

Governor Quinn signs landmark payday loan reforms

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Legislation promises end of 700 percent rates, crack down on worst abuses

CHICAGO—In a crackdown on 700 percent interest rate payday loans, Governor Quinn signed HB 537, capping rates and closing the legal loophole that has allowed some payday loan companies in Illinois to operate almost completely unregulated. Starting in March 2011, the law caps rates for nearly every short-term credit product in the state, prevents the cycle of debt caused by frequent refinancing, and gives regulators the tools necessary to identify potentially predatory lending practices before they become widespread.

Sponsored by Sen. Kimberly Lightford (D-4) and Rep. Lou Lang (D-16), the proposal passed the Illinois Senate on May 5 by 58-1 and the House by 118-1 on May 26.

“Under the law adopted today, Illinois lenders would be able to offer two types of products: long-term loans with APRs under 99 percent and higher-cost, shorter-term loans with additional protections for the most credit-challenged borrowers,” said Lynda DeLaforge, co-director at Citizen Action/Illinois. “We thank Governor Quinn for nearly a decade of leadership on this issue and his support of these important reforms.”

For loans with terms of six months or less, the law:

1. Caps rates at \$15.50 per \$100 borrowed every two weeks;
2. Breaks the cycle of debt by ensuring that any borrower choosing to use a payday loan is completely out of debt after 180 consecutive days of indebtedness;
3. Prohibits balloon payments;
4. Keeps loans repayable by limiting monthly payments to 25% of a borrower’s gross monthly income; Eliminates additional fees such as post-default interest, court costs, and attorney’s fees.
5. For loans with terms of six months or more, the law:
6. Caps rates at 99% for loans less than \$4,000 and at 36% for loans more than \$4,000. Previously, these loans were completely unregulated, with some lenders charging in excess of 1,000 percent;
7. Keeps loans repayable by limiting monthly payments to 22.5% of a borrower’s gross monthly income;
8. Prohibits balloon payments;
9. Creates a consumer reporting service to ensure that lenders comply with all consumer protections.

“Capping rates for short-term loans was our number one priority,” said Tom Feltner, Woodstock Institute Vice President. “These reforms succeed in doing this and will ensure that borrowers are not stuck in long-term, 700 percent APR loans.”

The new consumer protections were advanced by Illinois Attorney General Lisa Madigan and the Monsignor John Egan Campaign, a broad-based coalition of consumer, community and labor groups including:

AARP, Action Now, AFSCME Council 31, Amalgamated Transit Union Illinois Joint Conference Board, Business and Professional People for the Public Interest, Catholic Conference of Illinois, Central Illinois Organizing Project/Illinois People’s Action, Chicago Appleseed Fund for Justice, Citizen Action/Illinois, Community Reinvestment Organizing Project, Heartland Alliance for Human Needs and Human Rights, Housing Action Illinois, Illinois AFL-CIO, Illinois Coalition for Immigrant and Refugee Rights, Illinois PIRG, Latin United Community Housing Association, Lutheran Social Services of Illinois, Metropolitan Family Services, North Side Community Federal Credit Union, Oak Park Regional Housing Center, Partners in Community Building, Project IRENE, Protestants for the Common Good, SEIU Illinois State Council, Sargent Shriver National Center on Poverty Law, Spanish Coalition for Housing, United Auto Workers Region 4, Voices for Illinois Children, and Woodstock Institute.