# Illinois Payday Loan Reform Act
# Three Year Report

## March 2009

## Division of Financial Institutions

**Governor Pat Quinn**

**Michael T. McRaith, Acting Secretary**

**Department of Financial and Professional Regulation**

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ABOUT THE INFORMATION IN THIS REPORT

THIS REPORT IS BASED ON STATISTICAL INFORMATION REQUIRED UNDER THE PAYDAY LOAN REFORM ACT, 815 ILCS122.

THE INFORMATION CONTAINED IN THIS REPORT IS BASED ON LOANS REGISTERED TO THE ILLINOIS PLRA CONSUMER REPORTING SERVICE ("DATABASE") PURSUANT TO THE ACT. THE ACT WAS EFFECTIVE ON DECEMBER 6, 2005, AND THE DATABASE WENT INTO EFFECT BEGINNING IN FEBRUARY 2006. THE DATA PRESENTED IN THIS REPORT IS FOR THE PERIOD FROM FEBRUARY 2006 THROUGH DECEMBER 2008.

## *Introduction*

Payday loans are short-term loans secured against future income that have very high finance charges. 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. Some consumers take out additional loans to pay the fees on their original payday loan.

The Payday Loan Reform Act ("PLRA" or "Act") was introduced in the State Legislature in 2005 as HB 1100, passed the House of Representatives unanimously and the Senate nearly unanimously, and became effective December 6, 2005.

Prior to the passage of the PLRA there were no limits on (A) payday loan finance charges, (B) the amount that a consumer could borrow or (C) the number of loans a borrower could have at any one time. In addition, the average annual percentage rate for a payday loan was approximately 595%.

With passage of the Act, the payday loan industry in Illinois became state regulated for the first time and consumers were afforded protection from a form of short-term credit that many view as abusive and predatory.

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

- Limits finance charges 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 gross 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 finance 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 ensure payday loan requirements are met, the PLRA establishes a state database ("Database") that lenders must use to verify a borrower's eligibility for a payday loan. If a new loan application does not meet all of the Act's eligibility requirements, the payday lender will not receive authorization to issue it.

The Payday Loan Reform Act , at 815 ILCS 122/4-30, calls for a three year report to the Illinois General Assembly describing the impact and effectiveness of the Act on consumer protection and the fair and reasonable regulation of the industry.

The following report provides data from the previous three years from the database established by the PLRA. As is evidenced by the data, since the implementation of the PLRA there have been steady declines in transaction volume, average annual APR and the number of repeat and unique borrowers during the reporting period. The declines may be a direct result of the Act's ability to successfully protect Illinois consumers against predatory lending practices of Payday Loan Lenders. However, two other factors may also be causing these declines: (1) the onset of the current national economic downturn, and (2) the increased use of other loan products not covered by the Act, such as short term consumer installment loans, are being utilized more often by consumers. Consumer groups have observed that some payday borrowers refinance their payday loans by taking out consumer installment loans with terms typically greater than 120 days and less than 150 days. Such borrowers may become trapped in the cycle of debt that the PLRA was intended to prevent. Some refer to this phenomenon as the PLRA "loophole."[1]

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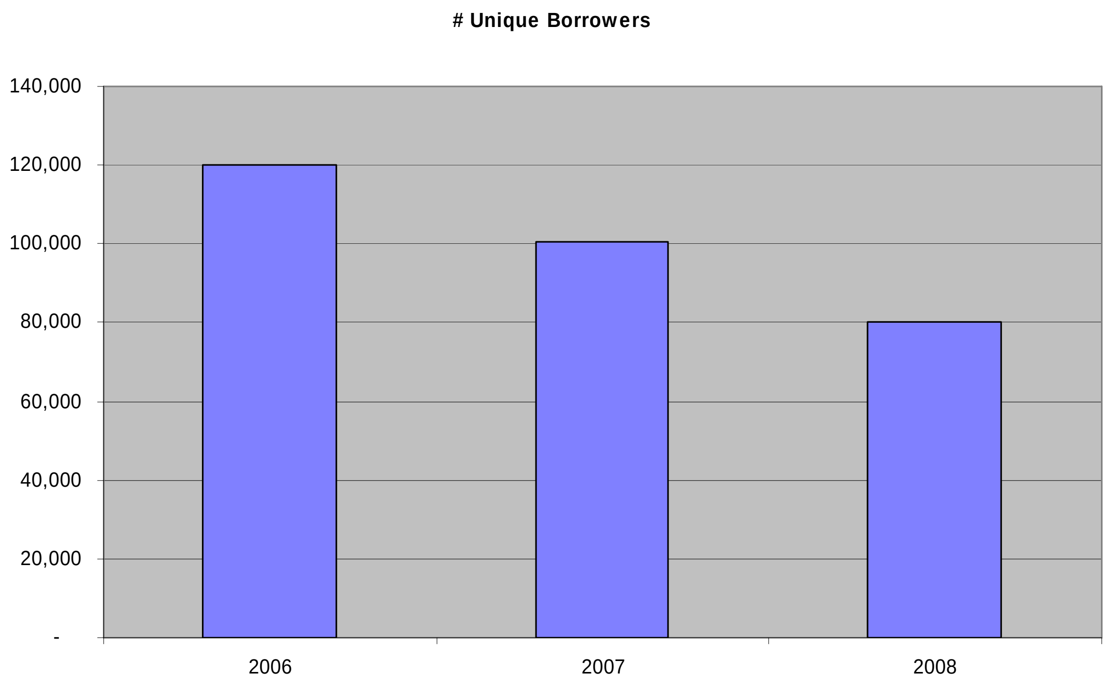
[1] In 2007, a bill backed by the ***Msgr. John Egan Campaign for Payday Loan Reform*** that would have stricken the "120 days" language from the PLRA passed the Senate but failed in House Committee. Last year, essentially the same bill (SB 1993) passed the Senate but was never called for a vote in committee. Also last year, the Department drafted a bill (SB 862) that was never called for a vote.

