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The Hudson Cook Usury Monitor - A Publication of Recent Usury and Finance Charge Cases - Spring 2026

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For those interested in all things "Interest" related, we provide a summary of recent state and federal court cases involving usury, finance charges, and interest rates, as they relate to the consumer and commercial credit industries. Please look for our next edition towards the end of summer.

Arizona/Commercial Law - Reserving Interest: A merchant received a commercial loan and subsequently went into bankruptcy. The lender filed a proof of claim that seemingly overstated the amount due. The merchant objected and the lender revised the claim amount. However, the merchant alleged that the initially overstated claim was a usury violation under Arizona law because the lender "reserved" a greater sum than was permitted, thereby voiding the debt. The bankruptcy court held there was no usury violation and the merchant appealed. The district court upheld the ruling. The court found that the lender could not "reserve" excessive funds that it never received. The court also indicated that the note likely controlled the interest question, not the proof of claim. United Hauling LLC, 2026 WL 764071 (D. Ariz. Mar. 18, 2026).

- This was a troubling claim and the court's ruling was a relief. A finding that a loan could be rendered void based solely on a procedural filing would have had significant consequences.

California/Earned Wage Access - Finance Charge: Servicemembers sued an earned wage access provider, alleging the wage advance was credit that violated the Truth in Lending Act, Military Lending Act, and Illinois predatory loan law. The provider moved to dismiss the case, arguing its product was a non-recourse advance that was not credit. The court denied the motion, finding the consumers sufficiently alleged that the advance was credit and the transaction fees (including an expedited payment fee and a tip) were finance charges. Ramirez, 2026 WL 828299 (N.D. Cal. Mar. 25, 2026).

- The court determined that the consumers sufficiently alleged there was an obligation to repay, even if it was not necessarily a legal obligation. With regard to fees, the court indicated the fees were finance charges because they were material to the terms of the advance.

California/Commercial Loan - Usury Exemption: A lender made a commercial loan to a corporation, secured by real estate and personally guaranteed by the owner of the corporation. The borrower defaulted and the trial court found in favor of the lender. The borrower appealed, arguing the loan was void because the loan was usurious and the lender was not registered or licensed in California. The court ruled against the borrower, finding the loan was exempt from the state's usury limit because it was arranged by a licensed real estate broker, and the lender was exempt from licensing. D&M Investments

Holdings Inc., 2026 WL 1506281 (Cal. Ct. App. May 29, 2026).

- The court also concluded that registration in California was not necessary because the lender was not transacting intrastate business.

California/Real Estate Loan - Broker Exemption/Proof: In this unpublished case, a borrower claimed that two real estate loans it received were usurious under California law. The lender argued the state's usury limit did not apply because the loan was arranged by a licensed real estate broker. The trial court found the borrower failed to prove a licensed real estate broker was not involved. The appellate court upheld the ruling, finding that the borrower's usury arguments were unsupported and waived. Rasooli, 2026 WL 746875 (Cal. Ct. App. Mar. 17, 2026).

- The court provides a good discussion of usury law and unconscionability.

Delaware/Commercial Loan - Entity Borrowers: A lender made a series of commercial loans to a borrower. The borrower generally suggested the terms of the loan, including with respect to collateral. After the borrower defaulted, the lender placed liens on real estate owned by the borrower. The borrower sued, claiming the liens were improper and the loan terms were usurious. The court quickly rejected the usury claim, determining that Delaware usury limits do not apply to loans made to entity borrowers, even if guaranteed by an individual. Vesta Holdings, 2026 WL 1662142 (Del. Ch. June 9, 2026).

- The court wasn't very sympathetic to arguments by the borrower about the loan terms given that the borrower suggested the terms.

Idaho/MCA - Recharacterization: This was a bankruptcy case involving a contractor who entered into several merchant cash advance agreements. The bankruptcy trustee sought a declaration that the agreements were void loans under New York's usury law. The court ruled in favor of the MCA provider, finding that criminal usury cannot be asserted as an affirmative claim. However, the court allowed the trustee to proceed with claims that the transfers were avoidable transfers under usury law. The provider then sought summary judgment under the LG Funding recharacterization test, but the court determined that it needed to look beyond the LG Funding factors to the totality of the circumstances. As a result, summary judgment was not appropriate. In re: HMH Construction, LLC, 2026 WL 979237 (Bankr. D. Idaho Apr. 10, 2026).

