

Landmark Payday Loan Act in Illinois

By Harry Pestine

On June 9, 2005, Governor Rod R. Blagojevich signed a landmark Payday Loan Reform Act that for the first time will regulate the payday loan industry in Illinois and strengthen protection to consumers, especially working families and members of the military against predatory and abusive practices. The Act became effective in December 2005.

"Payday loans are supposed to help working people cover unexpected costs and emergencies. They're not supposed to break their bank accounts. We needed to do something about this, and we have achieved it," said Gov. Blagojevich upon signing the law during a ceremony at the Sargent Shriver National Center on Poverty Law. The Governor was joined by elected officials, legislators, advocate organizations, and individuals who have been the victims of abusive loans.

A payday loan is a short-term, very high-interest debt secured by a borrower's post-dated check. Payday loans become a problem when consumers cannot repay and instead renew the loan. Many consumers take out additional loans to pay the fees on their original payday loan. This extends the cycle of debt further, with no resources for recovery periods or optional repayment plans.

Currently, there are 995 payday or other short-term lenders in Illinois, a 23 percent increase from 2004. According to industry figures, the average annual percentage rate for short-term loans is 595 percent, and the average amount of a short-term loan is \$380. According to the Illinois Department of Financial and Professional Regulation, in 2004 lenders made 1.4 million payday loans, which generated \$1.3 billion in receivables.

"We can now protect working families from abusive lenders, very high interest rates, and endless debt. This law also helps members of the military. Lenders are no longer able to garnish their pay, collect when a member

of the armed forces is in a combat zone, or contact their commanding officer," added the Governor.

"For too long, payday loan operators took advantage of the most vulnerable consumers, including members of the military," said Lt. Gov. Pat Quinn. "This legislation curbs the spiral of debt so many Illinois residents have experienced due to predatory lenders."

The Payday Loan Reform Act provides consumer protections by restricting payday lending in several ways:

- Limits the interest that can be charged for each loan to \$15.50 per \$100;
- Sets a cap on total loan amounts to \$1,000 or 25 percent of a customer's monthly salary, whichever is less;
- Prevents borrowers from having more than two loans at a time;
- Provides that payday borrowers cannot have payday loans for more than 45 days. Once they have reached the 45-day limit they must have at least a seven-day loan free period.
- Creates a new 56-day repayment period with no additional interest charges for borrowers who have trouble repaying their loans;
- Protects borrowers from facing criminal prosecution for unpaid loans, and from paying attorneys fees and court costs; and
- Extends special protections to members of the military, including a ban on garnishing wages, deferral of collections for deployed personnel, and a prohibition on contacting a borrower's commanding officer.

In order to enforce these rules there will be a new state database that lenders will use to view the applicant's payday loan record. If a new loan violates the rules, the

payday lender will not receive authorization to issue it. Borrowers will also receive information – in English and Spanish – that outlines their rights and responsibilities before taking a loan.

“Payday loans are a temporary product that put me in a permanent bind. This law will help make sure other borrowers can keep these short-term loans, short term,” said Jodie Ackerman who, along with her 9-year old daughter, joined Gov. Blagojevich at the event. Ms. Ackerman is a working single mother who needed extra money to pay her bills, and ended up thousands of dollars in debt from taking out payday loans at interest rates over 700 percent. At one point, she had three outstanding loans and needed a fourth just to make payments on her other loans. Currently, she still has two outstanding payday loans.

The Monsignor John Egan Campaign for Payday Loan Reform was started by the late Msgr. Egan in 1999, after hearing the story of one his parishioners who was victimized by a payday loan. Msgr. Egan convened a group of religious leaders, consumer advocates, public interest organizations and social service groups to form the Campaign for Payday Loan Reform, renamed after Egan following his death in May of 2001. Leaders of the coalition include Citizen Action/Illinois, The Woodstock Institute, Metropolitan Family Services, and Sargent Shriver National Center on Poverty Law.

Sen. Lightford, who worked on the legislation for five years, said the Payday Loan Reform Act “is the first step to protect consumers. Payday loans can cause people's lives to go into a tailspin because of the constant cycle of debt that the borrower can never repay.”

The Illinois Department of Financial and Professional Regulation will license payday lenders and enforce the new Payday Loan Reform Act. “Payday lending is one of the fastest growing types of consumer credit in Illinois... This bill ensures that borrowers receive the protection they deserve,” said Illinois Secretary of Financial and Professional Regulation Fernando Grillo.

The Payday Loan Reform Act, which was introduced in the State Legislature as HB 1100, passed the House of Representatives unanimously and the Senate near unanimously.

For additional information, contact Citizen's Action-Illinois at (312) 427-2114, www.citizenaction-il.org, The Woodstock Institute at (312) 427-8070, www.woodstockinst.org, or Sargent Shriver National Center on Poverty Law at (312) 263-3830, www.povertylaw.org/index.cfm.

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