Chairman Blessing, Vice-Chair Reineke, Ranking Member Clyde and members of the House Government Accountability and Oversight Committee - thank you for the opportunity to present sponsor testimony on House Bill 123, a bipartisan bill that brings much needed reform to payday lending in Ohio.

I want to thank Representative Ashford for working with me on this bill.

While I have visited many of your districts on family or business trips, I want to describe to you my House District. My district of 119k is equally divided rural and urban. The urban area is represented by the city of Springfield with approximately 60,000 residents. In the city of Springfield, we have 16 payday lenders. Half of those are located on a one mile stretch of road leading into Springfield. When you pass the "Welcome to Springfield" sign on East Main Street, there is immediately a payday lender on the right-hand side of the road. Over the next 5,200 feet, exactly one mile on my car's odometer, you will pass nine store fronts with signs promoting payday loans.

Just like the other 650 payday lenders in Ohio - not one of these is licensed under the Short-Term Loan Act passed in 2008. Each is offering payday loans. But not one is licensed to do so in the State of Ohio - even after Ohio voters upheld a referendum in 2008 supporting the legislature's action.

I will note that according to Statistical Atlas, in the neighborhood to the north of the one mile stretch of road that I described, 25% of the households are on food stamps. In the neighborhood just to the south, 16% of the households are on food stamps.

Mr. Chairman, while I noticed the growing number of payday lenders in my district, it was a local pastor who brought the issue to my attention. Pastor Carl Ruby has brought together pastors, business leaders and elected officials to start this dialogue over a year ago. In the past year, that group has grown to more than one hundred faith leaders, business organizations, a number of chambers of commerce and county commission boards. They represent Ohioans who want to see payday lenders live within guidelines that protect consumers.

As Representative Ashford shared, the legislature attempted to reform Ohio's payday lending law in 2008, capping Annual Percentage Rates (APR) for these loans at 28% under Ohio's Short-Term Loan Act. Lenders tried to overturn the legislation, bringing it up for referendum on the ballot that year, but voters overwhelmingly sided with the legislature. However, lenders found a loophole to continue offering high interest loans and although there are more than 650 payday loan stores in Ohio, there are zero licensees under the Short-Term Loan Act.

House Bill 123 is the compromise between those who want to continue to allow lenders to operate without a lending license and those who would seek to shut down these businesses completely. We know that 1 in 10 Ohioans take out a payday loan which allows them to borrow against future paychecks. As a Representative, I understand there are those, in my district, who need access to this type of credit. Those with a bad credit history BUT who have jobs (or a steady source of income) and a checking account are hardworking individuals. They find themselves in need of extra cash to pay their bills before their next paycheck, or address unexpected emergencies like fixing a car so they can get to work.

House Bill 123 has been written after looking closely at Colorado's successful reform passed in 2010. By looking at six years of data from this state's reform, we have crafted legislation that actually improves on what we have seen in Colorado. House Bill 123 matches Colorado's law in terms of average APR, payment size, and maximum loan size, but it is simpler. It eliminates back-loading of fees so that revenue for lenders is more predictable. It also removes limits on loan sizes that are tied to a borrower's Gross Monthly Income (GMI).

National data show payday loan borrowers have loans out for five months of the year. In Ohio, borrowing $300 for five months results in interest and fees alone adding up to $680. In Colorado, the same loan, over the same period, only costs $172 in fees and interest. That is $500 less than in Ohio.

House Bill 123 does three basic things.

First and foremost, it closes the loophole that allows payday lenders to operate under statutes not intended for them. The bill does this by better defining the Mortgage Loan Act, the Small Loan Act and the Credit Services Organization Act (CSOs), to ensure the statutes are being followed according to legislative intent. These changes are vital as the CSO statute, intended for lenders offering debt consolidation for individuals owing more than $10,000, does not have restrictions on fees that may be charged. Lenders offering much smaller loans should not be governed by this statute.

Second, House Bill 123 retains the 28% interest rate limit enacted by the legislature in 2008 and overwhelmingly affirmed by voters, and allows a monthly fee of 5% of the amount of the loan, a maximum of $20. A monthly fee on a loan of $200 or $300 - would be $10 and $15 respectively. A monthly fee on $400 or $500 would be the maximum amount of $20.