## *Payday Loan Consumer*

During the period February 2006 through December 2008 (“Reporting Period”), 204,205 payday loan consumers took out 1,194,582 payday loans, or an average of 5.9 loans per consumer.

The number of payday loan consumers (unique borrowers) in 2006, 2007 and 2008 is as follows:




| | # Unique Borrowers |
|---|---|
| 2006 | 119,936 |
| 2007 | 100,526 |
| 2008 | 80,049 |
| 3 year period | 204,205 |

The average monthly gross income of Illinois payday consumers during the Reporting Period was $2,538.34, or $30,460 per year.

For the Reporting Period:

- Approximately 63% of all payday loan consumers earn $30,000 or less per year.
- Approximately 13% of payday loan consumers earn more than $50,000 per year.

- Approximately 4% of payday loan consumers earn more than $75,000 per year.

The average monthly State Median Income ("SMI") of the payday loan consumer for the Reporting Period was $4,344.17.

For the Reporting Period:

- Approximately 53% of payday loan consumers had an average monthly income less than 50% of the SMI.
- Approximately 80% of payday loan consumers had an average monthly income less than 80% of the SMI.
- Approximately 94% of payday loan consumers had an average monthly income less than 120% of the SMI;
- Approximately 6% of payday loan consumers had an average monthly income greater than 120% of the SMI.[2]

## *PLRA Transaction Volume*

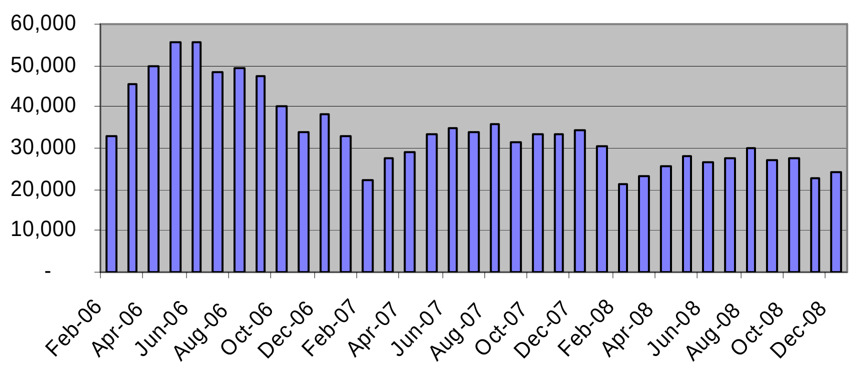
<u>Opened PLRA Transactions</u>

Total PLRA transaction volume for the Reporting Period was approximately 1,194,582 loans. These loans represent a total Advance Amount of approximately $424 million and Advance Fees of approximately $65 million.

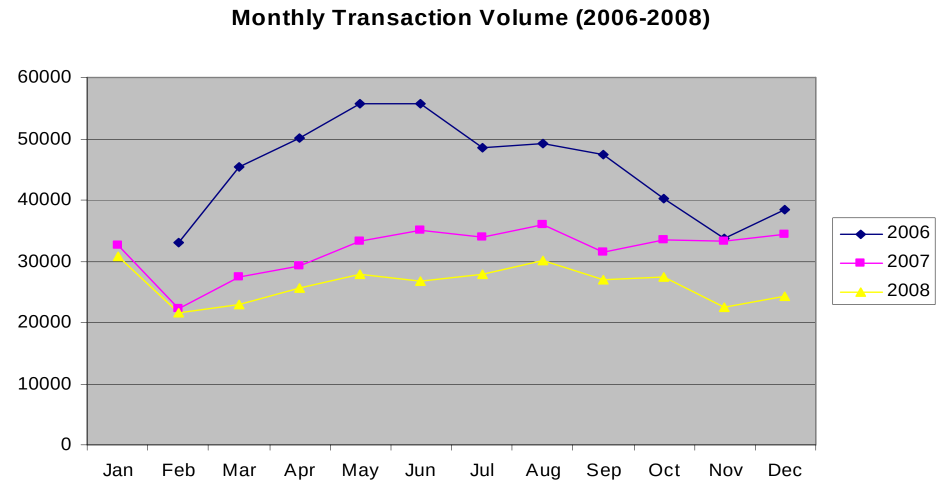
As of December 31, 2008, 42,797 payday loans were outstanding.

Charts depicting transaction volume by month and by year are presented below.

**Transaction Volume by Month**




[2] Source for State Median Income: US Census Bureau FactFinder available at http://factfinder.census.gov




Payday loan transaction volume decreased from year-to-year at an average rate of 20.4 percent during the Reporting Period. Annual volume information for each year of the Reporting Period is presented in the following table.

| Year | Transaction Count | Change vs prior year |
|---|---|---|
| 2006 | 497,546 | |
| 2007 | 382,407 | -23.1% |
| 2008 | 314,629 | -17.7% |
| Average | 398,194 | -20.4% |

## Closed PLRA Transactions

The total number of PLRA loans that have been either paid in full or written off during the Reporting Period is 1,232,015. Of the total, 824,020 loans were paid with cash, 285,586 loans were paid by check, and 81,573 loans were paid via the Automated Clearing House (ACH) (commonly referred to as "automatic debit"). Only 806 loans were paid by use of a wage assignment and 9,310 PLRA loans were written off as bad debt. These figures are represented in the following pie chart.

