

January 9, 2021

Illinois General Assembly: Members of the Senate Executive Committee

Written Testimony on Behalf of the Independent Finance Association of Illinois (an association of consumer lenders providing only traditional and retail installment financing)

The Independent Finance Association of Illinois (“IFAI”) has serious concerns regarding the language creating the anti-predatory lending rate cap provisions within SA #3 to HB 2685 (Belt). While the language is well intentioned, the rate cap language strips away long-standing consumer lending protections and reforms for traditional consumer lending and will remove necessary access to credit for many consumers who don’t have access to traditional banking options.

TYPES OF CONSUMER CREDIT PRODUCTS

- Installment loans
- Mortgage loans
- Retail installment payment contracts – these are not loans; they are an agreement between buyer and seller that allows the buyer of a product (auto, furniture etc.) to pay for the product purchased over a stated period-of-time at a fixed monthly payment amount.
- Credit cards
- Home equity loans

All of the above loan types meet specific financial needs of certain consumers. Installment loans and retail installment financing would be severely impacted in the view of the Independent Finance Association of Illinois – a key supporter of Illinois’ 2010 consumer lending reform bill.

Consumers who have limited credit history, small borrowing needs or have damaged credit history would be most impacted to the extent that these credit products may no longer be available to those consumers.

WHAT ARE TRADITIONAL INSTALLMENT LOANS?

- A traditional installment loan is a fixed-rate, fully amortizing small-dollar loan repaid in manageable equal monthly payments or installments. Small consumer installment loans (those under \$4,000) currently have a 99% rate cap.
- The average loan is \$1,500. The average monthly payment is \$120 and the average term is 15 months. Installment loans are affordable for each borrower’s monthly budget.
- They are “plain vanilla” loans with transparent, easy-to understand terms, due dates, and payment amounts.
- Installment lenders determine each customer’s ability to repay. At the time of origination, each and every loan is made with the highest confidence and expectation that it will be paid back in full and on time.
- Unlike payday loans, installment loans do not require one-time balloon payments or the use of ACH.
- Traditional installment lenders also report payment history to credit bureaus, which can help consumers build or strengthen their credit history over time.
- These loans are regulated under the Federal Truth in Lending Act and state law such as the Illinois Consumer Installment Loan Act; providers of this type of credit are licensed and regulated by the Division of Financial Institutions of the Illinois Department of Financial and Professional Regulation.

WHAT ARE RETAIL INSTALLMENT AGREEMENTS?

- While these are not loans, many lenders who offer traditional installment loans also purchase these contracts from automobile and furniture vendors thereby making this important form of credit available to consumers who may not always have bank grade credit available to them
- The average contract amount depends on the price of the goods purchased but like installment loans they are payable in even monthly payments, the terms are clear as required by the Federal Truth in Lending Act and state laws such as the Illinois Retail Installment Sales Act, and the Illinois Motor Vehicle Retail Installment Sales Act and they are provided by companies licensed by the same regulators as are installment lenders.

WHO ARE THEIR CUSTOMERS?

- Traditional installment lenders and buyers and holders of retail installment sales contracts provide credit to individuals and families, often unbanked, underbanked, credit invisible, or with impaired credit histories, who need access to credit to meet an immediate need.
- Using a home equity line of credit or a credit card may not be an option for them.
- The most common uses for traditional installment loans are for vehicle purchases and repairs, household appliances, and medical expenses— generally, the everyday items and services essential to live productive and enjoyable lives, as well as to meet obligations.

WHAT IS THE IMPACT OF A 36% ALL-IN RATE CAP?

- ***A 36% all-in interest rate cap will harm the consumers it intends to help by restricting access to traditional installment loans and retail installment financing***, both of which have installment payment schedules and affordable repayment periods, characteristics encouraged in the bill's findings. Without access to traditional installment loans and retail installment financing, many consumers unable to access traditional bank and credit products will become "unbanked."
- ***Consumers will be forced to borrow a higher amount than they need or want***, meaning they will have higher finance charges, longer repayment periods, and higher overall costs, despite having a lower APR. To cover the costs of making a typical installment loan, such as underwriting, rent, salaries, licensing and regulatory compliance, lenders would need to offer loans of at least \$3,500 to consumers. Similar costs would apply to the much larger retail installment contracts needed by consumers to purchase vehicles and household goods.
- ***Many traditional installment lenders will not be able to offer small-dollar loans at all with this rate cap***, which will create credit deserts, forcing consumers to turn to unscrupulous lenders and loan sharks due to no longer having access to viable credit products. In addition, the ability of lenders to finance autos and household goods to many consumers would be severely impacted and many may withdraw from providing such credit.

[Summary of 2010 Illinois Reform Bill on Next Page]

The Consumer Installment Loan Reform Act

HB 537/PA 96-936 (2010)

Sponsors: Senator Kimberly Lightford and Representative Lou Lang

The Consumer Installment Loan Reform Act will ensure that all Illinoisans have access to longer-term credit with reasonable terms and end the triple-digit interest rates currently being charged in Illinois. It also includes several protections to guard against the cycle of debt. This Act is the result of two years of negotiations and meetings with representatives of both Illinois and nationally based companies that make loans to credit challenged and often lower-income borrowers in Illinois. Key components of the Act include:

- **Sets interest rates from 36% to 99% for small dollar, longer-term consumer installment loans.**
- **Establishes reasonable charges and limits on rollovers.**
- **Sets a minimum loan term to ensure that borrowers have enough time to repay the loan.**
- **Requires consideration of the borrower's ability to repay the loan.**
- **Eliminates balloon payments on all consumer installment loans.**
- **Ends the antiquated Rule of 78ths method of calculating refunds (which front-loaded fees) in the event of early pay-offs.**
- **Establishes the use of a consumer database for purposes of determining borrower eligibility and ensuring compliance with the Act.**

Supporters

Lenders

Illinois Financial Services Association (Installment lenders)
Independent Finance Association of Illinois (Installment lenders)
Community Financial Services Assoc. (Payday lenders)

Government

The Office of Governor Pat Quinn
The Office of Attorney General Lisa Madigan
The Office of State Treasurer Alexi Giannoulias
The Department of Financial and Professional Regulation

Consumer Groups

8th Day Center for Justice
AARP
Action Now
AFSCME Council 31
ATU Local 416
Catholic Conference of Illinois
Center for Tax and Budget Accountability
Central Illinois Organizing Project
Centro Comunitario Juan Diego

Chicago Appleseed Fund for Justice
Chicago Federation of Labor
Citizen Action/Illinois
El Valor Corporation
Griffin Center
Heartland Alliance
Illinois AFL-CIO
Illinois Alliance for Retired Americans
Illinois Coalition for Community Services
Illinois Coalition for Immigrant and Refugee Rights
Illinois Federation of Teachers
Jane Addams Hull House
Lutheran Social Services of Illinois
Metropolitan Family Services
North Side Community Credit Union
Illinois Public Interest Research Group
Project IRENE
Protestants for the Common Good
SEIU Illinois State Council
Sargent Shriver National Center on Poverty Law
South Austin Coalition
United Auto Workers, Region 4
United Food and Commercial Workers, Local 881
University Professionals of Illinois – Local 4100
Voices for Illinois Children
Woodstock Institute