INFiN[SM] A Financial Services Alliance

TESTIMONY OF INFIN, A FINANCIAL SERVICES ALLIANCE
ILLINOIS GENERAL ASSEMBLY
COMMITTEE: EXECUTIVE
HEARING DATE: JANUARY 10, 2021
HEARING TIME: 10:00 A.M.
SUBJECT MATTER ON: HB 5871-OPPOSE

January 9, 2021

Dear Chairperson Welch:

On behalf of INFiN, a Financial Services Alliance[1], the leading national trade association representing the diverse and innovative consumer financial services industry, we are writing to voice strong opposition to the HB 5871 (the "Bill"). **This bill would deny Illinois residents access to the regulated, short-term, small-dollar credit on which they occasionally rely, and decimate a regulated industry that currently operates more than 1,500 storefront locations (and online) and that employs tens of thousands of Illinoisans across the state.**

Many hard-working families in Illinois and across the country struggle to make ends meet and live paycheck to paycheck. The Federal Reserve reported nearly four in 10 American adults do not have $400 to cover an unexpected expense without selling something or borrowing money – circumstances that no doubt have only been further exacerbated by the COVID-19 pandemic.[2] In fact, a recent Marketplace survey found that nearly half of all Americans would have trouble paying for an unexpected $250 bill, and one-third of Americans have less income than before the pandemic.[3] **The subject bill does nothing to address Illinoisans' financial needs; instead, it would eliminate a regulated credit option.** This legislation amounts to an effective ban through an interest rate cap that would prevent lenders from covering basic operating expenses, including employee salaries, rent and utilities, leaving them unable to continue to provide needed financial services.

In today's credit market, regulated consumer financial services providers like INFiN members provide hardworking, middle-income consumers with critical access to credit when other financial institutions do not fully serve them. **This has been especially important during the pandemic; it is why the federal government[4], and the governments of all 50 states, including Illinois[5], designated our operations as essential.** This designation enabled our members to continue to operate, serving millions of Americans at a time when banks and other financial institutions were closed or operating on extremely limited schedules.

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[1]About INFiN. www.infinalliance.org

[2] The Federal Reserve. (2020) Report on the Economic Well-Being of U.S. Households in 2019. Accessed at: https://www.federalreserve.gov/publications/2020-economic-well-being-of-us-households-in-2019-dealing-with-unexpected-expenses.htm

[3] Marketplace. (October 2020) "Nearly half of Americans would have trouble paying an unexpected $250 expense." Accessed at: https://www.marketplace.org/2020/10/15/nearly-half-of-americans-would-have-trouble-paying-an-unexpected-250-expense/

[4] See Cybersecurity & Infrastructure Security Agency, Guidance on the Essential Critical Infrastructure Workforce, available at https://www.cisa.gov/publication/guidance-essential-critical-infrastructure-workforce, and Statement by Steven T. Mnuchin on Essential Financial Services Workers, issued March 24, 2020, available at https://home.treasury.gov/news/press-releases/sm956.

[5] See Executive Order in Response to COVID-19 (COVID-19 Executive Order No. 8), issued by Governor JB Pritzker on March 20, 2020.

While fewer people are currently choosing small-dollar loans, it is important that those who do need such loans now, and in the future, are able to access regulated forms of credit from transparent and trustworthy lenders.

INFiN strongly believes that a regulated small-dollar lending market is in the best interest of consumers, balancing access to credit with critical consumer protections. Nearly every aspect of our industry is regulated at the state and federal levels, and our members operate in strict compliance with all applicable laws. Illinois' existing payday lending laws feature effective guard rails while ensuring consumers have convenient, regulated options for different needs and circumstances. In fact, a small-dollar loan's fee – a one-time, flat $15.50 per $100 borrowed for a payday loan or payday installment loan in Illinois – often proves to be less expensive than the costs associated with other alternatives, including unregulated Internet loans, overdraft usage, bounced checks, late payments to credit card companies, and utility reconnections.

Our members disclose this fee as both a dollar amount and an annual percentage rate (APR), so that borrowers can compare our services with other credit options. However, APR does not reflect the cost of a short-term loan, but rather the cost of borrowing that loan every two weeks for a year. The loans offered by our members are repaid in a matter of weeks, not years. Under the interest rate cap proposed in this bill, a lender's revenue on a $100 loan would be just $1.38, leaving our members little choice but to close their doors, release their employees, and abandon their customers.

Illinoisans' need for credit will not disappear if regulated small-dollar loans are eliminated. Without access to loans from licensed lenders, they will suffer the consequences of unmet financial obligations, or be forced to resort to more expensive or less regulated options. Further, while some bank, credit union, and non-profit programs in Illinois and nationally are touted as "alternatives" to small-dollar loans, these options are not always broadly available and typically involve a variety of restrictions and confusing fee structures. While they provide another choice for consumers, they cannot be considered a legitimate replacement for widely accessible, regulated small-dollar loans.

In the absence of regulated small-dollar loans, unregulated options stand to fill the void, as they have in other states that have implemented prohibitions and excessive restrictions on regulated lending. A quick Google search for payday loans – even in states that prohibit them – results in hundreds of thousands, even millions of unlicensed lenders. Online lenders based outside of the U.S., outside the jurisdiction of state regulators, offer loans that involve higher costs than traditional short-term loans and none of the consumer protections that regulated companies provide, such as full disclosure of all loan terms, fair collection practices or extended payment plans. They are not subject to state examinations, lender compliance standards or formal complaint processes. North Carolina, Georgia, Oregon, and South Dakota are just a few of the states that have reported substantial increases in the number of residents borrowing illegal, unregulated loans after implementing outright or effective small-dollar loan bans. Simply put, a prohibition on regulated small-dollar loans will only increase the number of residents borrowing illegal, unregulated loans.

In our function as essential, regulated providers, INFiN members work with every customer to give them the flexibility and understanding they need, offering a variety of solutions based on what will work best for their personal financial situation. Many members also offer other valuable services – such as check cashing, bill payment, and money transfers – that have proven especially impactful during the pandemic, enabling customers to access government relief funds, including in particular Economic Impact Payments ("EIPs") approved by Congress under the CARES Act, effectively manage their obligations, and help family and friends.

As a result, borrowers in Illinois and across the country appreciate regulated small-dollar loans for their simplicity, cost-competitiveness, and transparency. In research from Global Strategy Group (D) and Tarrance

Group (R), 94 percent of those surveyed felt that small-dollar loans can be a sensible decision when consumers are faced with unexpected expenses, and 96 percent said they fully understood how long it would take to pay off their loan and the finance charges they would pay before taking out the loan.[6] Regulated small-dollar loans are also the subject of very few consumer complaints. In 2019, just 0.7 percent of consumer complaints received by the Consumer Financial Protection Bureau ("CFPB"), our industry's federal regulator, were about small-dollar lenders. A report from July 2020 revealed that out of the approximately 187,547 consumer complaints the CFPB received in 2020 to date, only 0.4 percent were about small-dollar lenders.

As you consider this legislation, INFiN is committed to working with you to identify ways to help meet Illinoisans' financial needs and preserve their access to regulated credit options. Taking away this regulated option, as HB 5871 would do, will do little to address Illinois residents' need for credit or to ease the challenges they face. Thank you for your consideration of our position.

Respectfully submitted,

Edward D'Alessio
Executive Director

[6] Global Strategy Group & Tarrance Group. (2016) Borrower and Voter Views of Payday Loans. Accessed at: https://www.cfsaa.com/files/files/GSG%20Tarrance%20CFSA%20Borrower%20and%20Voter%20Survey-Analysis.pdf