- This is one of a few cases where courts have started to look beyond the LG Funding factors, a potentially troubling development for providers.

Illinois/Commercial Loan - Usury Savings Clause: Several lenders made a commercial loan to finance an aircraft for a group of borrowers. The borrowers defaulted and the lenders sued. The borrowers argued that the amount of interest owed was limited by the Illinois civil usury rate. Although the Illinois usury rate does not apply to commercial loans, the borrowers argued that the usury savings clause in the agreement effectively subjected the loan to the usury limit. The usury savings clause essentially stated that the lenders would not collect any interest in excess of that permitted "under the Usury Laws." The court disagreed with the borrower's interpretation, finding the usury limit did not apply. Equipment Leasing Group of America, LLC, 2026 WL 1194838 (N.D. Ill. May 1, 2026).

- This was an interesting (and unreasonable) argument and it is a good reminder about the unintended consequences that can arise from the language of an agreement. That being said, the court reached a common-sense conclusion.

Illinois/HELOC - Periodic Statement: This case dealt with a HELOC that was originated right before the mortgage crisis. In 2006, the borrower received a first lien loan to purchase a home and a HELOC to cover the downpayment. The borrower defaulted on the loans in 2008 and, after a bankruptcy, eventually restructured the first lien loan several years later. The borrower received no communications regarding the HELOC from 2009 until 2024, when the servicer sent the borrower a letter seeking payment for the outstanding principal and accrued interest. The borrower sued, claiming that Illinois law prohibited the accrual of interest on the HELOC because no periodic statements were sent for a 15-year period. The court agreed, allowing the borrower to proceed with her claim. In addition, the court allowed an FDCPA claim against the servicer for attempting to collect unlawful interest. Linderman, 2026 WL 1266163 (N.D. Ill. May 8, 2026).

- The court's opinion was thorough and well written, but this case certainly illustrates the potential for bad facts to create bad law.

Kentucky/Prejudgment Interest: This case involved an award of prejudgment interest on amounts owed by the defendant for unpaid insurance premiums. The only item of note was the court's emphasis that prejudgment interest does not begin to accrue until the defendant has notice of the precise amount due. Catalyst Resources, LLC, 2026 WL 915667 (E.D. Ky. Apr. 3, 2026).

Michigan/MCA - Enforcement of Judgment: This was an interesting case involving enforcement of a New York judgment in Michigan. An MCA provider obtained a judgment against several merchants in New York. The provider then sought to enforce the judgment in Michigan. The merchants argued that the transactions were actually usurious loans and that enforcement would violate Michigan public policy. The court held that there is no public-policy exception to the enforcement of a foreign judgment. Grow Green, LLC, 2026 WL 994834 (Mich. Ct. App. Apr. 13, 2026).

- The appeals court noted that a Michigan court has no authority to decline to enforce a New York judgment because the Michigan court disagrees with the merits of the judgment or feels that it conflicts with Michigan public policy.

New Jersey/Commercial Loan - Default Interest: A borrower received a commercial loan secured by real estate. The loan provided for a 4.15% interest rate, along with a default interest rate of 35%. The borrower defaulted and the lender brought suit. The borrower claimed the default rate was unreasonable. The trial court and appeals court both found the default interest rate was permitted under the law and the borrower failed to show it was usurious. Brighthouse Life Insurance Company, 2026 WL 741640 (N.J. Super. Ct. App. Div. Mar. 17, 2026).

- The court indicated that default rates are an acceptable way for lenders to offset a portion of the damages caused by delinquent loans.

