Payday loan reform promises to eliminate long-term, triple-digit interest rates

High-cost credit, extended with no consideration of a borrower’s ability to pay it back, has stripped billions in wealth from Illinois communities since the beginning of the economic crisis. While lending reform is still being debated in Washington, policymakers in Springfield have finally recognized that at least one form of high-cost credit - payday installment lending - cannot continue to operate in Illinois without a basic set of ground rules.

The Monsignor John Egan Campaign for Payday Loan Reform agrees and publicly supports one proposal, Senate Bill 655, which will finally put an end to predatory payday installment loans with rates that too often top 1,000 percent.

Predatory credit is offered at long-term, triple-digit interest rates; marketed to desperate borrowers; and frequently refinanced or contains balloon payments that mire borrowers in a cycle of debt. Any payday installment loan that fits this description is just plain predatory. We recognize that many products do not fit this description and play a meaningful role in many families’ financial path.

States such as Ohio and Arizona have decided to curb any and all consumer lending abuses by driving the industry out with rates caps of 28 and 36 percent, respectively. In Illinois, policymakers have taken a different approach. Working with community advocates and a portion of the lending industry committed to safe credit options, they have developed a set of policies that will eliminate the worst industry practices. At the same time, they are committed to keeping good credit options legal and available.

If Senate Bill 655 is enacted, lenders would be able to offer two types of products: long-term loans with APRs under 99 percent and higher-cost, short-term loans with protections from the Payday Loan Reform Act for the most credit-challenged borrowers. With either option, borrowers will finally be able to walk out of a loan store knowing that they have received a safe, sustainable credit option that will help them meet their emergency credit needs. The accusation that some communities will be left with no credit options is unfounded. Representatives of over half of the industry have stated they will continue to lend, even to credit-challenged borrowers. These lenders operate 547 locations throughout the state—more than the number of Walgreens stores in Illinois.

Egan Campaign representatives, lenders and policymakers have held years of open meetings about credit reform. In the past six months, representatives of the Egan Campaign have met with every critic of SB655 and provided detailed public responses for why we support reasonable rates, sustainable loans that a borrower can repay, and an end to abusive practices that trap too many borrowers in bad debt.

Simply put, SB655 is designed to eliminate predatory credit options and preserve good ones. We continue to work with anyone—community representatives, policymakers, or lenders—who will commit to ending long-term, triple-digit interest rates. We will continue to oppose critics who believe that no price is too high for long-term consumer credit, even if that price is over 1,000 percent.

Our doors are open and we welcome any suggestion that offers Illinois communities the opportunity to safely and sustainably borrow, save, and build wealth.

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