'This is a wolf in sheep's clothing'

(http://www.suntimes.com/business/98042,CST-FIN-payday16.article)

October 16, 2006

BY MARY WISNIEWSKI Business Reporter

The annual percentage rate on installment loans shot up more than 300 percent since the passage of an Illinois law aimed at tempering short-term payday loans, according to a new study.

Consumer advocates complain that lenders are switching from short-term payday loans to longer-term installment loans to get around the restrictions of payday loan reform legislation, which is limited to loan durations of 120 days or less.

A joint study by the Woodstock Institute and the Public Action Foundation, the research arm of Citizen Action/ Illinois, found that since the law took effect last December, the annual interest rate on payday loans fell to 351 percent from 573 percent.

But interest on installment loans rose to 387 percent from 74 percent, the study found.

"This is a wolf in sheep's clothing," said Lynda De Laforgue, co-director of Citizen Action/Illinois, of the longer-term loans.

Payday loans are short-term loans for small amounts of money -- usually between $100 and $1,000 -- secured against a post-dated check. The industry says the loans provide a needed service to people who need quick cash for emergencies, but consumer advocates say the loans prey on the poor with triple-digit interest.

The reform law limits the interest that can be charged for payday loans to $15.50 per $100, and caps loans based on a borrower's pay. The law also shields borrowers from court costs, creates a repayment period with no extra interest, and extends special protection to members of the military.

Bob Wolfberg, president of the Illinois Small Loan Association, said the payday loan law outlawed a "consumer's choice" product, so now consumers have to choose another product.

"This is about financial freedom and financial choice," Wolfberg said. "Our customers chose which product they want after reviewing the information." He said he has not seen an increase in installment loan interest rates.

The purported growth in installment loans is the same thing that happened last time the state passed payday loan rules. A 2000 rule affected loans of 30 days or less. Within days, the lending industry extended loans to 31 days.

Amanda Gutierrez, 30, who managed an AmeriCash Loans store in Peoria until May, said the store put a new policy into place in April that customers could not receive a payday loan without permission from the district manager.

"You were supposed to talk them into an installment loan, and that they were going to be better off," Gutierrez said.

One AmeriCash document showed an installment loan amount of $150, with 12 monthly payments, and a total finance charge of $558.48, making the annual interest 469.29 percent.

AmeriCash Loans Chief Operating Officer Jill Gruchot said there is no policy to discourage payday loans. Gruchot could not comment on whether the company was making more installment loans than it did in the past.

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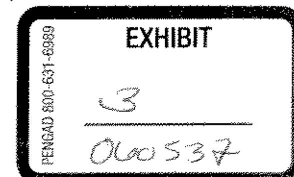

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ROD R. BLAGOJEVICH - GOVERNOR

NEWS

FOR IMMEDIATE RELEASE
December 5, 2005

Governor Blagojevich directs state regulators to aggressively enforce new Payday Loan Reform law; stop efforts to bypass new lending restrictions
New law goes into effect Tuesday, provides unprecedented protection against predatory short-term loans

CHICAGO – Governor Rod R. Blagojevich today directed the state's Department of Financial and Professional Regulations (IDFPR) to aggressively start enforcing the new Payday Loan Reform law when it goes into effect tomorrow, with particular attention paid to lenders who may try to get around the new restrictions. The law provides new protection against ploys used by lenders to lure borrowers into potentially devastating predatory loans.

"A short-term loan should never lead to long-term financial ruin. Unfortunately, that's been happening too often to families all over Illinois. The good news is, starting tomorrow, strong new legal protections will go into effect that prevent people from ending up in an endless cycle of debt they can't repay," said Gov. Blagojevich. "The state will start aggressively enforcing the law from day one, and will make sure lenders who want to come up with ways to circumvent the law can't do it. Payday loans are supposed to help working people cover unexpected costs and emergencies. They're not supposed to break their bank accounts."

"We will not tolerate any loan that is a subterfuge against the intent of the Act, and we intend to make sure that no lender can avoid the Act's most important consumer protections," said Dean Martinez, Acting Secretary, IDFPR. The Payday Loan Reform Act allows the state to go beyond the new, 120-day time limit on short-term loans, in order to ban lenders from creating 121-day loans or other predatory instruments.

In 2000, Governor Ryan signed a law designed to rein in the rapid increase in short term payday loans. At that time the average length of a payday loan was 14 to 28 days (one or two pay periods). When the law was implemented in 2001, the rules only applied to loans of 30 days or less. Within days of the rules taking effect, the payday lending industry responded by extending the length of the loan to 31 days or longer to circumvent a law that had tried to protect consumers.