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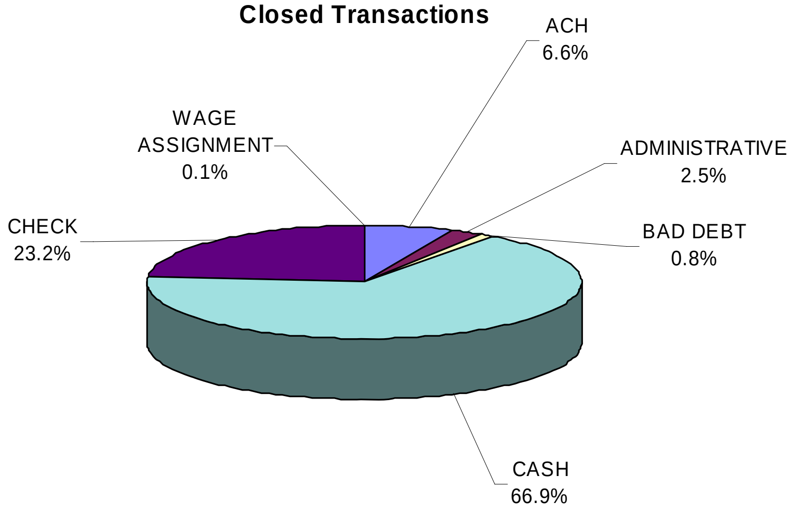


## *Average Term, Advance Amount and Finance Charge*

The average term for PLRA loans during the Reporting Period was 16.5 days.

As can be seen by the table below, more than 75% of consumers had a loan with a term between 13 to 20 days. However, the use of a loan product with a term of 21 to 30 days increased over the Reporting Period.

| | % of Loans by Term Range | | |
|---|---|---|---|
| **Term Range** | **2006** | **2007** | **2008** |
| 13 to 20 days | 87.3% | 78.8% | 75.2% |
| 21 to 30 days | 12.2% | 20.5% | 23.7% |
| 30 to 45 days | 0.5% | 0.8% | 1.1% |

The average PLRA transaction during the Reporting Period was for an advance amount of approximately $354.92 with a finance charge of $54.58, or 15.4% of the average advance amount ($15.40 per $100.00 borrowed).

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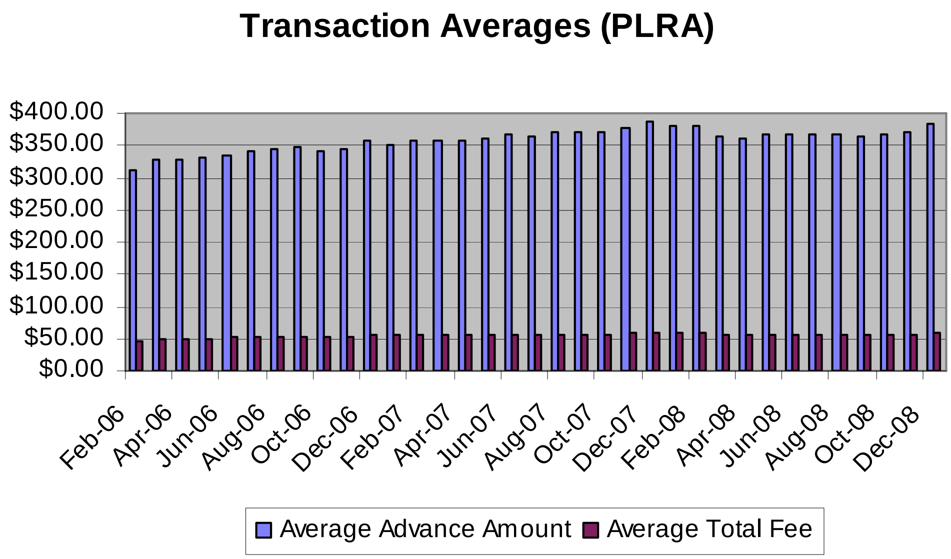



The average Illinois payday loan finance charge calculated as an annual percentage rate (APR) was 341%.

The smallest payday loan made during the Reporting Period was for $5.00 with a finance charge of $0.00. In contrast, the largest payday loan made was for $1,000.00 with a finance charge of $155.00.

## *Year-to-Year Comparison Summary*

A comparison of the preceding annual information related to PLRA loan volumes, advances, fees and borrowers is provided below.

| | Year-to-Year Comparison | | | Year-to-Year % Change | | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| No. of Loans | 497,546 | 382,407 | 314,629 | n/a | -23.1% | -17.7% |
| Aggregate Loan Amount | $ 167,633,902 | $ 140,037,482 | $ 116,343,559 | n/a | -16.5% | -16.9% |
| Average Loan Amount | $ 336.93 | $ 365.69 | $ 369.88 | n/a | 8.5% | 1.1% |
| Loan Term (days) | 15.8 | 16.8 | 17.2 | n/a | 5.8% | 2.3% |
| Average Total Fee Percentage | 15.3% | 15.5% | 15.4% | n/a | 1.0% | -0.3% |
| Calculated APR * | 352.6% | 336.5% | 328.0% | n/a | -4.6% | -2.5% |
| Aggregate Fee Income | $ 25,654,827 | $ 21,640,920 | $ 17,935,836 | n/a | -15.6% | -17.1% |
| Average Fee Income | $ 51.58 | $ 56.52 | $ 57.02 | n/a | 9.6% | 0.9% |
| No of Unique Borrowers | 119,936 | 100,526 | 80,049 | n/a | -16.2% | -20.4% |
| No of Repeat Borrowers | 89,848 | 69,521 | 56,468 | n/a | -22.6% | -18.8% |

* Based on 365 day year and assumption that average loan is continuously renewed throughout the year.

