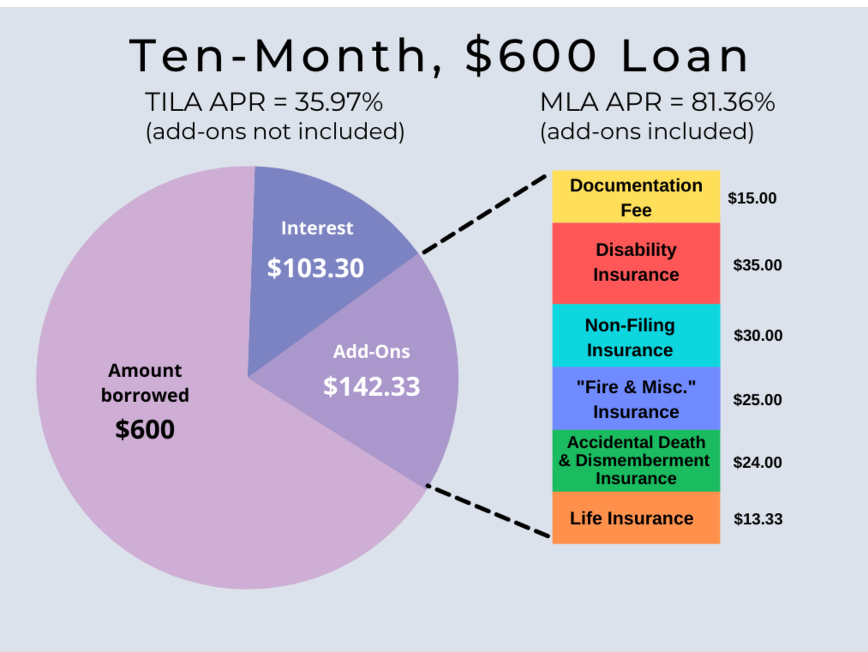
Oppose SB 2306 / HB 3192 – Rate Cap Loophole

SB 2306 and HB 3192 would throw a loophole into the Predatory Loan Prevention Act (PLPA), Illinois' 36% rate cap on consumer loans.

There are two primary ways to calculate an annual percentage rate (APR). The first is based on a disclosure law from the 1960s called the Truth in Lending Act (TILA). TILA includes some fees like interest in the APR but excludes other charges like fees for credit insurance. **Excluding these other charges, commonly called "add-on" products and fees, is called the "TILA Loophole" because the TILA APR does not reflect the *actual* cost of the loan to the consumer.**

The updated way to calculate an APR was adopted in 2006 in the Military Lending Act (MLA). **The MLA closed the TILA Loophole and established an "all-in" 36% APR cap on loans made to active-duty military and their dependents**. "All-in" means the cap encompasses all fees, including add-on fees and products**.** This is also referred to as the "MLA APR."



SB 2306/HB 3192 would insert the TILA Loophole into the PLPA. The TILA Loophole would allow lenders to charge an unlimited amount of hidden fees for add-on products like credit insurance. <u>Under a TILA APR, there is no limit to what a lender can charge for add-on products and fees</u>, allowing predatory lenders to continue charging excessive fees for unwanted and unnecessary add-on products and costs.

This sample loan—based on a real loan—illustrates the TILA Loophole. The TILA APR, which includes only the interest, would be 35.97%. The MLA APR captures the actual cost to the consumer and would be 81.36%. This loan would violate the PLPA but would be permitted by the TILA Loophole!

COL Paul Kantwill, USA (Ret.), one of the architects of the MLA states:
"Backsliding from the MLA's 'all-in' interest rate calculation would throw open the door to predatory lenders to continue charging excessive fees and including unwanted and unnecessary add-on products and costs."

The sale of "add-on" products saps millions of dollars from Illinois consumers. The consumer's monthly bill reflects a single amount due, which includes loan principal, interest, and add-on fees. Add-ons are often sold at inflated prices. For example, in a 2017 study, "Guaranteed Asset Protection" (GAP) Insurance sold by an auto dealer cost an average of $655. GAP insurance can be purchased from an insurance company for around $180

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