OneMain Financial

Senate Insurance and Financial Institutions Committee
Opponent Testimony on Senate Bill 112
Chairman Bob D. Hackett
January 22, 2020

Chairman Hackett, Vice Chair Hottinger, Ranking Member Craig, and members of the Committee, thank you for the opportunity to testify before you today in opposition to Senate Bill 112. My name is Austin Clancy, I am a Vice President and Director of Government Relations for OneMain Financial, the nation's largest traditional installment lender. I am here on behalf of OneMain and as a member of the Ohio Financial Services Association, the state trade association for consumer installment lenders here in Ohio.

OneMain operates in 44 states in over 1500 branches across the country with over 2.6 million customers. We currently operate 83 branches in Ohio and employ nearly 300 Ohioans by providing access to credit for Ohioans to meet financial needs varying from debt consolidation, auto loans, and unexpected expenses. At OneMain, we work to empower our customers with safe, affordable credit products that enable our customers to build their credit and meet financial needs through relationship-based lending. It is our relationship with our customers that brings me here today to speak in opposition to Senate Bill 112.

The bill as it is currently written, would remove fee caps for "debt adjusting" activities in Ohio. "Debt adjusting" or "debt settlement" as it is more commonly referred to nationally represents a growing problem for consumers and creditors. The debt settlement industry encourages consumers to cease contact with and to stop making payments to their creditors. The consumer is then instructed to take the funds that would have gone to their creditors and place those funds into a trust account with the hopes that the debt settlement company will be able to affect a less than full balance settlement on accounts placed within the debt settlement plan. Because the consumer has been instructed to cease contact, we are unable to offer in-house programs that have been developed to work with consumers who are facing a hardship situation. Often times these programs offer the consumer an alternative to becoming delinquent, but without the ability to communicate it is nearly impossible to resolve these situations. During this period of non-communication prior to any settlement discussions, we are required to accurately report non-payment information to the credit bureaus, which in turn causes a consumer's credit score to suffer.

Debt settlement companies engage in aggressive marketing campaigns through print, radio, and television advertisements, with catchy taglines marketing themselves as "the secret the credit card companies do not want you to know…". While the industry does engage in large scale internet advertising, in November 2019 Google effectively banned advertising by for-profit debt settlement companies due to fraudulent debt settlement activity and consumer harms.[1] This ban has greatly diminished the reach of debt settlement advertising although consumers are no doubt being targeted through other methods such as through credit reporting data as outlined in a recent Wall Street Journal article.[2] Consumers are inundated with ads and solicitations from debt settlement companies, promising swift resolution of consumer debt. Although these companies claim to help consumers in a hardship situation, an alarming number of consumers are being enticed to enroll in debt settlement plans when there is no evidence of hardship or delinquency. In other words, consumers are being encouraged to include current debts in which they are in good standing with their creditors into structured defaults. Encouraging these types of negative consumer behaviors is reckless and could lead to long term consumer harms to Ohio consumers.

The efficacy associated with debt settlement plans varies widely. Some estimates made by the Federal Trade Commission (FTC) and State AG's indicate that consumers are typically able to settle only 70% of the debts placed in the plan.[3] The debt settlement industry acknowledges in its annual report that consumer completion rates hover around 50% - 60%.[4] In the end, consumers pay between 20 – 25% of the debt placed for a plan that does not settle all of their debts and often times leads to increased collection activities, legal action, and bankruptcy. While debt settlement has been alleged to be a safe alternative to bankruptcy, there has been little evidence presented to show that the consumer harms associated with debt settlement have a lessened impact than bankruptcy. In addition, according to the Center for Responsible Lending, consumers who enter debt settlement plans see their credit score drop on average between 60-100 points, pushing them further away from the traditional financial systems and further limiting access to credit.[5] The negative consumer outcomes and increased consumer harms make debt settlement a risky proposition for most consumers.

The proponents of this bill have alleged that the current fee caps and ambiguity in the law somehow limits access to debt settlement services in Ohio. However, these companies are actively operating in the state. The debt settlement industry's own economic impact report estimates that over 28,000 debts worth $175 million dollars were settled in Ohio in 2018 alone.[6] Debt settlement as a choice for consumers is already present; what is not

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[1] https://support.google.com/adspolicy/answer/9508775?hl=en&ref_topic=29265

[2] Wall Street Journal, August 10, 2019, "That Offer to Make You Debt-Free? It Can Make You Worse Off"

[3] A Roll of the Dice: Debt Settlement Still a Risky Strategy for Debt-Burdened Households; Leslie Parrish, Center for Responsible Lending; Cityscape: A Journal of Policy Development and Research • Volume 18, Number 2, 2016; U.S. Department of Housing and Urban Development • Office of Policy Development and Research

[4] Options for Consumers in Crisis: An Updated Economic Analysis of The Debt Settlement Industry, February 5, 2018, Page 2.

[5] Center for Responsible Lending. State of Lending: Debt Settlement. http://www.responsiblelending.org/state-of-lending/reports/12-Debt-Settlement.pdf

[6] 2019 Economic Impact of the Debt Settlement Industry, American Fair Credit Council, September 2019, page 212.

present is any form of common-sense regulation. Creditors like OneMain and other members of the Ohio Financial Services Association adhere to thousands of state and federal laws and regulations in order to make and service loans. Debt settlement companies are beholden to one federal regulation administered by the FTC under the Telemarketing Sales Rule (TSR) that simply requires a debt settlement provider to provide actual services before getting paid. And while the FTC maintains enforcement authority over debt settlement companies, there is virtually no preemptive regulation of this industry on the federal level. In a recent CFPB action in July of 2019, the industry's largest debt settlement provider settled with the bureau over its failure to adhere to the TSR, as well as other violations against consumers for failing to make adequate disclosures.[7]

While the CFPB and other state regulatory authorities, including the Colorado Attorney General's Office, are ramping up regulation and enforcement actions against these companies, this bill represents loosening of needed regulation and negatively impacts consumers by not including licensing, examination, or basic service requirements such as disclosures of credit harm, disclosure of all fees, disclosure of tax implications associated with forgiven debt, and basic economic analysis of a consumer's finances.

I urge you to vote against Senate Bill 112. I urge you to take a look at the national trend of enhanced scrutiny around the debt settlement industry and to gain a better understanding of the harm that this bill's passage would represent. OneMain and the Ohio Financial Services Association stand ready to help Ohio consumers to meet their financial challenges and to promote positive, responsible consumer behaviors. We respectfully urge you to do the same by voting against Senate Bill 112.

I am happy to answer any questions you may have.

[7] https://www.consumerfinance.gov/about-us/newsroom/bureau-settles-lawsuit-against-freedom-debt-relief/