

In My View: Payday loans are predatory

By LYNDA DELAFORGUE
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In the late 1970s, as the prime interest rate rose to 21 percent, many states eliminated or relaxed regulation of consumer credit. Some states modified their laws so that the rates fluctuated with some published market interest rate. Most states raised their rates to around 36 percent, which was a point not binding on traditional lenders. Illinois chose to eliminate rate caps altogether on small loans.

The small loan lending crisis in Illinois, like the national mortgage lending crisis, is the result of a deregulated oversight system, mixed with a lethal dose of greed on the part of the lenders.

In 1999, the Msgr. John Egan Coalition for Payday Loan Reform first took on the small loan industry in Illinois. After a protracted battle, our state finally passed the Payday Loan Reform Act (PLRA) in 2005. PLRA was intended to rein in the most egregious practices of the payday lenders. PLRA works to end the debt cycle through limiting rollovers, limiting how many loans can be taken out at the same time, and indexing the amount a person can borrow to their gross monthly income.

The work of the Egan Coalition continues in 2008 because lenders of small loans continue to squeeze people. Here's an example of predatory lending that is taking place in Illinois.

In November 2006, Mr. Webb took out an installment loan for \$250. He lives on \$1,300 per month in Social Security. He made five monthly payments which only covered the interest. Then he got to the final payment, where he owed the full principle plus the interest for that month.

This is known as a balloon payment and is particularly dangerous for consumers. Mr. Webb couldn't come up with the \$337.50 he needed to pay off the loan. So he was forced to roll it over. He went through this cycle three times. By August of 2008 he had paid almost \$2,000 just to borrow \$250. This is usury in Illinois.

Most borrowers desperately want to pay off their loans, but the small loan model is structured to make people repeat borrowers. Payday installment loans are designed to trap people by holding their checking accounts hostage. Payday installment loans are made without any recognition of a person's ability to repay the loan.

So why are payday lenders still making loans over 700 percent APR in Illinois and trapping people in debt? Illinois payday lenders figured out that if they made loans that were more than 120 days in

length and called the loans “installment loans” that they could circumvent the definition of a “payday loan” as required by the PLRA law.

Something is wrong when we start seeing increased activity against lenders even at the local community level. In Springfield, an ordinance narrowly failed to limit payday lenders to one store every 1,500 feet. It failed by only one vote after the payday industry lobbyists — the very same lobbyists who kill reform bills in Springfield descended upon the Springfield City Council.

In November of 2008 the Egan Campaign hopes to move legislation that will regulate small loans under \$3,000. It does not matter if the loan is called a payday loan or installment loan. If it looks like a duck, and quacks like a duck — it’s a duck. Usury is usury.

Lynda DeLaforge is co-director of the consumer group Citizen Action/Illinois. She is speaking today in Springfield at the Downstate Anti-Predatory Lending Summit, which is being held from 8:30 a.m. to noon at First Presbyterian Church, 321 S. Seventh St.