

Alternative Small Dollar Loan Symposium:

Leveling the playing field between regulated and
unregulated consumer credit

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Alternative Small Dollar Loan Symposium:
Opportunities & Challenges for Illinois' Financial institutions
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High cost consumer credit

What it is

1. Short-term payday or long-term installment loans secured by wages, or automobile title loans secured by a car or truck. Other consumer finance companies make unsecured loans.

Why it is a problem

1. Triple digit interest rates mean borrowers pay as much in interest as they originally borrowed.
2. Loans secured by wages or direct deposit means unsecured consumer lenders get paid before the mortgage, utilities, or any other creditor.
3. Frequent refinancing means short-term debt becomes a long-term problem.



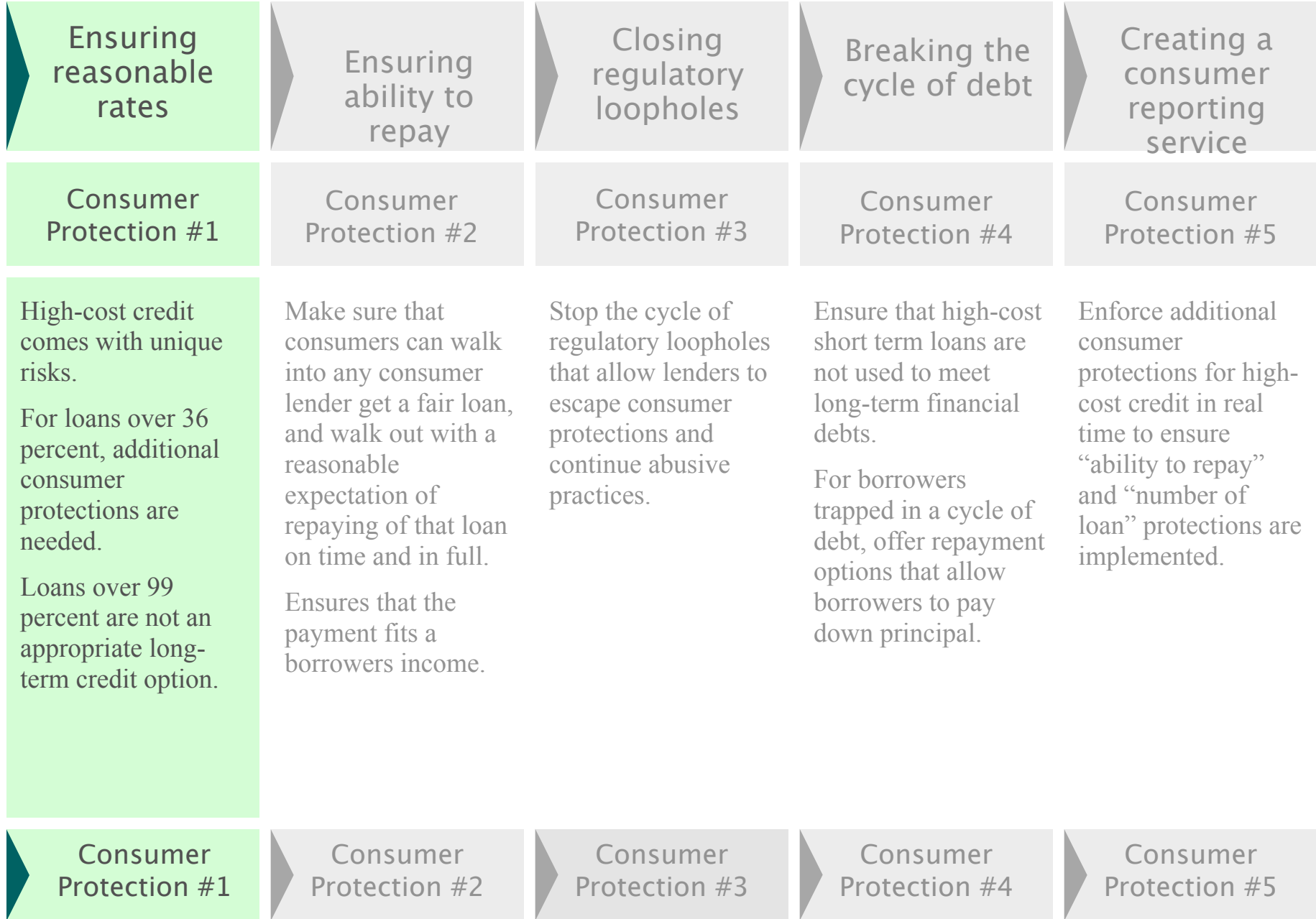
<p>Short-term loan rules</p>	<p>31-day payday loans</p>	<p>Payday Loan Reform Act loans</p>	<p>payday installment loans</p>	<p>Closing the loopholes</p>
<p>2002 protections for loans 30 days or less</p>	<p>2003–2005 31 day loophole</p>	<p>2005</p>	<p>2006 to present 120 day loophole</p>	<p>preventing future loopholes</p>
<p>Benefits to borrowers</p> <ul style="list-style-type: none"> - Ensured lenders considered a borrowers ability to repay - Limited high cost refinances - prevents multiple outstanding loans 	<p>Impact on borrowers</p> <ul style="list-style-type: none"> -530% APR for \$398 -31 day loans - borrowers likely to be women living in lower-income communities or communities of color -Direct debit or post-dated check, lender gets paid before all other creditors 	<p>Benefit to borrowers</p> <ul style="list-style-type: none"> - 361% APR to borrow \$309 (about a 40% savings) -14 day loans - Broke cycle of debt after 45 days - Offered free repayment plan - Ensured lenders considered a borrowers ability to repay 	<p>Impact on borrowers</p> <ul style="list-style-type: none"> - 255% APR to borrow \$1,165 -Loans up to a year - No consumer protections of any kind -borrowers likely to be women living in lower-income communities or communities of color 	<p>Recommendations</p> <ul style="list-style-type: none"> - establish strong protections for longer-term loans -Expand protections to other types of loans, such as title loans -If high fees are permitted for specific products, establish a 36% statewide cap to prevent another loophole
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Ensuring reasonable rates

Ensuring ability to repay

Closing regulatory loopholes

Breaking the cycle of debt

Creating a consumer reporting service

Consumer Protection #1

Consumer Protection #2

Consumer Protection #3

Consumer Protection #4

Consumer Protection #5

High-cost credit comes with unique risks.

For loans over 36 percent, additional consumer protections are needed.

Loans over 99 percent are not an appropriate long-term credit option.

Make sure that consumers can walk into any consumer lender get a fair loan, and walk out with a reasonable expectation of repaying of that loan on time and in full.

Ensures that the payment fits a borrowers income.

Stop the cycle of regulatory loopholes that allow lenders to escape consumer protections and continue abusive practices.

Ensure that high-cost short term loans are not used to meet long-term financial debts.

For borrowers trapped in a cycle of debt, offer repayment options that allow borrowers to pay down principal.

Enforce additional consumer protections for high-cost credit in real time to ensure “ability to repay” and “number of loan” protections are implemented.

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