## *Consumer Usage of PLRA Loans*

The average number of PLRA loans per consumer during the 35-month period between February 2006 and December 2008 was approximately 6 loans.

Consumers who took 3 or fewer loans during the 35-month period accounted for approximately 52 percent of consumers and 17 percent of the transactions conducted during the Reporting Period.

Consumers who took 6 or fewer loans during the 35-month period accounted for approximately 71 percent of consumers and 34 percent of the transactions conducted during the Reporting Period.

Consumers who took 12 or fewer loans during the 35-month period accounted for approximately 87 percent of consumers and 54 percent of the transactions conducted during the Reporting Period.

Consumer usage data for the Reporting Period and for 2006, 2007 and 2008 is presented in the following tables.

| February 2006 through December 2008 | | | | |
|---|---|---|---|---|
| **Number of PLRA Loans** | **% Total Consumers** | | **% of Total Loans** | |
| 1 | 25.3% | **71.0% of customers** | 4.3% | **30.4% of transactions** |
| 2 | 15.8% | | 5.3% | |
| 3 | 11.3% | | 5.7% | |
| 4 | 7.7% | | 5.2% | |
| 5 | 6.0% | | 5.1% | |
| 6 | 4.9% | | 4.9% | |
| 7 | 3.9% | **16.0% of customers** | 4.6% | **24.3% of transactions** |
| 8 | 3.3% | | 4.5% | |
| 9 | 2.8% | | 4.3% | |
| 10 | 2.3% | | 3.9% | |
| 11 | 1.9% | | 3.6% | |
| 12 | 1.7% | | 3.5% | |
| 13 | 1.5% | **7.9% of customers** | 3.3% | **21.1% of transactions** |
| 14 | 1.3% | | 3.0% | |
| 15 | 1.1% | | 2.9% | |
| 16 | 1.0% | | 2.7% | |
| 17 | 0.9% | | 2.6% | |
| 18 | 0.8% | | 2.5% | |
| 19 | 0.7% | | 2.1% | |
| 20 | 0.6% | | 2.1% | |
| 21 | 0.5% | **5.0% of customers** | 1.9% | **24.2% of transactions** |
| 22 | 0.5% | | 1.7% | |
| 23 | 0.4% | | 1.7% | |
| 24 | 0.4% | | 1.6% | |
| 25 | 0.4% | | 1.5% | |
| 26 | 0.3% | | 1.3% | |
| 27 | 0.3% | | 1.3% | |
| 28 | 0.3% | | 1.2% | |
| 29 | 0.2% | | 1.2% | |
| 30 or more | 1.7% | | 10.8% | |

## *Consumer Usage of Providers and Provider Locations*

Approximately eight in ten payday loan consumers patronized a single licensee company during the period from February 2006 to December 2008. Over 96 percent of consumers took out PLRA loans with 2 or fewer licensee companies during the period.[3]

| February 2006 through December 2008 | | |
|---|---|---|
| # PLRA Companies Used | % Borrowers | |
| 1 | 81.0% | 96.4% |
| 2 | 15.4% | |
| 3 | 2.9% | 3.6% |
| 4 | 0.6% | |
| 5 | 0.1% | |
| 6 | 0.0% | |
| 7 | 0.0% | |
| 8 | 0.0% | |

More than three-quarters of payday consumers patronized a single store location during the Reporting Period. Over 93 percent of consumers took out PLRA advances from 2 or fewer store locations during the period.

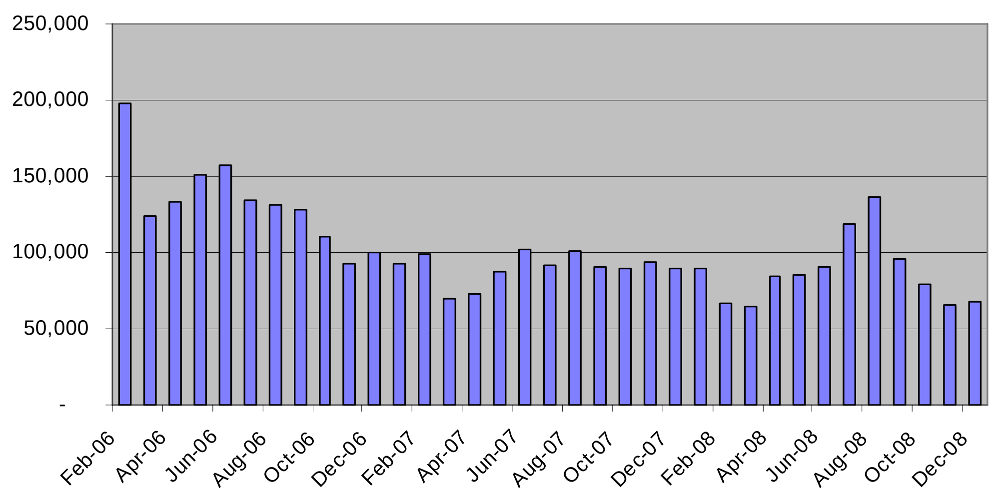
| February 2006 through December 2008 | | |
|---|---|---|
| # Store Locations | % Borrowers | |
| 1 | 75.9% | 93.9% |
| 2 | 18.1% | |
| 3 | 4.4% | 6.1% |
| 4 | 1.2% | |
| 5 | 0.3% | |
| 6 | 0.1% | |
| 7 | 0.0% | |
| 8 or more | 0.0% | |

[3] A “PLRA Company” includes all licensed locations owned by a single company according to publicly available Illinois Department of Financial and Professional Regulation licensing records.

