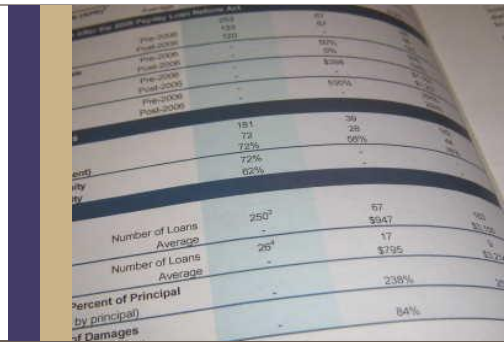
WOODSTOCK INSTITUTE

Advancing Economic Security and Community Prosperity

Illinois Payday and Installment Loan Reforms

CFA High-Cost Credit and Payday Loan Summit



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Courtney Eccles | Policy Director
Woodstock Institute | Chicago, Illinois
ceccles@woodstockinst.org

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**

Lenders modify products to avoid rules

2005: Payday Loan Reform Act (PLRA)

-Caps fees and loan amounts

-Limits borrowers to two loans at a time

-Requires 7 day cooling-off period

-Creates a real-time database to monitor enforcement

-Repayment plan after 45 days

-Applies to loans with terms of up to **120 days**

Lenders modify products to avoid PLRA

2010 Payday and Installment Loan Reform

2010 Payday and Installment Loan Reform

Payday Installment Loan

- PLRA
- Cap on rate and fees
- Rollover and ability to repay protections
- Limits number of loans at a time
- Must be reported to database in real time
- Terms of not less than 112 days and not more than 180 days

Small Consumer Loan

- CILA
- Includes cap on rate and fees
- Rollover/refinance and ability to repay protections
- Must be reported to the database (but not in real time)
- Terms of more than 180 days
- Principal < $4,000

Consumer Installment Loan

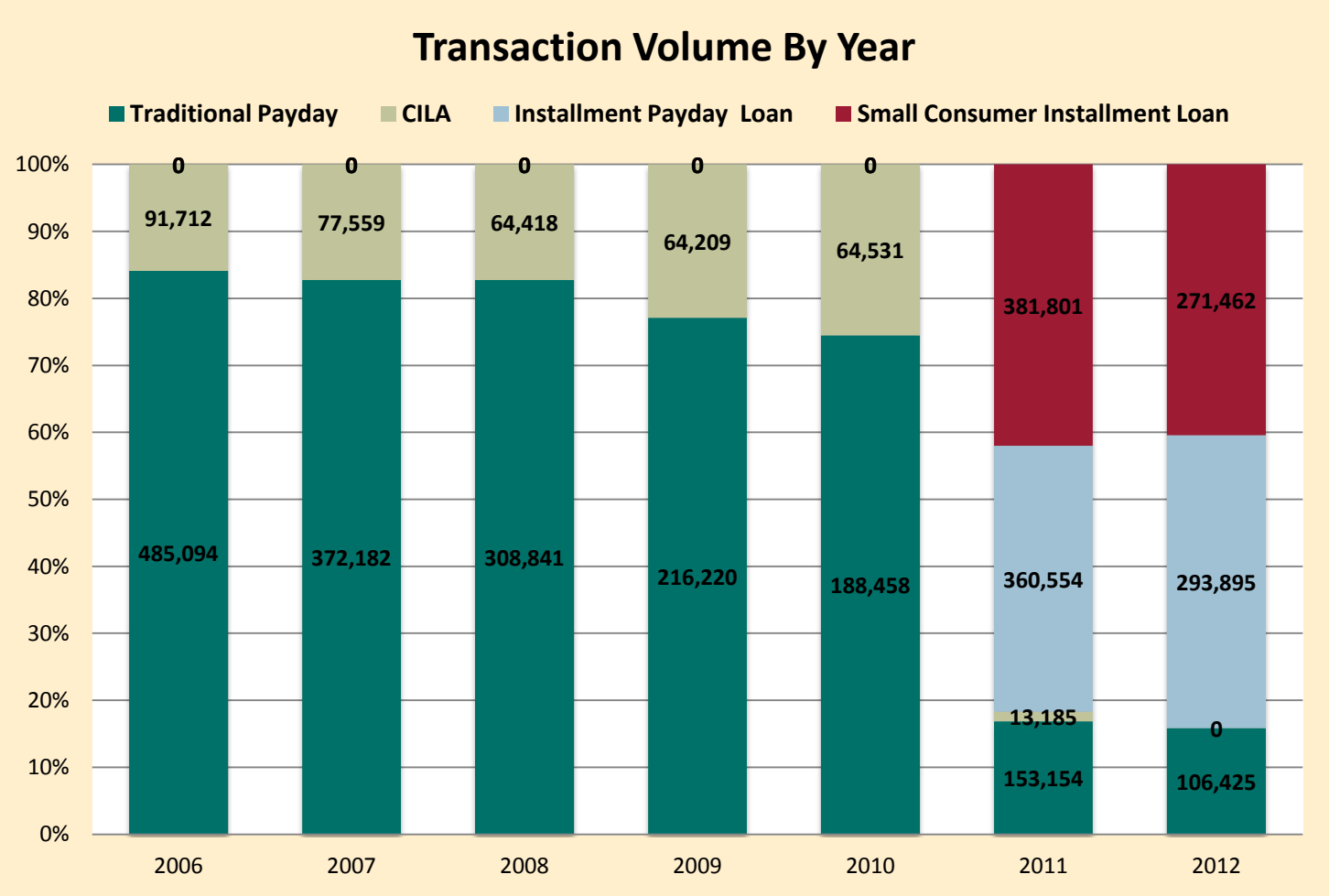
- Principal > $4,000
- APR cap of 36 percent

