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Via Post and Electronic Mail

August 25, 2008

The Honorable Julie Hamos
Illinois House of Representatives
256-W Stratton Building
Springfield, IL 62706

Re: **Egan Campaign Five Key Consumer Protections**

Dear Representative Hamos:

I appreciate the opportunity to provide written testimony describing the five key principles of the Monsignor Egan Campaign for Payday Loan Reform and thank you for your leadership on this issue.

Woodstock Institute is a nonprofit research, policy development, and advocacy organization seeking to expand access to fairly priced financial products and services in lower-income communities and communities of color.

For the past ten years, Woodstock Institute and The Monsignor Egan Campaign for Payday Loan Reform have worked with consumer groups around the state and country, state regulators, and industry representatives to keep short-term loans from becoming a long-term problem here in Illinois.

During this process, we have always measured policy options based on the five key principles of the Campaign, which are outlined below:

(1) A fee cap to reduce the cost of using short term loans.

Most borrowers cannot afford to pay triple digit or thousand percent interest rates. By setting a maximum permissible fee, borrowers can walk into a store, receive a fairly priced loan, and walk out with the reasonable expectation that they can pay it back.

(2) An industry wide cap on borrowing to prevent over borrowing or using the proceeds of one short-term loan to pay off another.

The Payday Loan Reform Act ensures that borrowers get a loan amount indexed to their income while permitting two outstanding loans. If another lender can offer better terms, then the borrowers are free to take their business to that lender.

(3) A recovery period between loans to break the cycle of debt created by back-to-back loans.

Refinancing a loan every two weeks, or after only a few payments for longer-term loans, virtually ensures that the loan never gets repaid. A recovery period ensures that borrowers have the opportunity to get their finances in order before they take out another high cost loan.

(4) A repayment plan to help borrowers in over their heads make good on their debts.

When borrowers are paying back two to three times what they borrowed in the span of year, it is no wonder they have trouble making payments. To ensure that everyone has the opportunity to make good on their debts, a repayment plan, similar to the plan provided for by the Payday Loan Reform Act, is critical.

(5) A statewide consumer reporting service to enforce consumer lending laws.

The only way to ensure that borrowers are getting fairly priced loans is to make sure regulators have the tools to monitor lending activity. Affidavits of outstanding loans and borrower self-certification are not enough. Self reporting has not worked for verifying incomes for mortgage applications, and it hasn't worked for verifying a borrower's outstanding debt. Likewise, collecting good information means public policy can be made based on facts instead of unverified assertions.

Woodstock Institute's consumer lending research has documented the persistent high cost of short-term credit, the process of repeat borrowing, and the ongoing problems faced by borrowers who have defaulted on their loans as they are pursued in the courts. As a result, Woodstock Institute believes that these five principles, applied appropriately to the different segments of consumer lending, will be effective in leveling the playing field between lender and borrower and should guide future short-term lending policy decisions.

Please contact me at 312/368-0310 for more information on these principles or Woodstock Institute's consumer lending research.

Sincerely,

Tom Feltner
Policy and Communications Director

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