Third, the required monthly payment on a loan would be limited to 5% of the borrower's Gross Monthly Income (GMI). This is perhaps the most important part of House Bill 123, as it will eliminate the full payment requirement on the typical payday loan that causes what many people term "churning". Churning occurs when the borrower either has enough money to pay off the loan but immediately takes out a new loan to have money for the following week OR doesn't have enough money to pay off the loan so they pay a fee that can be $50 or even $100 to "rollover" the loan for another period. These are the fees that help create the astronomical APRs we talk about.

I want to assure my colleagues that this legislation will not shut down payday lending in Ohio. The stakeholders on the lending side of this issue will tell you that they will leave Ohio. While I admit that the fishing might not be as lucrative as it once was (when it comes to offering payday loans) - the results we see in Colorado tell us otherwise. Prior to 2010, 93% of Colorado's population lived within 20 miles of a store. Today, 91% of residents live within 20 miles of a store. While some storefronts did close, the stores that are operating today serve twice as many customers than before the reform was enacted. Finally, borrowers spend 42% less on the same products in Colorado, saving more than $40 million each year. In Ohio, we conservatively anticipate the savings would be more than $75 million per year- savings that would no doubt be reinvested into the local economy.

My friend Pastor Carl Ruby, who will come to testify, loves to say that we have 16 payday lenders in Springfield and only four McDonald's. I think having just as many payday lenders as we do McDonalds, Burger King, Wendy's, White Castles, Five Guys, Rally's and Hardees combined is more shocking for my little town.

I would like you to ask yourself how these payday lending chains can support 16 stores in a town that can only support 16 hamburger storefronts. If we reform the Short-Term Loan Act, some of these chains might indeed choose to reduce the number of storefronts they have. Again, history tells us those who stay will have increased traffic.

The OCLA (Ohio Consumer Lenders Association), that represents payday lenders in Ohio, will come to this committee and tell you that House Bill 123 will limit access to subprime credit in Ohio. There are more than 650 payday loan stores in Ohio, or 5.8 stores per 100,000 people in Ohio. While that number may be true, it does not tell the full story. In my town of 60,000 residents we have 16 stores. That is 26 per 100,000. In Champaign county, a county that OCLA says "could lose access to subprime credit", the city of Urbana, with population of 11,669, has six payday lenders within 1 mile of each other. That is over 51 stores per 100,000. In Logan County, another area that OCLA claims would become a proverbial subprime desert... the population of their county seat, Bellefontaine, is 13,162. It boasts another six payday lenders within 3.4 miles of each other. That is 45 stores per 100,000.

We have talked with several lenders who operate in other states (but not Ohio). They have told us they don't want to come to Ohio because the Short-Term Loan Act passed in 2008 would indeed make them unprofitable. It is also true, that to open a store in Ohio - it would require them to misrepresent what kind business they are... by climbing through the loophole and licensing themselves as something they are not. Something they have refused to do.

In the end, we don't expect the payday lenders, the OCLA or the lobbyist for payday lenders in Ohio to support this bill. With zero of them actually licensed as payday lenders today, I don't know why they would. However, I was not sent here to represent businesses that are mostly owned by out-of-state entities that are charging Ohioans considerably more than they charge consumers in other states because of a loophole. I was sent here to represent the citizens of Ohio... who overwhelmingly support common-sense guidelines that protect the consumers in Ohio who are working hard to make ends meet.

The time for reform is now. Ohioans forego $200,000 in savings each day that passes without action on this bill. House Bill 123 will bring reform to the Short-Term Loan Act in Ohio, a law that, at present, governs no one. House Bill 123 is common sense reform that allows payday lenders to finally be licensed as what they are... and allows consumers much-needed protection while making sure they have access to subprime loan options.

I appreciate your attention to my testimony. I thank you Mr. Chairman for allowing sponsor testimony today. I know Representative Ashford and I would be happy to answer any questions you may have at this time.