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



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

Year	112 - 140 Days	140 - 160 Days	160 - 180 Days
2011	11.0%	13.5%	75.5%
2012	13.5%	14.2%	72.4%

Small Consumer Loans

Customer Profile:

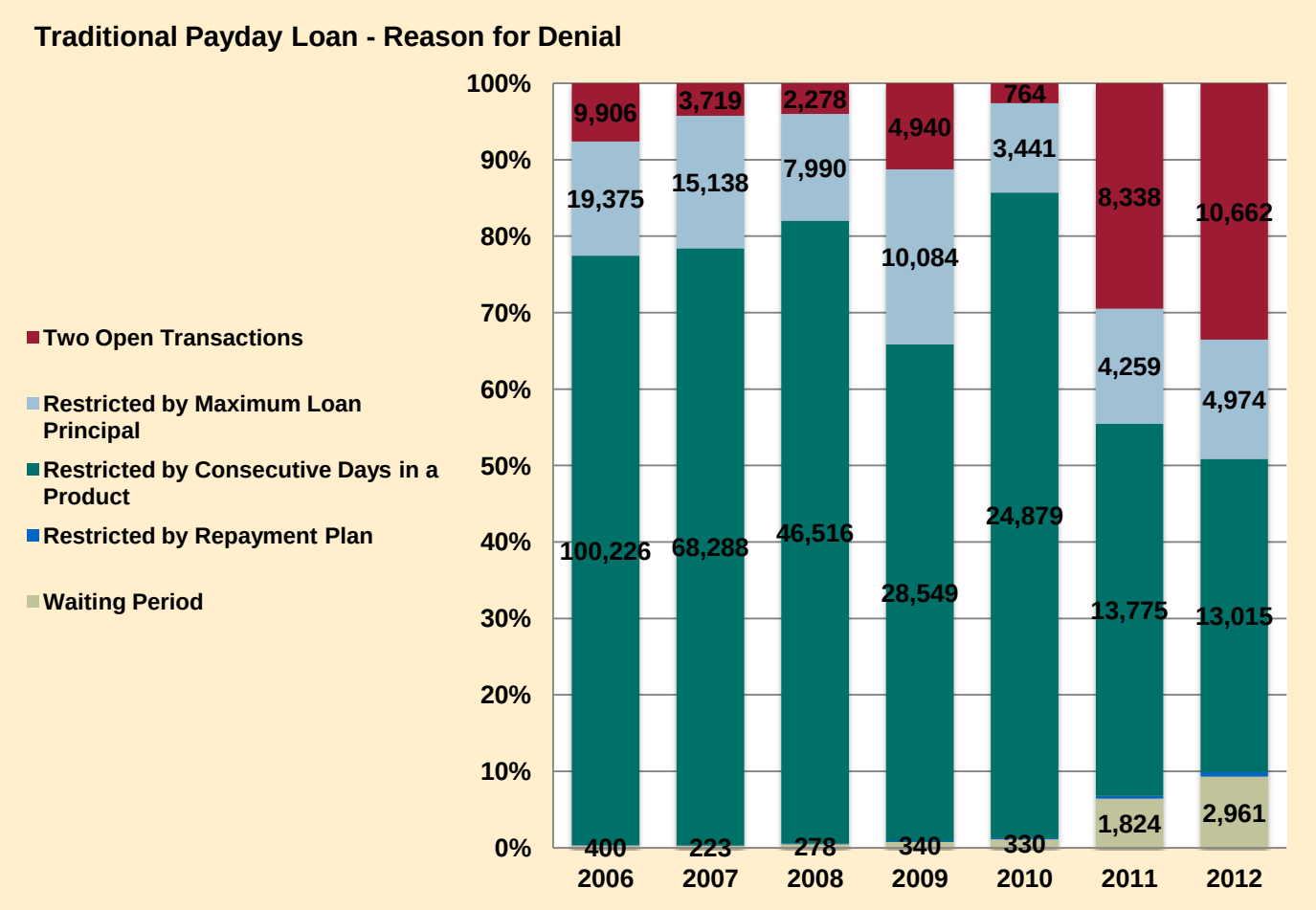
- 191,420 borrowers took out 653,263 small consumer loans during the reporting period (2011 through September 2012)
- Average of 3.4 loans per borrower
- Average gross yearly income of $25,738
- 72 percent of borrowers earned less than $30,000

