Illinois Payday and Installment Loan Reforms

CFA High-Cost Credit and Payday Loan Summit

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History of Reforms in Illinois

2001: Administrative rules adopted by IDFPR
- Limited number of loans and allowable rollovers
- Required a “cooling-off” period
- No enforcement mechanism
- Applied only to 30 day loans

2005: Payday Loan Reform Act (PLRA)
- Caps fees and loan amounts
- Requires 7 day cooling-off period
- Repayment plan after 45 days
- Applies to loans with terms of up to 120 days
- Limits borrowers to two loans at a time
- Creates a real-time database to monitor enforcement

2010 Payday and Installment Loan Reform

Lenders modify products to avoid PLRA
## 2010 Payday and Installment Loan Reform

<table>
<thead>
<tr>
<th>Payday Installment Loan</th>
<th>Small Consumer Loan</th>
<th>Consumer Installment Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• PLRA</td>
<td>• CILA</td>
<td>• Principal &gt; $4,000</td>
</tr>
<tr>
<td>• Cap on rate and fees</td>
<td>• Includes cap on rate and fees</td>
<td>• APR cap of 36 percent</td>
</tr>
<tr>
<td>• Rollover and ability to repay protections</td>
<td>• Rollover/refinance and ability to repay protections</td>
<td></td>
</tr>
<tr>
<td>• Limits number of loans at a time</td>
<td>• Must be reported to the database (but not in real time)</td>
<td></td>
</tr>
<tr>
<td>• Must be reported to database in real time</td>
<td>• Terms of more than 180 days</td>
<td></td>
</tr>
<tr>
<td>• Terms of not less than 112 days and not more than 180 days</td>
<td>• Principal &lt; $4,000</td>
<td></td>
</tr>
</tbody>
</table>
Today: Existing Products in Illinois

- Traditional, Balloon-Payment Payday Loan (PLRA)
- Payday Installment Loan (PLRA)
- Small Consumer Installment Loan (CILA)
- Consumer Installment Loan (CILA)

Two years later, how has the high-cost lending market changed?
Transaction Volume by Product and Year

Transaction Volume By Year

- Traditional Payday
- CILA
- Installment Payday Loan
- Small Consumer Installment Loan
Traditional Payday Loans

Customer Profile:
- Average income of $33,157 per year
- 84 percent of borrowers earn less than $50,000
- 56 percent of borrowers earn less than $30,000

Loan Terms and Fees:
- Average loan of $364.59 with fees of $56.06 (stays under the $15.50 per 100 limit)
- Average APR of 330 percent
- Average term of 17 days

(Increasing number of loans being offered with longer terms as opposed to the minimum 13 day period)
Payday Installment Loans

Customer Profile:
- 256,165 payday installment loan borrowers took out 654,449 loans during reporting period (2011 through September 2012)
- Average of 2.6 loans per borrower
- Average gross income of $32,936/year
- 82 percent of borrowers had incomes of less than $50,000

Loan Terms and Fees:
- Average term of 162.6 days
- Average advance of $614.04 with $640.12 in total fees
- Average APR of 234 percent

<table>
<thead>
<tr>
<th>Year</th>
<th>112 - 140 Days</th>
<th>140 - 160 Days</th>
<th>160 - 180 Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>11.0%</td>
<td>13.5%</td>
<td>75.5%</td>
</tr>
<tr>
<td>2012</td>
<td>13.5%</td>
<td>14.2%</td>
<td>72.4%</td>
</tr>
</tbody>
</table>
Small Consumer Loans

Customer Profile:
- 191,420 borrowers took out 653,263 small consumer loans during the reporting period (2011 through September 2012)
- Average of 3.4 loans per borrower
- Average gross yearly income of $25,738
- 72 percent of borrowers earned less than $30,000

Terms and Fees:
- Average term of 299.2 days

<table>
<thead>
<tr>
<th>Year</th>
<th>180-360 Days</th>
<th>360-720 Days</th>
<th>720 or more Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>78.1%</td>
<td>20.2%</td>
<td>1.7%</td>
</tr>
<tr>
<td>2012</td>
<td>77.7%</td>
<td>20.5%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>
Reasons for Denial of a Payday Loan

Traditional Payday Loan - Reason for Denial

- Two Open Transactions
- Restricted by Maximum Loan Principal
- Restricted by Consecutive Days in a Product
- Restricted by Repayment Plan
- Waiting Period
Reasons for Denial – Payday Installment Loans

Payday Installment Loan - Reason for Denial

- Two Open Transactions
- Restricted by Maximum Loan Principal
- Restricted by Consecutive Days in a Product
- Restricted by Repayment Plan
- Waiting Period

2011:
- Two Open Transactions: 27.03%
- Restricted by Maximum Loan Principal: 27.50%
- Restricted by Consecutive Days in a Product: 38.41%
- Restricted by Repayment Plan: 6.54%
- Waiting Period: 5.23%

2012:
- Two Open Transactions: 27.13%
- Restricted by Maximum Loan Principal: 19.82%
- Restricted by Consecutive Days in a Product: 47.25%
- Restricted by Repayment Plan: 5.23%
- Waiting Period: 5.23%
Conclusions

• Significant reduction in traditional payday loans after reforms – majority of loans are payday installment or small consumer loans

• Reason for denial are more evenly divided after 2010 reforms for both traditional payday and payday installment loans

• Borrowers are still predominantly low-income

• APRs are less than the maximum allowed for all three products
Recommendations for CFPB

• Regulate payday and installment loans to ensure that lenders cannot change their products or find loopholes to avoid consumer protections

• Require clear underwriting standards and ensure ability to repay

• Limit the number of loans and/or total period of indebtedness

• Prevent balloon payments

• Create a real-time database to ensure compliance and enforcement abilities (make reports public)
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