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Illinois should embrace a national rate cap on consumer loans

Brent Adams
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She lived in her car but feared the title lender would take it.

Billie Aschmeller needed a winter coat for her pregnant daughter and a crib and car seat for her granddaughter. Promised fast cash, Billie took out a $1,000 loan and handed over her car title as collateral. For the next year, the Illinois People's Action leader made $150 monthly payments while on a fixed income. She still owed $800 when her car broke down. This time, she took out a $596 loan with a 304.17% annual percentage rate (APR). In total, Billie and her family would pay over $5,000 to pay off the debt.

Billie's case is, tragically, common. Illinois has been known as the Wild West for payday lending. Loans with APRs exceeding 1000% were not unheard of in 2004. Against this backdrop, I wrote the Payday Loan Reform Act (PLRA) of 2005. The PLRA addressed some of the worst abuses by applying a limit of 45 days of indebtedness and a 400% APR cap -- certainly nothing to brag about. It was a compromise that accommodated the industry's considerable power in the Illinois General Assembly, power that continues to this day.

Today, storefront, non-bank lenders offer a menu of different loan products. Advocates, like Woodstock Institute, have fought for more protections, yet Illinois families -- most of them lower-income, like Billie's -- spend hundreds of millions of dollars on payday and title loan fees every year.

Exerting regulatory force to address one problem only pushed the problem elsewhere. When the law was written in 2005 to apply to payday loans of 120 days or less, the industry created a new loan product with a 121-day term. For over a decade, we've been playing regulatory whack-a-mole.

A cycle of re-borrowing is the beating heart of the payday business model. More than four out of five payday loans are re-borrowed within a month and most borrowers take out at least 10 loans in a row, according to the Consumer Financial Protection Bureau.

Sixteen states and Washington, D.C., whacked the mole for good when they set a flat cap of 36% APR or lower on consumer loans. This method works. Just ask our friends in deep red South Dakota who in 2016 approved a 36% APR cap by a whopping 76%.

South Dakota's example shows us that protecting families from the payday debt trap is not a partisan issue. High majorities of Independents, Democrats and Republicans support increased payday loan protections. In that spirit, a bipartisan pair in Congress, Illinois' own Congressman Chuy Garcia, a Chicago Democrat, and Wisconsin Republican Congressman Glenn Grothman of Wisconsin recently introduced the Veterans and Consumers Fair Lending Act. The bill would cap consumer loans nationwide at 36% APR. Active duty members of the military are already entitled to this protection thanks to the 2006 Military Lending Act. It's time that our veterans -- and all American families -- receive the same protections.

The industry says a 36% rate cap will drive them out of business, resulting in a decline in access to credit. This argument is smoke-and-mirrors. The bill would not restrict access to safe and affordable credit. It would protect families from predatory, debt-trap loans -- a bad form of credit. Storefront, non-bank lenders and Community Development Financial Institutions already can and do make loans at or below 36% APR.

It's time to end triple-digit APRs once and for all. We've tried other things: limits on rollovers, limits on days of indebtedness, limits on the number of loans and more. Arguably, Illinoisans, like Billie and her family, are in no better place today than they were back in the Wild West. A nationwide cap is the best solution for Illinois -- and for the whole country.
The Illinois Congressional Delegation, especially the other members of the House Financial Services Committee, Congressmen Sean Casten and Bill Foster, should join their colleague, Congressman Garcia, in capping consumer loans at 36% APR.

Brent Adams is the senior vice president for policy & communication at Woodstock Institute, a nonprofit research and policy organization advocating for a more equitable financial system. Formerly, he championed payday loan reform at Citizen Action/Illinois and as secretary of the Illinois Department of Financial and Professional Regulation during the Quinn Administration.

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