After Intense Legislative Battle, Illinois General Assembly Passes Re-Write of State Pawnbroker Law

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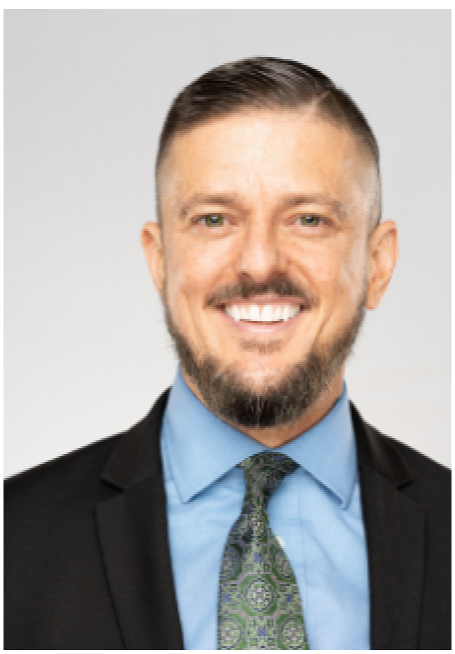
SPRINGFIELD –Today, the Illinois House of Representatives passed HB779, a rewrite of the Pawnbroker Regulation Act (PRA). Upon passage, a coalition of consumer advocates – including AARP, the Catholic Conference of Illinois, the Chicago Urban League, and Woodstock Institute – and financial technology (fintech) companies (the "Coalition"), sent a letter to Governor Pritzker identifying the pros and cons of the bill.



Among the pros: the bill prohibits pawnbrokers from making auto title loans, which is a problem in other states. The bill also empowers the Illinois Department of Financial & Professional Regulation (IDFPR), to collect data about every pawn loan made in the state.

Among the cons: the bill permits pawnbrokers to continue charging 240%+ APR on loans less than $500.

“This bill is a ‘mixed bag’ from a policy perspective. Unable to compete with the pawn industry’s considerable resources, we decided to remove our opposition to the bill and take “No Position.”” said **Brent Adams, Senior Vice President of Policy & Advocacy** at Woodstock Institute. “The interest rates are still too high, but HB 779 lowers the rate on loans of $500 and above. A critical component of HB 779 is data collection, which is intended to enable the stakeholders to revisit the issue of interest rates at a future date. We are grateful for the leadership of State Senator Elgie Sims, who spearheaded negotiations in the Senate and signaled a commitment to addressing rate-related concerns in the years to come.”

Earlier this year, Woodstock released a report, which showed that Illinois consumers have saved over $600 million thanks to the 36% interest rate cap on consumer loans that was established in 2021. Woodstock’s report stated that there is a high probability that some of the money saved by consumers on payday and auto title loans was spent on pawn loans. The report pointed to Ohio where, after enacting a cap of 28% APR on payday loans, there was a 97% increase in pawn shops.

Caps on pawn loan finance charges vary considerably among the states. Michigan caps pawn loans at 36% APR plus a $3 per month storage fee while Kentucky permits a pawnbroker to charge as much as 264% APR. Iowa has no cap.

In recent years, more states have established rate caps and resisted industry efforts to raise rates. New Mexico established a 36% rate cap on installment loans modeled after the Illinois law. Colorado and Minnesota reduced the allowable APR on certain small short-term loans, and Florida’s governor vetoed a bill last year that would have raised interest rates on installment loans to 36%.