



Illinois People's Action Payday Lending Campaign

Municipalities should pass ordinances that cap payday loan interest rates at 36% interest.

Unfortunately today payday lenders charge 400% interest rates. This is bad for our residents, neighborhoods, businesses, churches and municipality:

- Payday lending takes money from those who can least afford it--low- and moderate-income borrowers constitute a disproportionate share of customers.
- Payday outlets lower the property value and increases neighborhood crime.
- Payday takes away money that could be spent in local businesses.
- Churches often end up indirectly subsidizing payday lenders by paying the bills and providing food for their congregants who are trapped in payday loans.
- Payday leaches money out of our communities and increases crime which strains municipal budgets

Illinois People's Action is using Home Rule to seek municipal ordinances that cap payday lending interest rates at 36%.

Who is Illinois People's Action? IPA, formerly known as the Central Illinois Organizing Project, is a state-wide faith-based organizing group working on social and economic justice issues. It has 54 member churches and organizations. It is the organization that spearheaded evening bus service in Springfield in 2007. www.illinoispeoplesaction.org

What is Home Rule? Home Rule is an Illinois law that allows municipalities above a certain population threshold to pass ordinances that protect the welfare of its citizens when those ordinances are not expressly prohibited by state or federal law.

Why 36% interest? The U.S. Congress passed a law that set 36% as the cap payday lenders can charge members of the U.S. military and their dependents. 36% is also the gold standard in other states. It allows lenders to still make a profit and is more in line with interest rates on other types of lending (e.g. credit cards) that are used for quick access to capital.

Are payday lenders banks? No. They are fringe lending entities that do not have the same type of regulatory requirements as reputable banks.

What is a payday loan? Short term loans typically with very high interest rates and whose terms make the loan difficult to meet. The industry makes money by trapping people in a cycle of debt.

How does it work? A borrower writes a personal check or authorizes debit of their bank account for the amount of the loan plus the fee. The lender holds the check until the due date (next pay day.) On payday, the borrower can "buy back" the check by paying the full amount of the loan and the finance fee (interest). Often, cash or debit payment is required. If the borrower cannot afford

the full amount, they risk having their check bounce repeatedly, which costs the borrower more money. So the borrower may find they have no other alternative but to roll the loan over into another loan with more interest. Over 80% payday borrowers are repeat borrowers. Less than 1% of borrowers default on their loans.

Who takes out payday loans? 12 million Americans are caught in the cycle every year, frequently paying more in interest than the amount they originally borrowed. Payday lenders say they are “equal opportunity lenders” but in reality, they actively target minorities, low income households often headed by women, seniors on fixed incomes and individuals with disabilities. There are 2.4 times more payday outlets in neighborhoods of color and 38% of all payday borrowers are people of color.

How much money are we talking about?

- In Illinois, 400% interest is legal. This translates into paying as much as \$300 interest on a \$500 loan over the course of two months.
- At least **\$5 Billion** goes from the pockets of working people to payday lending fees every year. Most of this money leaves our community.
- Payday borrowers are more than twice as likely to end up in bankruptcy.

Is this really legal? It is in Illinois. But it doesn't have to be.

What does IPA want? A 36% cap on payday lending in our communities.

- 16 states and D.C. have enforced two-digit interest rate caps or outlawed payday lending; it is a felony in Georgia.
- Congress passed a 36% interest rate cap on military families in 2007.
- 3 out of 4 Americans who expressed an opinion think Congress should cap interest rates; 72% say Congress should cap rates at or below 36%.
- Center for Responsible Lending found that policy-makers who back an interest rate cap are likely to find support from their constituents.

Sources:

Colorado Supreme Court Brief, American Progress, Center for Responsible Lending, www.opencongress.org, George Washington University