Illinois PIRG
Standing Up
To Powerful Interests

Testimony of Sabrina Clevenger
Associate, Illinois Public Interest Research Group (PIRG)
in support of the Anti-Predatory Lending Act,
Included in House Bill 2685-SFA 3

Chairperson Hunter, Spokesperson Righter, honorable members of the committee: thank you for the opportunity to testify today. My name is Sabrina Clevenger and I am an associate with Illinois PIRG. Illinois PIRG is a statewide, citizen funded, non-partisan public interest advocacy organization that stands up to powerful special interests whenever they threaten our financial security, health and wellbeing, and right to fully participate in democratic society.

We support the Anti-Predatory Lending Act, which is included in House Bill 2685 SFA 3, and encourage the committee to do the same.

The Anti-Predatory Lending Act would prohibit lenders from charging more than 36% APR (annual percentage rate) on consumer loans. Currently, the average APR on a payday loan in Illinois is 297%, and the average APR on a title loan is 179%.

The Anti-Predatory Lending Act would rein in payday, car title and installment loans that trap countless Illinoisans in unaffordable debt every year, while still preserving access to credit. These protections already exist federally for active-duty military servicemembers under the Military Lending Act; creditors should already know how to comply with a 36 percent APR rate cap.

While industry representatives claim that high-interest loans serve a critical need in the financial marketplace, it is well documented that payday loans and similar high-interest financial products are designed to trap low-income borrowers in a spiral of perpetual and growing debt.[1] Predatory lenders annually drain over $500 million from Illinois' economy through fees and astronomical interest rates, particularly in communities that are already struggling.[2] Rather than offering a lifeline in a financial emergency, as the industry claims, these loans tend to heighten the risk of additional financial harm with long-term consequences, from increased overdraft fees to delinquency on other bills, bank account closures, and even bankruptcy.

Interest rate caps of 36 percent APR have a decades-long, market-proven track record of protecting consumers from predatory financial products while allowing responsible lenders to provide their services, including to consumers with bad credit. For much of the 20th century, virtually every state in the U.S. maintained usury limits, often at 36 percent APR. A period of

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[1] Consumer Financial Protection Bureau, *Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings*, 4/23/2013.
[2] Diane Standaert and Delvin Davis, *Payday and Car Title Lenders Drain $8 Billion in Fees Every Year*, Center for Responsible Lending, 1/2017.

deregulation in the 1970s and 1980s allowed payday and car title lenders to flourish — with devastating impacts for consumers, including in Illinois.

17 states and Washington, D.C. already have interest rate caps of 36% or lower. Many of these were and continue to be backed with overwhelming popular and bipartisan support, and, contrary to industry claims, these measures have not cut off consumers' access to credit. For example:

- In 2016, 76 percent of South Dakotans voted in favor of a 36 percent interest rate cap, which went into effect shortly thereafter. Doing away with triple-digit-interest loans has not led the market for credit to dry up; instead, borrowers increasingly turn to credit unions, Community Development Financial Institutions (CDFIs) or other community resources for unsecured loans, Payday Alternative Loans (PALs), and other financial products with APRs below 36 percent.[3]
- After intense study and consultation with the Department of Defense, Congress created a 36 percent APR cap through the Military Lending Act (MLA) in 2006. The MLA's goal was to protect servicemembers and their families from predatory lending, which had been found to undermine military readiness.[4] Contrary to the predictions of some in the financial services industry, the MLA has not cut off access to credit for servicemembers. Instead, responsible lenders continue to make loans to members of the military at rates below 36 percent APR, and requests for financial assistance to military Service Relief Agencies have declined sharply since the MLA went into effect.[5]

I encourage the committee to support the Anti-Predatory Lending Act, which will offer much-needed protections from predatory lending to consumers in Illinois while preserving access to credit.

Thank you for the opportunity to provide testimony.

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[3] Charla Rios, Diane Standaert and Yasmin Farahi, *The Sky Doesn't Fall: Life After Payday Lending in South Dakota*, Center for Responsible Lending, 1/2020.
[4] Paul Kantwill and Chris Peterson, "American Usury Law and the Military Lending Act," Loyola Consumer Law Review, Vol. 31, No. 3, 2019.
[5] Katy O'Donnell, "Military Personnel Caught in Crossfire," *POLITICO*, 4/9/2019.