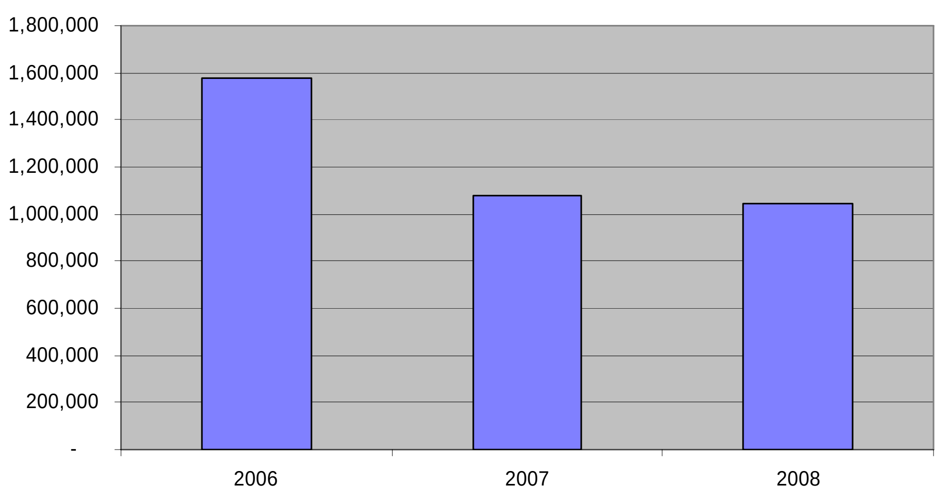
## *Inquiries to the Illinois Consumer Reporting Service*

The number of inquiries and requests made to the Database ("Database Events") during the Reporting Period was approximately 3.6 million.

**# Database Events by Month**

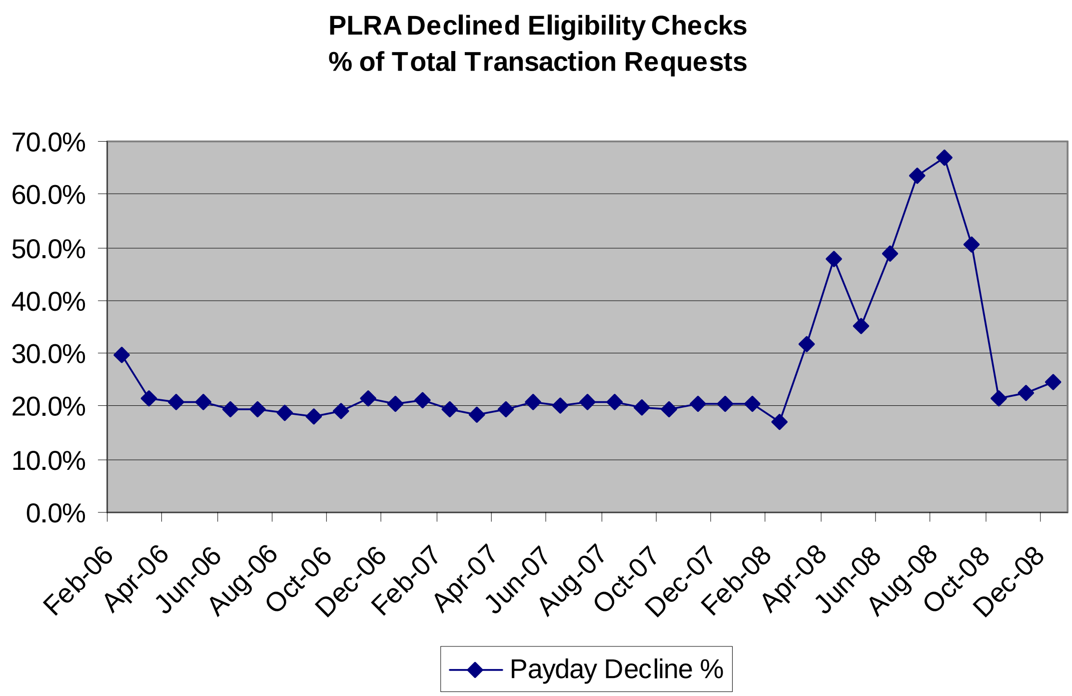



**# Database Events by Year**



## Declined Consumer Eligibility Checks

Declined eligibility checks for PLRA loans averaged approximately 28.4 percent of total transaction requests during the 35-month Reporting Period.[4]




**Note: The cause of the abnormal increase in declined eligibility requests between February 2008 and September 2008 is due to multiple database events from a single licensee for a reason that may not be related to loan applications. The basis or bases for these requests is being investigated.**

**The following tables represent data from all registered users other than that single licensee.**

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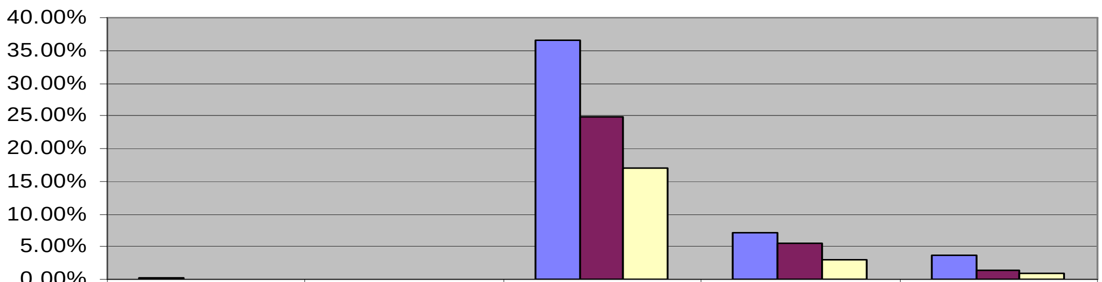
[4] Assumes that declined consumer intended to open a loan. Total transaction requests = number of opened transactions plus the number of declined eligibility checks. Data includes multiple declined eligibility checks for the same consumer.

