceeds the FDIC's statutory authority and violates the Administrative Procedure Act. Additionally, the lawsuit asserts that the FDIC failed to consider and address the negative effect that its final rule has on consumer financial protections by facilitating predatory "rent-a-bank" schemes.

Joining Raoul in filing the lawsuit are the attorneys general of California, the District of Columbia, Massachusetts, Minnesota, New Jersey, New York and North Carolina.