Defend New National Payday Loan Protections

On October 5, 2017, the Consumer Financial Protection Bureau (Consumer Bureau) released its long-awaited final rule on payday and auto title loans. This was a historic development. It would be **the first nationwide consumer protection** from payday and title loan debt traps. Illinois has a variety of consumer protections, but consumers are still at risk of getting a loan that they cannot afford to repay. A Congressional effort to repeal the rule failed, but the Consumer Bureau – now led by a Trump appointee – is poised to gut key portions of it.

Payday and title loans are expensive. **Triple-digit interest rates are the norm**. Illinois has the fourth highest payday and title lending fees in the nation, **costing Illinois families over a half billion dollars per year -** $270,204,194 in payday loan fees and $233,259,868 in title loan fees, according to the Center for Responsible Lending.

What are the new protections?

Generally,[1] for payday and auto title loans payable in 45 days or less, the lender will be required to determine whether the consumer has the **ability to repay the loan** based on the consumer's income and expenses. "Ability to repay" (ATR) means the consumer could repay the loan in full when due and still meet basic living expenses and major financial obligations.

The rule creates "payment protections" for both short-term payday loans and longer-term title and installment loans. The most significant payment protection is that a lender may make only two unsuccessful attempts to debit a consumer's bank account. After that, the lender must get a **new and specific authorization from the consumer**.

In Illinois, the rule would have protected the nearly 65,000 consumers who received over 200,000 payday loans in 2015.[2] **The average APR on a payday loan is 323 percent.** The rule would not have applied to the vast majority of Illinois title loans, however, because the terms are more than 360 days. **The average APR on an Illinois title loan is 189 percent.**

What do the new protections *not* cover?

The rule does not cap interest rates or establish an ATR requirement for "installment payday loans" (IPLs). An IPL is a payday loan, payable in substantially equal installments, with a term of 112-180 days. In Illinois in 2015, 379,973 IPLs were made to nearly 200,000 borrowers. **The average APR on an IPL is 228 percent**.

Why are the new protections important for Illinois consumers?

The rule will prevent consumers from being caught in a payday debt trap. Research[3] by the Consumer Bureau shows that more than **four out of five payday loans are re-borrowed** within a month, and the majority of payday loans are borrowed by consumers who take out at least **10 loans in a row**.

In Illinois, **most payday loan consumers are lower-income**, earning $30,000 or less per year. The ATR protection would benefit lower-income consumers the most.

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[1] The rule creates an exception to the ATR requirement for payday loans that meet certain requirements. Under this exception, called the "principal payoff option," a lender could make three payday loans in succession, but only if the loans are $500 or less and the consumer pays off at least one-third of the original principal with each loan (e.g., Loan #1 = $450; Loan #2 = $300; Loan #3 = $150).

[2] Illinois-specific data can be found in the Illinois Trends Report 4/14/16 published by Illinois Department of Financial and Professional Regulation.

[3] The Consumer Bureau has a detailed, six page fact sheet.

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