## *Ineligibility for a Payday Loan*

A majority of declined eligibility requests are based on exceeding the limit for consecutive days in the product (72%). The chart and table below provide annual information about the reasons for declined eligibility under PLRA during the Reporting Period.

**Declined Eligibility by Reason (2006-2008)**




| | Waiting Period | Impacted by Repayment Plan | Consecutive Days Over Limit | Open Transaction Over Dollar Limit | Two Open Transactions Statewide |
|---|---|---|---|---|---|
| 2006 | 0.15% | 0.02% | 36.52% | 7.06% | 3.61% |
| 2007 | 0.08% | 0.01% | 24.88% | 5.52% | 1.35% |
| 2008 | 0.10% | 0.02% | 16.95% | 2.91% | 0.83% |

## *Declined Eligibility due to Waiting Period Restrictions*

Approximately 901 consumers were denied eligibility for a payday loan during the Reporting Period because of the waiting period restrictions. These 901 declined eligibility requests represent approximately 0.3% of the 274,476 declined eligibility requests for the same period.

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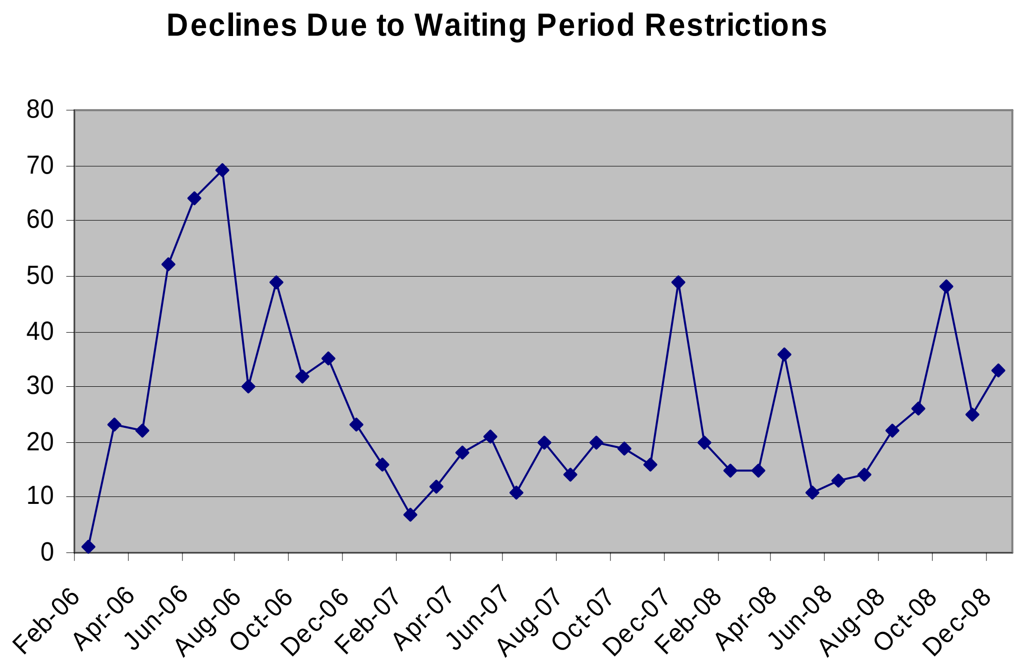


| | Declined Eligibility Due to Waiting Period Restrictions | | | | | |
|---|---|---|---|---|---|---|
| | Year-to-Year Comparison | | | Year-to-Year % Change | | |
| | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| Total Volume | 400 | 223 | 278 | n/a | -44.3% | 24.7% |
| % of Total Declined Eligibility Requests | 0.31% | 0.23% | 0.11% | | | |

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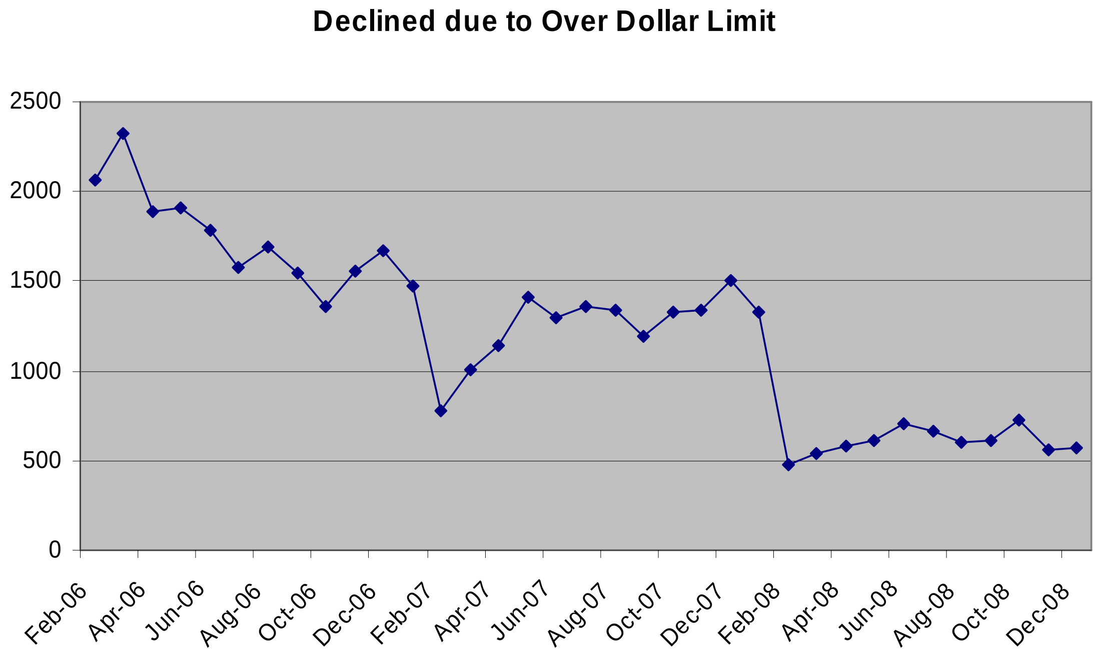
## *Declined Eligibility due to Over Dollar Limit*