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

Payday loans are short-term loans secured against a post-dated check that consumers borrow at very high interest rates. Payday loans become a problem when consumers cannot repay after borrowing a substantial amount against their paychecks. Instead, consumers renew the loan and pay additional fees. Before the Payday Loan Reform Act many consumers would have to 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.

The new law:

- 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% of a customer's monthly salary, whichever is less;
- Prevents borrowers from having more than two payday 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 paying attorneys fees and court costs;
- Extends a special protection 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.

There is also a new state database that lenders will use to look up 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 or Spanish – that outlines their rights and responsibilities before taking a loan.

"During the holidays, many consumers turn to pay day loans to help make it through. This new law includes strict enforcement of short term lending products to help ensure that payday loans are truly short term loans and don't catch people in a vicious cycle of debt," Attorney General Lisa Madigan said.

Consumer advocates led by the Msgr. John Egan Campaign for Payday Loan Reform will hold a press conference tomorrow to highlight the protections the Payday Loan Reform Act the Governor signed last June will offer borrowers. The law will help protect consumers by restricting the interest rates, payment terms and number of outstanding loans allowed.

"For too long, payday loan operators took advantage of the most vulnerable consumers, including members of the military," said Lt. Gov. Pat Quinn. "Starting today, that cycle will stop. The late Monsignor Jack Egan, the legendary priest who took on this industry, would applaud this reform."

"We want to thank Governor Blagojevich for his insistence on stringent enforcement of this new law. That will protect borrowers from unscrupulous lenders trying to circumvent the intent of the Act. Monsignor Egan was dedicated to protecting people who too often, in their hour of desperation, have fallen prey to an unbreakable cycle of debt. Today we see the fruition of his goal and we have taken a big step in honoring his legacy," said Linda DeLaforgue, co-director of Citizen Action/Illinois.

"Regulation of this corrosive industry is long overdue," said State Rep. Miller (D-Dolton), the bill's chief sponsor. "Now that the law is in effect, educating consumers and keeping a close watch on the payday lending stores is vital. Combined, they will reduce the seemingly endless cycle of debt that waits for some payday loan customers. Over the last four years, I have worked hand-in-hand with Citizen Action/Illinois and the Monsignor John Egan Campaign for Payday Loan Reform to pass legislation that protects both consumers and the quality of our communities. I thank the members of the General Assembly, Governor Rod Blagojevich, and Attorney General Lisa Madigan for their leadership in helping make these reforms a reality."

State Sen. Kimberly Lightford (D-Maywood) who has worked with numerous groups on this legislation for the past five years said strict enforcement of the Payday Loan Reform Act "is vital in the fight to protect borrowers. This law finally provides consumer protection while reining in the unscrupulous payday loan businesses that prey on innocent individuals who don't have the collateral or the credit history to get a traditional loan from a bank."

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

Woodstock Institute and the Public Action Foundation Release Illinois Payday Lending Report

Woodstock Institute and the **Public Action Foundation** are pleased to release ***Hunting Down the Payday Loan Customer: The Debt Collection Practices of Two Payday Loan Companies***, a new study that examines the court records of borrowers taken to court by two companies now offering new payday installment loans.

Download the full report at:

Hunting Down the Payday Loan Customer: The Debt Collection Practices of Two Payday Loan Companies

The Payday Loan Reform Act is working. Since the passage of the Act, the fee cap and other consumer protections have reduced the cost of borrowing the average payday loan by a 39 percent decrease. Also, the Illinois Department of Financial and Professional Regulations, which regulates payday lenders, has issued dozens of enforcement actions and levied hundreds of thousands of dollars of fines against payday lenders.

Payday lenders are working hard to evade the Payday Loan Reform Act offering payday installment loans instead which are expensive and dangerous. Since the Payday Loan Reform Act regulates loans of 120 days or less, the Illinois payday loan industry increasingly marketed and offered their customers payday installment loans with terms of 121 days or more. These new "look alike" loans, called payday installment loans, have many of the same features as installment loans offered before the Act, but with a significantly higher price tag.

One out of every three Cash Store customers refinanced or "rolled over" their loan.

Women made up a large portion of payday loan borrowers taken to court. Of the Americash cases reviewed, 72 percent of the defendants were female. Of The Cash Store cases, 66 percent of the defendants were female.

Americash and The Cash Store court cases are heavily concentrated in minority communities. Nearly 70 percent of Americash borrowers with pending or complete court cases because of default were in low or moderate-income, predominately minority ZIP codes, with nearly 90 percent of cases located in predominately minority communities of any income.

For more information contact Woodstock Institute at (312) 427-8070 or the Public Action Foundation at (312) 427-2114.