Ohio House of Representatives

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Government Accountability and Oversight Committee Hearing
HB 123 Sponsor Testimony
November 29, 2017

Chairman Blessing, Vice-Chair Reineke, Ranking Member Clyde and members of the committee, I am proud to be here today, together with my colleague Rep. Koehler.

I have long cared about the issue of payday loans, which have harmed my constituents and my community for too long. Payday loans have been such a problem for my district that a coalition of community groups and local officials came together and passed zoning restrictions in Toledo to prevent more of these loan centers from opening. But local governments can only do so much through zoning; these loans are a creature of state law and the legislature has a responsibility to rein them in.

It wasn't until 1995 that the General Assembly carved out new rules to allow payday lending by amending traditional usury caps that had been in place for decades. When the legislature first allowed these loans, it was with good intentions; allow lenders to provide credit to people who have otherwise damaged credit, and put in some basic protections to ensure that the borrower doesn't get into trouble. But the repayment time was far too short (two weeks), the payments unaffordable (typically taking 1/3 of a person's paycheck) and the rates were too high so things got out of hand. The unaffordable design of these loans resulted in a debt trap where borrowers would end up paying more in fees than they received in the first place. In fact, that was the business model.

In 2008, the legislature recognized that the situation was not appropriate and set out to reform the loans with bipartisan legislation, capping interest rates at 28%, among other protections. Ohio voters overwhelmingly supported the reform by referendum, approving the legislature's cap on interest at 28% APR. But payday loan companies found a loophole- they could become brokers and charge unlimited fees- and as a result, they charge Ohioans the highest prices in the nation.

Today there are zero lenders who are licensed under the Short-Term Loan Act, and the typical APR for these loans has increased. Prior to the 2008 reform effort, Ohio did not have auto title lending, loans made at APRs around 300% and secured by a car title. However, when payday lenders found the loophole, auto title lenders followed suit and entered our state offering loans at very high interest rates secured by the title to a borrower's vehicle. House Bill 123 would also address auto title lending, which is severely lacking in regulatory oversight. Auto titles could still be used as collateral for lower-rate, less risky loans under Ohio's traditional consumer finance statutes. It is well past time for state lawmakers to address these problems.

The good news is that reforming payday loans is a non-partisan issue. Every category of voter supports more regulation of payday loans. A recent poll of likely Ohio voters found that 78% of Republicans, 75% of Independents and 88% of Democrats support more regulation of this industry. 80% of likely voters in Ohio support the reforms outlined in HB123.

These numbers send a clear message to lawmakers. Not only is it our responsibility to deal with this problem, it's a great opportunity to work together and find a compromise solution that is viable for responsible lenders and affordable for borrowers, which we have delivered with HB123.

Thanks to this committee for beginning the hearing process today for HB123. I hope that we can count on your support for this carefully crafted legislation. Together we can restore balance and allow our constituents to have access to credit and keep more of their paycheck each month.