Approximately 42,504 requests for a payday loan were declined during the Reporting Period due to exceeding allowable outstanding dollar limits of the PLRA. These 42,504 declined eligibility requests represent approximately 15.5% of the 274,476 declined eligibility requests for the same period.




| | **Declined Eligibility Due to Over Dollar Limit** | | | | | |
|---|---|---|---|---|---|---|
| | Year-to-Year Comparison | | | Year-to-Year % Change | | |
| | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| Total Volume | 19,376 | 15,138 | 7,990 | n/a | -21.9% | -47.2% |
| % of Total Declined Eligibility Requests | 7.06% | 5.52% | 2.91% | | | |

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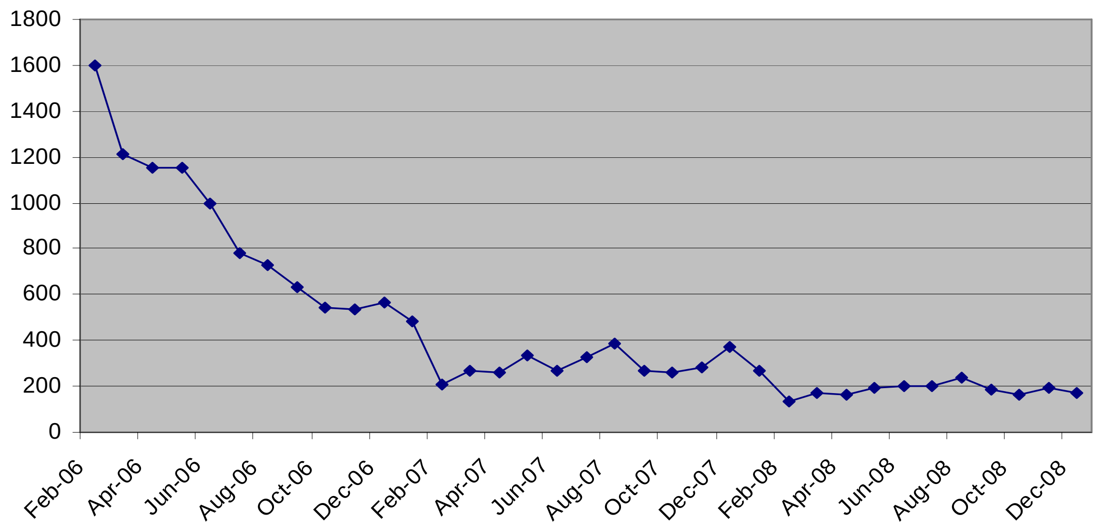
## *Declined Eligibility due to Two Open Transactions*

Approximately 15,909 requests for a payday loan were declined during the Reporting Period due to PLRA limits on the number of outstanding transactions. These 15,909 declined eligibility requests represent approximately 5.8% of the 274,476 declined eligibility requests for the same period.

**Declined due to Two or More Open Transactions**




| | Declined Eligibility Due to Two or More Open Transactions | | | | | |
|---|---|---|---|---|---|---|
| | Year-to-Year Comparison | | | Year-to-Year % Change | | |
| | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| Total Volume | 9,912 | 3,719 | 2,278 | n/a | -62.5% | -38.7% |
| % of Total Declined Eligibility Requests | 3.61% | 1.35% | 0.83% | | | |

## *Cancelled Transactions*

During the Reporting Period, some 2,275 payday loan transactions, or less than 0.2% of all payday consumers, cancelled their loan application on or before the end of the second business day immediately following the day on which the payday loan agreement was executed.