Terms and Fees:

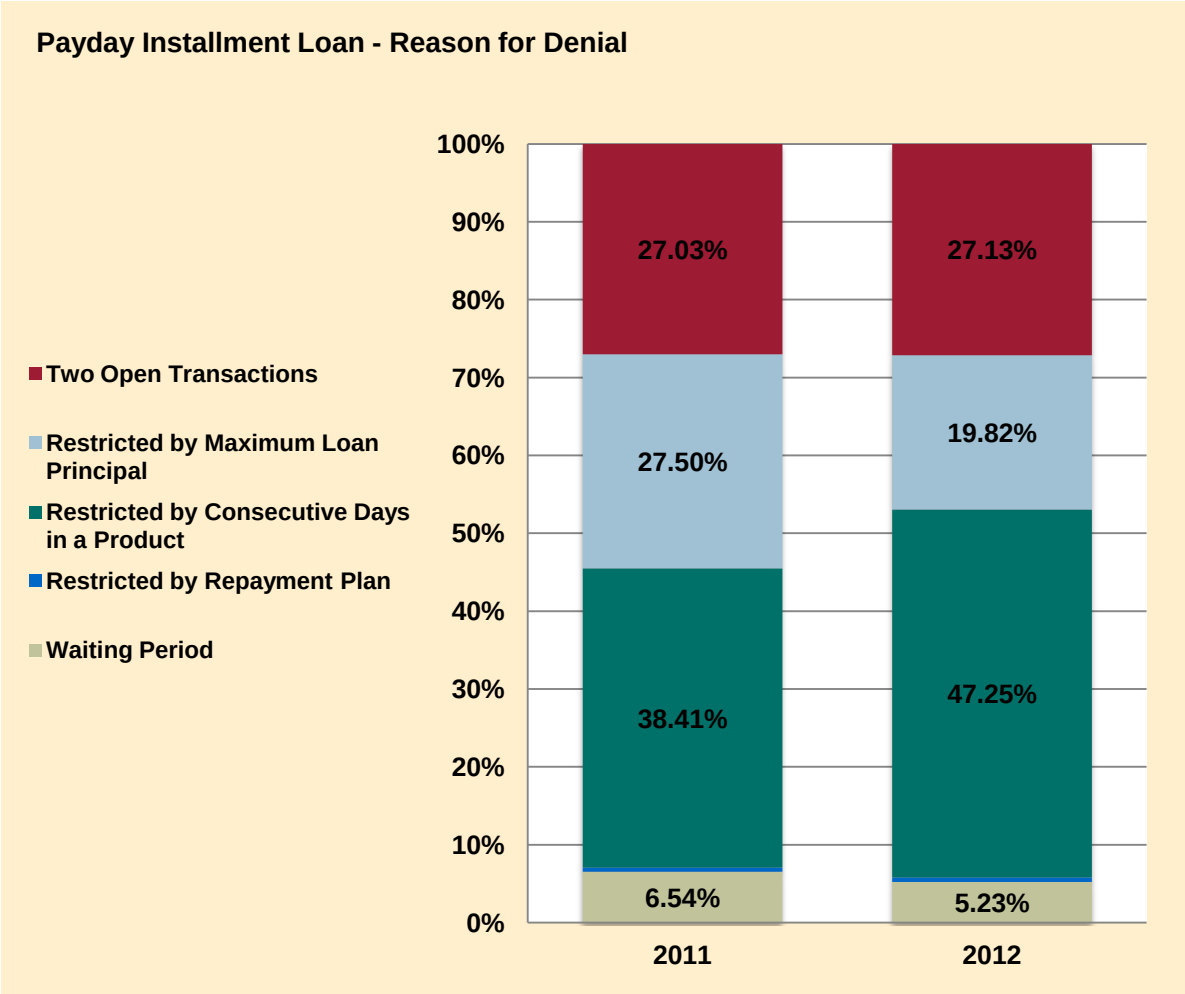
- Average term of 299.2 days

Year	180-360 Days	360-720 Days	720 or more Days
2011	78.1%	20.2%	1.7%
2012	77.7%	20.5%	1.8%

Reasons for Denial of a Payday Loan



Reasons for Denial – Payday Installment Loans



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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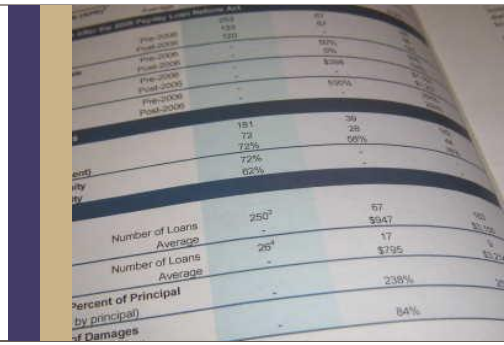

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