

## **Testimony Regarding Rules to Implement the Predatory Loan Prevention Act June 30, 2021**

Good morning and thank you for the opportunity to provide comments today. My name is Matt Kownacki. I am the Director of State Research and Policy at the American Financial Services Association, known as AFSA. We represent financial institutions of varying sizes and types including consumer installment lenders and sales finance companies. AFSA does not represent payday or title lenders.

Because of our time constraints today, I will focus on the most concerning aspects of the rules and refer you to our written comments, which expand on these issues and identify several other points of clarification. While we understand these rules seek to implement changes enacted by the legislature, many of the requirements exceed the authority granted to the Department in the PLPA, and we believe the rules will likely leave consumers worse off overall by limiting access to credit and confusing rather than informing consumers.

First, I would like to talk about several definitions under the CILA. We do not believe it is the Department's, or the Legislature's, intent for the requirements of Section 110—including the database reporting provisions—to apply more broadly than the CILA, but we believe the current language leaves some confusion. For this reason, we request clarification defining “Loan” to mean only a loan made pursuant to the CILA.

Separately, the rules expand the definition of what constitutes a title-secured loan to include many installment loans. This entire section of rules for title-secured lending is a vestige of previous restrictions

for traditional title loans that are no longer legal due to the PLPA's 36 percent rate cap. This expanded definition lumps in traditional CILA loans—despite the fact that such loans have little in common with traditional title loans when it comes to affordability and consumer risk. By lumping traditional installment loans into a section of rules not designed for them, the rules would place significant restrictions on lending that have absolutely no basis in the PLPA, including monthly income requirements, limits on refinancing, and most importantly, a \$4,000 loan cap.

Unlike title loans, traditional installment loans are repaid in regular equal payments, require underwriting that includes assessing the borrower's ability to repay and also report loan performance directly to credit bureaus, which is vital for Illinois borrowers looking to build a credit history and increase financial mobility.

Importantly, while the definition of title-secured loan excludes loans expressly intended to finance the purchase of a motor vehicle, these restrictions would limit the availability of credit to borrowers looking to refinance an existing purchase-money loan. The inability of CILA licensees to offer secured loans greater than \$4,000 will prevent Illinois customers from receiving more favorable terms and will severely reduce credit availability.

Additionally, the extensive disclosures required for consumer installment loans, retail installment sales, and motor vehicle installment sales are impractical, if not impossible, to implement in practice and create more consumer confusion and harm than they mitigate. For instance, the advertising disclosure is far too lengthy to be practically included in any media in such a way that the consumer could understand it.

Most importantly, these notices would do nothing to enhance consumer understanding of the transaction. Lenders are required under federal law to disclose the Truth in Lending Act APR, but the rate cap and disclosure notices regulate PLPA APR, which is likely an entirely different rate from what is disclosed in the contract. Notifying consumers about multiple rate calculations and a cap on a rate that is unknown to them will only lead to more confusion and undermines the core purpose of TILA.

The PLPA does not require any such disclosure of the rate cap to consumers and only empowers the Department to adopt reasonable rules necessary to protect consumers. Since these requirements cannot be practically implemented and would confuse, rather than inform, consumers about credit transactions, they are not reasonable and do not protect consumers, as required by the PLPA. For these reasons, the disclosures exceed the Department's rulemaking authority granted in the PLPA. While notifying consumers of two separate APRs is a recipe for confusion, if the Department does seek a more reasonable rule for disclosure of the rate cap, we are happy to offer recommendations of what such a disclosure could look like.

Thank you again for your consideration of our comments.