CAPITAL Good Fund

Testimony in Support of Anti-Predatory Lending Act (in HB2685-SFA 3)
Senate Executive Committee Hearing
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Andrew Posner, Capital Good Fund

As the Founder and CEO of Capital Good Fund, I write to testify in strong support of the Anti-Predatory Lending Act within HB 2685 – SFA 3. Capital Good Fund is a nonprofit, U.S. Treasury-certified Community Development Financial Institution ("CDFI) that provides small-dollar personal loans and financial coaching to families throughout six states, including all of Illinois, where we are licensed as a Consumer Installment Lender. We designed our products to serve as an alternative to the predatory products--payday loans, pawn tickets, auto-title loans, high-interest installment loans--this bill will address. Specifically, our loans range from $300 - $25,000 with rates starting at 5% and going no higher than 24% (APR, fixed); our borrowers, who are predominantly lower-income, female, and of color, use our loans for a variety of reasons, including vehicle repair, rent, utilities, technology purchases, paying off high-interest debt, and more.

We have closed over 6,200 loans for $13 million to borrowers with an average FICO of 580 (20% have no FICO at intake) while maintaining a 95% repayment rate. Over the years, we have seen countless examples of clients whose finances have been devastated by predatory lending. A frequently cited statistic is that a family earning $25,000 per year will spend as much on financial services (interest and fees) as it does on food--about 10% of income. We have saved our clients an estimated $4 million in interest and fees relative to high-interest alternatives; that's money that goes to food on the table, keeping the lights on, school supplies, and spending in the local economy.

The reasons for capping the interest rate on consumer loans at 36% are myriad. First, it is a moral imperative. Nearly all religious faiths include prohibitions on usury, and as a society it is incumbent on us to protect the most vulnerable from products and practices that prey on their vulnerability. Second, it is a matter of economic concern. Every dollar a family spends on interest and fees is a dollar they cannot spend in the local economy. High-interest loans lead to damaged credit, overdrafts, and bankruptcy; this, in turn, makes it harder for families to buy cars and homes, get student loans, or start businesses. Third, it is a question of racial justice. Predatory lenders unabashedly target low-income communities and communities of color, compounding disparities in housing, education, and criminal justice. And finally, it is simple common sense. If the United States Congress determined that no active-duty service member should be charged more than 36%, why should the same standard not apply to every other citizen of the country?

Of course, the high-interest lenders impacted by this legislation will argue that it will ruin their business model, that it will harm consumers, and that it will lead to "black market" lending and other scary outcomes. Fortunately, we know this is not true because other states, including Colorado, Virginia, and Ohio, successfully capped the interest rates without any of these negative outcomes. This is not surprising. There are, after all, affordable alternatives to these lenders. CDFIs like Capital Good Fund, other small-dollar lenders, and many banks and credit unions (including Self-Help), offer high-quality, transparent loan products at under 36% APR. The high-interest lenders are correct to say that some of their borrowers will not be able to access credit at the lower rate, but we view that as a positive outcome for this simple reason: lenders such as payday lenders only make money by trapping their borrowers in a debt cycle. To the extent that this bill will prevent loans from being made to people who are not in a position to pay them back, it will succeed in its goal of protecting Illinois consumers. After all, no responsible lender should make loans they can't reasonably judge to be affordable to the borrower; that many high-interest lenders do so indicates that they are charging a high-interest rate to account for the higher losses associated with irresponsible lending practices.
As indicated earlier, Capital Good Fund's repayment rate of 95% is stellar, but unsurprising: we take the time to carefully evaluate whether an applicant can afford and truly needs the funds they are requesting. The rates we charge reflect the fact that we only generate revenue when the borrower succeeds. A 36% rate cap, in other words, does not harm consumers or prevent lenders from operating in this space; rather, it protects consumers from unscrupulous lenders and levels the playing field for equitable, customer-oriented firms.

For all these reasons, Capital Good Fund strongly supports the Anti-Predatory Lending Act within HB 2685 – SFA 3 and we would be happy to provide additional testimony and / or any questions.

Sincerely,

Andy Posner
Founder & CEO
Capital Good Fund