

House Government Accountability and Oversight Committee  
The Ohio House of Representatives  
77 South High Street  
Columbus, Ohio 43215

To: Ohio House of Representatives Government Accountability and Oversight Committee  
From: Advocates for Basic Legal Equality

Chair Louis W. Blessing III, Vice Chair Bill Reineke, Ranking Member Kathleen Clyde, and members of the Government Accountability and Oversight Committee,

We wish to express our strong support for House Bill 123, to “Modify short-term, small, and mortgage loan laws”. We strongly support this bill, and urge this Committee to pass it and bring to a House vote. As a legal services organization, ABLE advocates and attorneys see many structural barriers to economic mobility, but few rank as high as financial exploitation. Despite repeated attempts by this Legislature and Ohio voters at regulating what has proven to be an exploitative industry, payday lenders continue to take advantage of our residents. They charge the highest rates in the country, with unforgiving terms, and suck millions of dollars from our state every day.

You may reference the written testimony we submitted on behalf of ABLE on why passing this bill is significant. However, today we would like to focus your attention on the exploitative, dishonest and illegal practices that payday lenders in Ohio consistently employ with their cash-strapped customers.

As you are likely aware, in 2008, the Ohio Legislature passed modifications to the Short Term Loan Act, with strong bipartisan support. The Short Term Loan Act was intended to protect borrowers: it capped loan amounts to \$500, capped Annual Percentage Rates at 28%, capped the maximum loan amount, limited the number of loans a lender can give, required a 30 day minimum on each loan, and stipulated that the amount due cannot be more than 25% of a borrower's gross salary. Despite these strong protections, the payday lending industry found a loophole: Instead of registering as a short term loan provider-which would have made them subject to this new law-they registered under the Mortgage Lending Act, which only caps interest rates but generally has less consumer protections. They then used *another* loophole to get past the interest rate cap, by licensing as Credit Service Organizations. There is no cap on the fee that Credit Service Organizations can charge. After the Short Term Loan Act was enacted, not one payday lender registered under the law.

This legal gymnastics is exactly what got one of ABLE’s clients, Elaine Porter, stuck in a cycle of debt with Cash Company of America, one of the payday lenders in Toledo. In March of 2016,

Ms. Porter borrowed \$500 from Cash Company of America, which immediately turned into \$575 because of fees related to originating the loan as well as the 25% interest that accrued. As the loan grew, and Ms. Porter was still unable to pay it off, Cash Company continued to charge exorbitant late fees and finance charges. Her contract, unknown to her at the time, had an Annual Percentage Rate of over 370%.

Under Ohio law, a Credit Service Organization, is essentially intended to help consumers find loans and build their credit-not intended to act as an exploitative financial tool to prey on vulnerable borrowers. When a payday lender decides to act as a CSO, they must then determine and inform a potential borrower of his or her eligibility to qualify for multiple loans. However, that's not what payday lenders in Ohio do. They simply register as CSOs and then "find" a payday loan that actually comes from the same payday lender. As Ms. Porter's case reveals, they do not actually evaluate a borrowers eligibility for any other loans besides their own. They can then charge exorbitant and unreasonable fees without being limited by the Short Term Loan Act, despite not doing anything besides acting as a conduit for financing.

When Ms. Porter took out a loan, she was taking it from a payday lender registered as a mortgage lender-that loan does not have an interest rate higher than 25%, as evidenced by Ms. Porters contract. But the fees that were hidden from her and hidden from most Ohio consumers came from the payday lender being registered as a CSO, which is exactly why Ohio has the highest APR rates in the country. The contract Cash Company provided to Ms. Porter also included an almost complete waiver of jury trial, in violation of the Ohio Revised Code 4712.09- this is common in many contracts that payday lenders in Ohio force borrowers to sign.

This legal deception is the norm now. HB 123 is a step to undo nearly a decade's worth of exploitation and dishonestly.