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Payday loan law loophole swallows borrowers whole

By Stephen Franklin | Tribune reporter
12:46 AM CDT, May 12, 2008

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Kirk Donald was stuck in financial quicksand and sinking fast.

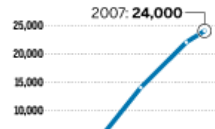
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He hustled harder on his daytime sales job, worked night security at a nursing home and delivered papers at dawn. He emptied his family's insurance policies and retirement savings, borrowed from family and friends, and went short of food.

Why? To keep up with \$2,000 in loans he had taken out without realizing that the 701 percent annual interest rate meant he would have to repay \$5,848 in 4 1/2 months.

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Consumer advocates are trying to protect borrowers like Donald, waging a tug-of-war with the loan industry in the Illinois legislature in an effort to close a loophole in the 2005 payday loan reform law.

The 2005 law capped rates on one type of loan: short-term "payday" loans taken out for up to 120 days are limited to 403 percent annual interest. The law also imposed protections aimed at keeping borrowers from falling into debt traps, such as limiting the number of loans to two and allowing borrowers to work out a

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"Although people may not be losing their homes, they are losing their paychecks," said [Greg Brown](#), director of public policy for Metropolitan Family Services in Chicago. After realizing some time ago how payday loans can wipe out workers' slim assets, Brown focused more on reforming the state's loan laws.

Often people who rack up payday loans "don't know how to play the game. They don't know they are getting into something bad," said Dory Rand of the Chicago-based Sargent Shriver National Center on Poverty Law, which has provided economic counseling for consumers over the years.

And then there are those who "realize they are getting taken for a ride, but they just feel stuck," Rand said.

"We are trying to protect the rights of people who have no power and no clout, and we are up against a very well-financed and politically juiced opposition," said Lynda DeLaFargue, co-director of CitizenAction/Illinois, a major force in the drive to reform payday loans in the state.

Money to politicians

A February report from the Illinois Campaign for Political Reform indicated that the industry gave \$1.8 million to incumbents and candidates for statewide and legislative offices since 2001, and top industry donors have given \$862,600 since 2005.

Three of 4 sitting state senators have reported contributions since 2005 and 4 of 5 sitting state House members reported contributions, according to the reform organization's report.

"My fear is that with all of the other states cracking down, it only puts us in a more difficult position because what happens here is going to be very important for [the payday loan industry's] bottom line," DeLaFargue said.

"The question is: What is sweet for the lender and [what is] sour for the borrower?" said DeLaFargue, who has played a key role in negotiating with the loan industry over Illinois Senate Bill 1993, the measure preferred by consumer advocates. The bill, which has passed the state Senate and is now in the House, would make the rules the same for "payday" loans and the longer-term loans.

Steve Brubaker, a lobbyist for the Illinois Small Loan Association, said lenders are willing to accept a ceiling for longer-term consumer loans, "but we don't want a real low

Soon after the law took effect, however, many lenders began directing borrowers to loans of 121 days or longer that did not include such safeguards, consumer advocates say. State officials acknowledge they have received complaints from consumers who claim they were shifted to the costlier loans.

Illinois is the only state with a cap on payday loans but no cap on longer-term loans.

State officials say they have seen rates on the longer-term loans as high as 1,000 percent. But because Illinois does not regulate such loans, state officials cannot say precisely how much lenders are charging, nor the level of debt Illinois consumers are racking up.

To consumer advocates, who have been pushing for greater controls over payday loans in Illinois for the last 10 years, the issue is as crucial as helping families caught in the vise of subprime mortgages.

In both cases, workers with just enough assets to get a loan or buy a house can wind up sliding back down the economic ladder, they said.

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