New York/Commercial Loan - Choice of Law: A company received a $67,000 commercial loan

providing for interest of 49.99%. The loan was guaranteed by an officer of the company. The officer and his spouse put up their home as collateral. The loan included a New Jersey choice-of-law clause, as the lender had an office in that state. The company defaulted and the guarantor filed for bankruptcy. As part of the bankruptcy case, the guarantor alleged that the loan violated New York's criminal usury law (the guarantor's home was located in New York). The lender argued that New Jersey law should control. The court ruled for the guarantor, rejecting the New Jersey choice-of-law clause on public policy grounds - the court noted that New York usury law serves to protect "unsophisticated borrowers" and individual guarantors. The court ruled the loan was usurious. WBL SPE III LLC, 2026 WL 1492427 (W.D.N.Y. May 28, 2026).

- The court made much of the fact that the guarantor was an individual and enforcement of the lien would affect the spouse, who was not a guarantor. The court disputed whether the lender's New Jersey office was a sufficient connection to New Jersey.

New York/MCA - No Recharacterization: This case involved a factoring company that entered into a receivable purchase agreement with an MCA provider. The arrangement went bad and both companies made claims against each other. The case dealt largely with procedural issues. We mention it only because of the court's nice statement that an "MCA is not deemed to be a loan — and therefore not subject to prohibitions against usury —" as long as it complies with the three-factor test. RBR Global, LLC, 2026 WL 1384033 (S.D.N.Y. May 18, 2026).

New York/MCA - No Recharacterization: A merchant entered into an agreement for the sale of future receivables and later claimed that the transaction was actually a usurious loan. The court disagreed, finding that the transaction was not a loan. The agreement capped payments at a specified percentage of receivables, provided for payment adjustments based on sales, and provided for reconciliation. As a result, there was no finite term to the agreement. Bankruptcy was not an event of default. Build Retail, Inc., 2026 WL 1155491 (N.Y. App. Div. Apr. 29, 2026).

- The court noted that the merchant did not seek reconciliation, which precluded any claim the reconciliation process was illusory.

New York/Merchant Cash Advance - Recharacterization: A merchant cash advance provider entered into three purchase agreements with a merchant. The merchant defaulted and the provider sued. The merchant then counterclaimed, alleging the transactions were actually usurious loans. Ruling in favor of the merchant based on the "substance" of the transaction, the court found the funding was marketed as a loan and the provider was shielded from market risk. The court also determined that the LG Funding factors supported that conclusion, as the reconciliation provision could be viewed as illusory and the agreement sought to exempt the provider from the automatic stay in bankruptcy. Sonata Construction LLC, 2026 WL 867165 (S.D.N.Y. Mar. 30, 2026).

- In one helpful bit, the court explained that New York's criminal usury limit cannot be asserted as a counterclaim.

Puerto Rico/Equipment Financing - Default Interest: This case dealt with a loan to finance specialized medical equipment. The borrower defaulted and the lender sought damages. In response, the borrower argued that the loan's 18% default interest rate violated Nebraska's usury limit. The court disagreed, finding that the state's 16% usury limit did not apply because the transaction was subject to

an exclusion for loans exceeding $25,000. Cardona-Fernández, 2026 WL 883450 (D.P.R. Mar. 31, 2026).

- Interestingly, the court seemed to gloss over some of the nuances of the usury exemption.

Texas/Commercial Loan - Pre-Judgment Interest: In connection with a commercial loan, the lender sought summary judgment, along with pre- and post-judgment interest. The court found that the lender was seemingly asking for double interest in connection with its pre-judgment interest request. The lender supposedly calculated damages to include interest accrued under the contract and also asked for additional pre-judgment interest of 18%. Slab BBQ, LLC, 2026 WL 1130371 (S.D. Tex. Apr. 27, 2026).

- The court didn't go into much detail, but seemed to take issue with pre-judgment interest accruing on the interest that was already accumulating under the contract.

Washington/Commercial Loan - Personal Guarantee: This case arose out of a commercial loan. Following a default, the borrower sued the lender for usury, claiming that the usury rate was 12% because the loan was secured by the home of individuals (the individuals seemed to be acting as guarantors). The court held that the 12% rate does not apply to a business loan. Moreover, a personal guarantee does not convert a business loan into a consumer loan. V.S. Investment Assoc, LLC, 2026 WL 1290074 (Wash. Ct. App. May 11, 2026).

- The court's holding is helpful as allegations that a personal guarantee transforms a commercial loan into a consumer loan arise from time to time.

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