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High Cost Small Dollar Loans (Payday, Car Title, etc.)

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.

How high of an interest rate are we talking about? In Illinois, 400% interest rates are legal on payday loans. And there are no limits on the interest rates of car title loans in Illinois. About one-third of the states in the nation have capped payday loan interest rates at 36% or banned them altogether.

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.

What does IPA want? A 36% cap on small dollar lending like payday and car title lending.

Why 36%? Congress passed a 36% interest rate cap for loans given to military families in 2007. If it's good enough for military families, it should be the standard for all Americans. Three out of four Americans who expressed an opinion think that Congress should cap interest rates; 72% say Congress should cap rates at or below 36%.

What is IPA doing to make that happen?

- On the municipal level, IPA is organizing to get cities to pass ordinances that would cap interest rates on payday and car title loans at 36%.
- On a statewide level, IPA is organizing on state legislation that would do the same.
- On a national level, IPA met with Senator Durbin who agreed to sponsor legislation that would cap all small dollar loans at 36%. This legislation was introduced in the Senate on 7/26/2012.

What are we up against? Big money. IPA organized for the passage of a car title lending bill in the state legislature earlier this year. The bill never made it out of the Consumer Protection Committee. Every single member of the committee who voted against the bill took money from payday lobby.

What can I do? Join the organizing effort. For more information, please call the IPA state office directly at (309) 827-9627.