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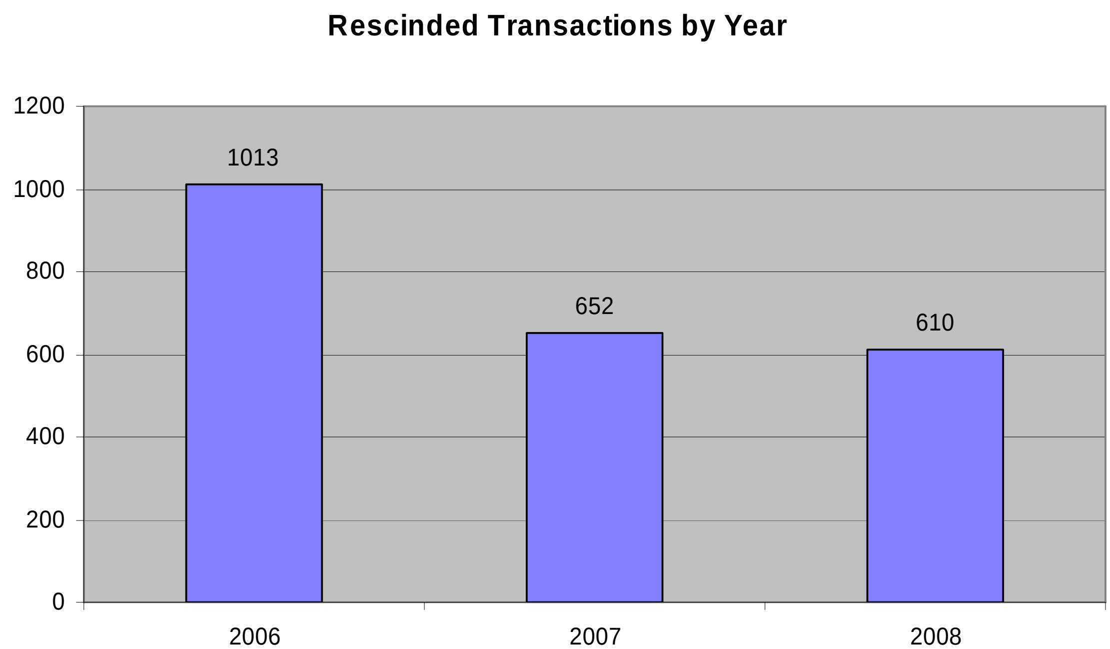
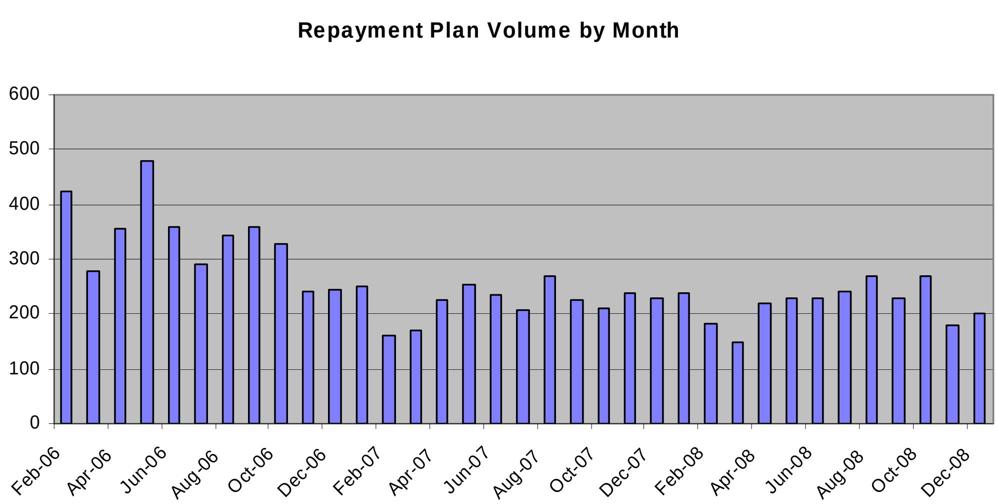


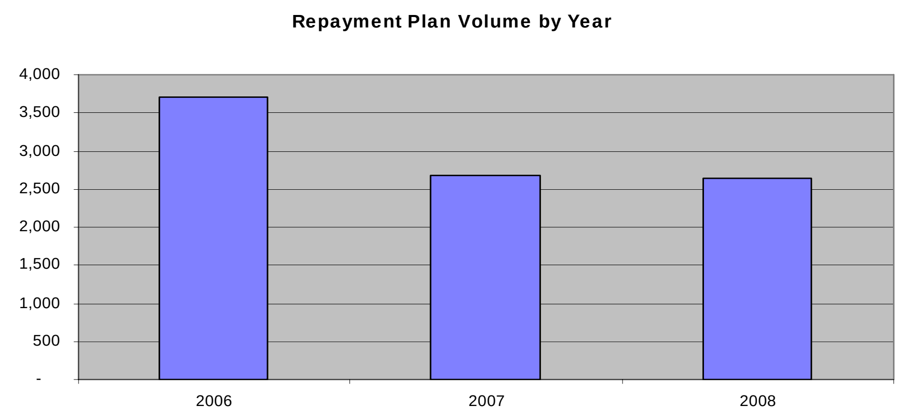

### *Repayment Plans*

The total number of PLRA repayment plans registered during the Reporting Period was approximately 9,138.




The volume of repayment plans represents approximately 0.75% of the total PLRA transactions conducted during the Reporting Period.

# Payday Lending in Illinois - Three Year Review




| | Extended Payment Plan | | | | | |
|---|---|---|---|---|---|---|
| | Year-to-Year Comparison | | | Year-to-Year % Change | | |
| | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| Total Volume | 3,699 | 2,679 | 2,637 | n/a | -27.6% | -1.6% |
| % of Total Transactions | 0.7% | 0.7% | 0.8% | n/a | -5.8% | 19.6% |

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## *Savings to Consumers As a Result of the PLRA*

In July of 2007, the Division reported that since December 6, 2005, through June 30, 2007, Illinois consumers had saved over $20,569,299 in finance charges as a direct result of the implementation of the PLRA. This total excludes the additional savings to consumers that have resulted from the PLRA's prohibition on assessing additional finance charges beyond the term of the loan, collecting recurrent insufficient funds (NSF) fees, and collecting attorney's fees and court costs incurred in connection with the collection of a payday loan.

We are pleased to report for the period July 2007 through December 31, 2008, Illinois consumers have saved approximately an additional **$14,698,000** for a total savings of more than **$35,267,000** since the effective date of the Act.

## *Conclusion and Recommendations*

Since the Act became effective Illinois Payday Loan Consumers have realized both significant savings and protections from predatory lending practices. Over the 35-month reporting period both transaction volume and APR have been negative trending. Significant factors that may be causing the negative trends include but are not limited to the Act, current economic conditions and competing loan products such as Consumer Installment Loans.

On the basis of its review of the foregoing data, the Division recommends that the General Assembly:

- Continue extensive monitoring of the payday loan industry to ensure strict compliance with the Act and full consumer protection.
- Continue legislative efforts to require small short-term loans of any amount under the Consumer Installment Loan Act have the same protections as payday loans. Similar protections for such consumer installment loans will aid in determining if consumers are switching from payday loans to Consumer Installment Loans with finance charges even higher than payday loans, e.g. 900%.