

Testimony of Marva E. Williams, Senior Vice President Woodstock Institute

**To the Illinois House Financial Institutions
Payday Loans Sub-Committee Meeting
Tuesday March 4, 2005**

I wish to thank Chairman Boland, Representative Mitchell, and the other members of House Financial Institutions Committee for this opportunity to discuss on of the most pressing consumer finance issues of our time.

My name is Dr. Marva Williams. I am the Senior Vice President of the Woodstock Institute. The Institute is a 32-year old research and advocacy non-profit organization based in Chicago that works to improve access to affordable loans and financial services by lower-income consumers and communities. Over past several years, the Institute has conducted research and engaged in policy development on several forms of high cost financial services, including predatory home mortgage loans, bounce check protection programs, and income tax refund anticipation loans.

The Woodstock Institute has been a member of the Egan Campaign for Payday Loan Reform since the Campaign's formation. The Egan Campaign was convened by the late Monsignor John Egan in 1999, after hearing the story of one of his parishioners who was victimized by a payday loan. Msgr. Egan was outraged by the story and convened a group of religious leaders, consumer advocates, public interest organizations, and social service organizations to established reforms. The Campaign was renamed in Msgr. Egan's honor after his death in 2001.

The Campaign represents over 100 community and consumer organizations from across the state of Illinois, many of which have endorsed our most recent policy proposal, including (insert list) Citizen Action-Illinois, Shriver National Center Poverty Law, Metropolitan Family Services, the City of Chicago, Heartland Alliance, AFSCME Council 31, Chicago Federation of Labor, Illinois Alliance of Retired Americans, Leadership Council for Metropolitan Open Communities, Metropolitan Tenants Organizations, Great Lakes Nary Marian Corp Relief Society, Office for Peace and Justice of the Archdiocese of Chicago, and Voices for Illinois Children.

The Egan Campaign recognizes that working families are struggling to make ends meet in this unstable economy and payday lenders have moved in to fill the need for short-term credit. The Egan Campaign has no desire to put payday lenders out of business. We do want them to be responsible lenders and not entrap vulnerable borrowers, including members of the military, in a never-ending cycle of debt.

Since its inception, the Egan Campaign has worked on several fronts to curb abusive practices by the payday loan industry in Illinois. Taking on legislative, legal, administrative and public relations battles. And there have been many over the past six years. The Egan Campaign has drafted several legislative reform models, filed amicus briefs to support the payday lending rules promulgated in 2001, and conducted numerous research studies, and focus groups to better

understand how payday loans work in Illinois. We also participated in several meetings with the payday loan industry, many of which were moderated by members of the General Assembly, including Representative Joe Lyons.

Unfortunately, our ongoing efforts have been repeatedly met with defeat. Clearly, the payday loan industry has significant influence in our state. Legislative efforts have failed and the 2001 payday lending rules are being circumvented by the industry. In fact, the payday loan industry is effectively unregulated in Illinois. This inaction has resulted in a continuation of the status quo in Illinois. Like payday loan customers, we have been trapped in a never ending cycle of payday loan reform.

As a result, the Egan Campaign began a serious effort over the past year and half to develop a model bill that we consider to be reasonable regulation by working to understand the payday loan industry.

To develop the Payday Loan Reform Act, the Egan Campaign studied payday loans from several viewpoints to better understand the product from the borrowers, the industry's, and the regulators perspective.

We held focus groups and conducted individual interviews with borrowers as well as a major research study in 2004 that examined over 400 actual court records of debt collection cases by payday lenders in Cook County. We consulted with our member groups who counsel people that are in financial distress due to payday loans, including the director of the Great Lakes Naval Relief Society who counsels military families that get embroiled in payday loans.

We held numerous meetings with Illinois state regulators and with the staff of the Attorney General's office. We interviewed regulators in other states as well to understand how they regulate payday loans.

WE also consulted on several occasions with payday loan lenders, including a former manager of a payday loan store in a small town in Illinois. These meetings helped the Campaign understand the logistics and economics of making payday loans from the store manager's perspective. We have also held several meetings with the Illinois Small Loan Association and the Community Financial Services Association.

This discovery process aided the Campaign in understanding the challenges that payday loan represent for consumers:

Loans are very expensive: borrowers pay very high fees of payday loans. Some of the contracts we seen ranged from 520 APR to almost 800 APR paid by a serviceman at the Great Lakes Navy Base.

Payday Loans are Easy to Get Into, Hard to Get out Of: paying off a payday loan requires that the borrower pay the entire principal, which is very challenging for low and moderate-income consumers.

Payday Loans are not a Short Term Solution: Because borrowers must pay the entire principal, most rollover loans multiple times for periods of up to a year. As a result, consumers do not have the advantage of a recovery period, when their financial status can stabilize and they can begin modest savings.

Payday Loans Do Not Reflect a borrower's ability to Pay: there is no assessment of a borrower's income when determining the amount that they can borrow.

There is no system to regulate the current requirements. Therefore, some lenders rely on borrower certifications regarding outstanding loans.

As a result of several years of study of the payday loan industry and work with payday loan lenders, state regulators, including the Illinois Division of Financial Institutions, national consumer and community organizations and payday loan borrowers, the Campaign identified 5 key principals essential to ensuring responsible and informed use of payday loans. They include:

- A fee cap of \$16 per \$100 borrowed has been proposed to make the cost of using payday loans affordable. This loan cap in the range of caps offered in other states. In fact, Indiana, where many members of the Illinois Small Loan Association do business, has a loan cap of \$15 per \$100.
- A loan amount must be no more than 25% of the consumer's gross monthly income or \$1,000, which is higher, should approve the borrower's ability to pay.
- Consumers may have outstanding payday loans for up to 45 days, after which time they will have a recovery period of 7 days to break up the cycle of debt created by back to back loans.
- A repayment plan can be entered after 35 of indebtedness to allow consumers to pay their debt in installments. The repayment plan will give borrowers at least 56 days to pay off their loans in at least 4 equal installments.
- A private and confidential statewide consumer reporting system, which will be certified by the Division of Financial Institutions, to give them the information they will need to enforce this bill. The Egan Payday Loan Reform Act protects consumers' privacy by (1) permitting the certified database to disclose to a lender only whether a loan applicant is eligible or ineligible for a loan as well a reason for a determination of ineligibility, (2) preventing the use of the Freedom of Information Act to obtain consumers' information, only permitting licensees to subscribe to the service and (3) requiring the Division of Financial Institutions to establish and enforce additional safeguards to ensure that all information contained in the database is kept strictly confidential. Other states that already use a reporting service to enforce regulations include both Florida and Oklahoma. The issues of privacy have not risen as a major concern in those states.

The Egan Campaign agreed we would enter into discussions with any party that was willing to honor all five of our consumer protections. The Payday Loan Reform Act is the result of our discussions with Community Financial Services Associates of America or CFSA. The Payday

Loan Reform Act, which was drafted by Brent Adams, the Policy Director of Citizen Action/Illinois, accomplishes all five of the principles of consumer protection that we set as our goals.

In addition, the bill provides additional protections for Military families. Lenders may not garnish the wages of members of the military, collection for a payday loan is deferred while they are deployed to combat and they are not allowed to contact a borrower's military chain of command in an effort to collect on a loan.

In closing I would like to say that I am very proud to be here today representing the Woodstock Institute and the Egan Campaign. The Payday Loan Reform Act is the result of years of public policy and business analysis involving payday lenders and consumer advocates. The bill allows lenders to continue to provide payday loans where needed while providing significant consumer protections. The Campaign is prepared to do whatever is needed to bring this important consumer protection policy to closure.