

## PAYDAY LOAN REFORM IN THE STATE OF ILLINOIS: A PROFILE OF REP. JULIE HAMOS

By Jessica Rial, Graduate Fellow



The celebration that followed the signing of Payday Loan Reform Act (PLRA) of 2005 was short lived. It took the Illinois payday loan industry no time at all to discover

a loophole—PLRA regulates loans of 120 days or less—in what was supposed to be comprehensive legislation to regulate payday lending and protect consumers from the worst abuses of the industry.

Following the passage of PLRA, the Illinois payday loan industry switched to long-term, small consumer installment lending and began marketing and offering installment loans with terms of 121 days or more. Illinois consumer installment loans have no loan limit, no term limit, no rate caps, no debt limits, and no restrictions on debt collection.

This past legislative session, Rep. Julie Hamos (D) along with 30 other sponsors from both sides of the aisle and in both the House and Senate attempted to close the loophole with the Consumer Installment Loan Reform Act (SB 1435).

The need to close the PLRA loophole was brought to the forefront by Citizen Action/Illinois, one of the state’s largest public interest organizations and a progressive PAC committed to creating

social change. Citizen Action/Illinois holds the leadership role in the Monsignor John Egan Campaign for Payday Loan Reform, formed in 1999 by Monsignor Egan as a coalition of organizations interested in stopping the abuses of the payday loan industry.

Payday lending is a particularly important issue from a woman’s perspective because the majority of borrowers in Illinois are women, said Lynda DeLaforge, co-director at Citizen Action/Illinois. According to a recent study by the Woodstock Institute, a Chicago-based nonprofit, in Illinois “the typical borrower of a short-term installment loan was female (60 percent), living in a lower-income (51 percent) and predominantly minority (55 percent) community, and earning a median net salary of \$34,277.”<sup>1</sup>

While considering possible consumer installment loan reform legislation, Hamos was aware that trying to pass a 36 percent annual percentage rate cap would chase the high risk, short-term loan industry out of the state. She preferred a more balanced approach to reform that recognized the service these lenders provided.

“We knew we couldn’t satisfy the entire industry,” Hamos said. “Our goal was to engage the more responsible lenders in negotiations.” Hamos said that policymakers underestimated the strength of the portion of the industry left out of negotiations. “By reintroducing interest rate caps and consumer protections

### LETTER FROM THE PRESIDENT

By Mary Brooks Beatty, President

Women In Government is expanding its efforts to inform and support state legislators with the addition of a new online resource center. The web-based resources are dedicated to Family Economic Success (FES)—a topic we have been actively developing policy on since 2003 when we hosted our first FES Task Force. Through this Resource Center we hope to encourage state policymakers to enact legislation aimed at helping people overcome the economic, social, and policy barriers to achieving financial stability and success.

The FES portfolio includes: asset building and financial literacy, earned income tax credit, home mortgages and foreclosures, pay disparity, predatory and payday lending, and workforce development. Online resources include a legislative toolkit, quarterly newsletter, sample state legislation, policy research, and profiles of state legislators who have been champions on family economic success issues for the past several years.

This first issue of *Family Finance* provides legislators with information on recently introduced legislation on payday lending championed by Rep. Julie Hamos (D-IL); state earned income tax credit and how it impacts rural communities; and additional tools for learning about FES issues.

Please visit the Family Economic Success Policy Resource Center from our home page at [www.womeningovernment.org](http://www.womeningovernment.org).

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<sup>1</sup>Tom Feltner and Sarah Duda, Beyond Payday Loans: Consumer Installment Lending in Illinois, Woodstock Institute, March 19, 2009. <http://www.woodstockinst.org/publications/research-reports/>

in Illinois, we knew we would have opposition but did not know how strong they would be," she said.

Hamos introduced HB 1713—a bill to amend the Pawnbroker Regulation Act—in February and proceeded with negotiations until the deadline was reached for moving bills in the House in April. At the same time, advocates for the bill used a parliamentary maneuver to position SB 1435 in the Senate, so they could keep one bill alive and proceed with negotiations right up to the end of session in May.

SB 1435 was assigned to the House Executive Committee, which was a difficult committee for this bill, Hamos said. Adding to the legislative barriers, 60 lobbyists were hired by the consumer loan industry to oppose the bill. SB 1435 was supported by part of the consumer loan industry, consumer and citizen groups, the Illinois Attorney General, and the Governor's Office. SB 1435 stalled in the House by the end of May. Hamos, a Chief House Sponsor of SB 1435, believes the bill is still strong and balanced. She and consumer advocates hope to bring the bill back in the November 2009 Veto Session.

SB 1435 would have ensured that all Illinoisans have access to credit with reasonable rates and protections to guard against the cycle of debt, according to Hamos. The legislation achieved this goal by creating within the Consumer Installment Loan Act (CILA) a new loan product—the small consumer loan. In the State of Illinois alone, more than 1,300 CILA lenders operate with almost no regulations, and borrowers are taking out small consumer loans with enormous interest rates and no protections, according to Hamos.

The key components of the Consumer Installment Loan Reform Act (SB 1435) included:

- Setting interest rate limits in the range of 36% to 99% for small consumer loans;
- Establishing reasonable charges and limits on rollovers;
- Setting a minimum loan term of 180 days to ensure that borrowers have enough time to repay the loan;

- Capping payments at 20% of the borrower's monthly income and requiring lenders to verify borrowers' ability to repay the loan; and
- Requiring lenders to report loan information into a consumer database for purposes of determining borrower eligibility and ensuring compliance with the Act.

