



# NEWS

**ROD R. BLAGOJEVICH – GOVERNOR**

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## **Gov. Blagojevich signs groundbreaking payday loan reform into law**

*Law sets caps on interest rates and gives  
unprecedented protection to borrowers*

CHICAGO – Governor Rod R. Blagojevich today signed the landmark Payday Loan Reform Act that for the first time will regulate the payday loan industry in Illinois and strengthen protection to consumers, especially working families and members of the military against predatory and abusive practices.

“Payday loans are a nightmare for thousands of working families who find themselves trapped in debts they can’t repay. Just ask Jodie Ackerman, a working single mom, who owed thousands of dollars after taking out several payday loans because she needed extra money to pay her bills. Payday loans are supposed to help working people cover unexpected costs and emergencies. They’re not supposed to break their bank accounts. We needed to do something about this, and we have achieved it,” said Gov. Blagojevich upon signing the law during a ceremony at the Sargent Shriver National Center on Poverty Law, where he was joined by elected officials, legislators, advocate organizations and individuals who have been the victims of abusive loans.

“Thanks to the hard work of Lieutenant Governor Pat Quinn, Attorney General Lisa Madigan, State Senator Kimberly A. Lightford, State Representative David E. Miller, and the Monsignor John Egan Campaign for Payday Loan Reform, we can now protect working families from abusive lenders, outrageous interest rates and endless debt. This law also helps members of the military. When it becomes effective, lenders will not be able to garnish their pay, collect when a member of the armed forces is in a combat zone, or contact their commanding officer,” added the Governor.

The Payday Loan Reform Act provides consumer protections by restricting payday lending in several ways:

- Limits the interest that can be charged for each loan to \$15.50 per \$100;
- Sets a cap on total loan amounts to \$1,000 or 25% of a customer's monthly salary, whichever is less;
- Prevents borrowers from having more than two loans at a time;
- Provides that payday borrowers cannot have payday loans for more than 45 days. Once they have reached the 45-day limit they must have at least a seven-day loan free period.
- Creates a new 56-day repayment period with no additional interest charges for borrowers who have trouble repaying their loans;
- Protects borrowers from facing criminal prosecution for unpaid loans, and from paying attorneys fees and court costs;
- Extends special protections to members of the military, including a ban on garnishing wages, deferral of collections for deployed personnel, and a prohibition on contacting a borrower's commanding officer.

In order to enforce these rules there will be a new state database that lenders will use to lookup the applicant's payday loan record. If a new loan violates the rules, the payday lender will not receive authorization to issue it. Borrowers will also receive information – in English and Spanish – that outlines their rights and responsibilities before taking a loan.

“Payday loans are a temporary product that put me in a permanent bind. This law will help make sure other borrowers can keep these short-term loans, short term,” said Jodie Ackerman who, along with her 9-year old daughter joined Gov. Blagojevich at the event. Ms. Ackerman is a working single mother who needed extra money to pay her bills, and ended up thousands of dollars in debt from taking out payday loans at interest rates over 700 percent. At one point, she had three outstanding loans and needed a fourth just to make payments on her other loans. Currently, she still has two outstanding payday loans.

Payday loans are short-term loans secured against a post-dated check that consumers borrow at very high interest rates. Payday loans become a problem when consumers cannot repay after borrowing a substantial amount against their paychecks. Instead, consumers renew the loan and pay additional fees. Many consumers take out additional loans to pay the fees on their original payday loan. This extends the cycle of debt further, with no resources for recovery periods or optional repayment plans.

“This legislation will help ensure that payday loans are truly short term loans and that they don't catch people in a vicious cycle of debt,” Attorney General Lisa Madigan said. “For too long, payday lenders have trapped consumers into situation from which they can't escape as loans keep rolling over and consumers remain in an endless state of debt.”

Currently, there are 995 payday or other short-term lenders in Illinois, a 23% increase from last year. According to industry figures, the average annual percentage rate for short-term loans is 595%, and the average amount of a short-term loan is \$380. According to the Illinois Department of Financial and Professional Regulation, last year lenders made 1.4 million payday loans, which generated \$1.3 billion in receivables.

“For too long, payday loan operators took advantage of the most vulnerable consumers, including members of the military,” said Lt. Gov. Pat Quinn. “This legislation curbs the spiral of debt so many Illinois residents have experience due to predatory lenders. The late Monsignor Jack Egan, the legendary priest who took on this industry, would applaud this reform.”

The Monsignor John Egan Campaign for Payday Loan Reform was started by the late Msgr. Egan in 1999, after hearing the story of one his parishioners who was victimized by a payday loan. Msgr. Egan was outraged at the story and took on payday loan reform as one of his last fights for social justice. He convened a group of religious leaders, consumer advocates, public interest organizations and social service groups to form the Campaign for Payday Loan Reform, renamed after Egan following his death in May of 2001. Leaders of the coalition include Citizen Action/Illinois, The Woodstock Institute, Metropolitan Family Services, and Sargent Shriver National Center on Poverty Law.

“We want to thank Governor Blagojevich for signing the Payday Loan Reform Act into law. Monsignor Egan was dedicated to protecting people who too often, in their hour of desperation, have fallen prey to unscrupulous lenders. With this bill signing, we have taken a big step in honoring his legacy,” said Linda DeLaforge, co-director of Citizen Action/Illinois.

"Regulation of this corrosive industry is long overdue," said State Rep. Miller (D-Dolton), the bill's chief sponsor. "A payday loan should not be a lifetime burden, but the industry would prefer to bury people under a mountain of debt. Consumers seeking short-term financial solutions too often find themselves in greater distress and the negative effects are destroying our neighborhoods. Over the last four years, I have worked hand-in-hand with Citizen Action/Illinois and the Monsignor John Egan Campaign for Payday Loan Reform to pass legislation that protects both consumers and the quality of our communities. I thank the members of the General Assembly, Governor Rod Blagojevich, and Attorney General Lisa Madigan for their leadership in helping make these reforms a reality."

Sen. Lightford (D-Maywood) who worked on the legislation for five years said the Payday Loan Reform Act “is the first step to protect consumers. Payday loans can cause people’s lives to go into a tailspin because of the constant cycle of debt that the borrower can never repay. This legislation provides consumer protection while reining in unscrupulous payday loan businesses that prey on innocent folks who don’t have the collateral or the credit history to get a traditional loan from a bank.”

The Illinois Department of Financial and Professional Regulation will license payday lenders and enforce the new Payday Loan Reform Act. “Payday lending is one of the fastest growing types of consumer credit in Illinois. For too long, there has not been adequate protection for the borrowers and too much control by the lenders. This bill ensures that loan borrowers receive the protection they deserve,” said Illinois Secretary of Financial and Professional Regulation Fernando Grillo. “People who are forced to rely on payday lenders for emergency loans are particularly vulnerable to threats and overcharging.”

The Payday Loan Reform Act, which was introduced in the State Legislature as HB 1100 passed the House of Representatives unanimously and the Senate near unanimously. The Act becomes effective 180 days after being signed into law.