In addition to creating the new small consumer loan, SB 1435 accomplished broader consumer protection objectives:

- Establishing a 36% APR cap on loans over \$4,000;
- Closing the loophole in the Payday Loan Reform Act (PLRA), thus ensuring that all small consumer loans carry important protections;
- Prohibiting lenders from holding both a PLRA license and CILA license to prevent flipping of borrowers from one product to the other;
- Prohibiting the antiquated Rule of 78ths method of calculating refunds in the event of early pay-offs;
- Eliminating balloon payments on all consumer installment loans; and
- Preventing a consumer from obtaining a payday loan if he or she has an outstanding small consumer loan.

Throughout her life, Hamos has championed issues that effect low-income, working families. Since 1998, she has been the State Representative for the 18th District (Evanston, IL). Her legislative priorities reflect her commitment to all of Illinois, including new laws to make housing more affordable and available statewide; health care legislation to expand access to reproductive, mental health and long-term care services; and measures to improve the farm economy and provide access to healthy, local food.

Visit <http://www.womeningovernment.org/familysuccess/legislation> to download SB 1435, with House Amendment #1. ■

## ASSET BUILDING FOR HAWAII'S FAMILIES

By Jessica Rial, Graduate Fellow, and Larissa Meinecke, Hawaii Alliance for Community-Based Economic Development



Hawaii families struggle with the high cost of living, low-wage jobs, asset-poor households, high taxes, and one of the lowest homeownership rates in the nation. Nearly one in five families living in this relatively small and socially diverse environment has a zero or negative net worth.

Hawaii State Senator Suzanne Chun Oakland, along with her legislative colleagues, has introduced measures to help families save and build their assets so they

are able to have choice and control in their lives. Chun Oakland strongly endorses the notion that for women, men and families assets are essential to have financial security in difficult times, to create economic opportunities for oneself, and to leave a legacy for future generations.

In January 2009, Chun Oakland introduced SB 790, a bill to provide a refundable state earned income tax credit (EITC) equivalent to 20 percent of the federal EITC. The bill was deferred by the Committee on Human Services. Since 2006, she has introduced a comprehensive package of bills that encourage

and widen opportunities for Hawaii families to build their assets. These measures include: expanding individual development accounts; establishing microenterprise funding; creating a self-employment assistance program; assisting with down-payment loan assistance; and increasing support for family self-sufficiency and Section 8 voucher programs.

In recent years, the Hawaii State Legislature has supported asset building policy. During the 2008 regular session members passed legislation to create the Asset Building Task Force. Presently, Chun Oakland is the co-chair of the Task Force, which consists of more than 40 members from the public, private, and nonprofit sectors.

In late 2006, The Hawaii Asset Policy Initiative, a statewide coalition to promote asset building strategies led by the Hawaii Alliance for Community-Based Economic Development, outlined six goal areas of a comprehensive asset building framework—make work pay; teach asset building; break down barriers to asset building; help people save; help people start and own businesses; and help people own homes (visit the FES Policy Resource Center's publication page, <http://www.womeningovernment.org/familysuccess/publications>, to read this report). ■



- Shares examples of effective policies from other states, with links to specific legislation, implementation guides and other resources;
- Suggests financing strategies to sustain proven policy and results;
- Gives guidance about accountability and measuring the results of policy, including recommended indicators of success; and
- Links to an array of resources that provide additional assistance.

*PolicyForResults.org is coordinated by the Center for the Study of Social Policy, a non-profit, non-partisan organization in Washington, DC.*

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## WOMEN IN GOVERNMENT HOSTS CONFERENCE CALL ON WORKFORCE DEVELOPMENT

*By Jessica Rial, Graduate Fellow*

On June 2, 2009, Women In Government hosted a conference call seminar on the topic of workforce development. Delegate Joseline Peña-Melnyk (MD), a champion on family economic success, and Brandon Roberts of the Working Poor Families Project provided information on workforce development policy to more than a dozen state legislator participants.

The conference call discussed how state governments have some authority and resources to support low-income, working families' quest for economic advancement and security. Presentations by Roberts and Peña-Melnyk were accompanied by a PowerPoint and sample legislation and were followed by a question and answer session.

As noted by Roberts, a prominent focus of some states is preparing adult workers to succeed in today's high-skilled economy. This involves state policies and programs dealing with adult literacy, postsecondary education, workforce training and even economic self-sufficiency for targeted



populations such as those receiving public assistance. Roberts noted several challenges to strengthening state adult education and skills development policies. Challenges include: 1) recognizing the importance of working adults to a state's economic recovery and competitiveness, and 2) aligning state resources and programs to optimize current resources. Roberts stressed the importance of engaging community colleges in expanding adult worker programs and improving program completion rates.

Peña-Melnyk discussed her work on House Bill 644, which establishes a State Apprenticeship Training Fund in the Department of Labor, Licensing, and Regulation in the State of Maryland. The bill was signed into law on May 19, 2009. The purpose of the fund is to promote pre-apprenticeship programs and other workforce development programs in the State's public secondary schools and community colleges. The programs should prepare students to enter apprenticeship training programs. The fund's revenues consist of payments made by contractors and penalties collected due to violations of the bill's provisions. This bill requires contractors and some subcontractors on public works contracts who are subject to the prevailing wage law to either participate in an apprenticeship training program or contribute to the fund.

Visit <http://www.womeningovernment.org/familysuccess/multimedia> to listen to the conference call and download the presentation materials. ■

WIG is a national, non-profit, bi-partisan organization of women state legislators providing leadership opportunities, networking, expert forums, and educational resources to address and resolve complex public policy issues.

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