<u>Government Accountability and Oversight Committee Hearing</u>
HB 123 Testimony
January 17, 2018

Chairman Blessing, Vice–Chair Reineke, Ranking Member Clyde and members of this committee, I'd like to extend my sincere appreciation to each of you for the opportunity to discuss this proposed legislation. My name is Cheney Pruett and I am the founder and CEO of CashMax-Ohio. I am here today proud to represent not only my company, the more than 300 Ohioans I employ and the Ohio Consumer Lenders Association, but also the hundreds of thousands of Ohioans who rely upon our products and services each year.

HB 123 attempts to undermine the principle of free-market enterprise under the guise of consumer protection. The state of politics in this country – and now in this great state – is such that anyone can come into the General Assembly, make up his own story, sell them as facts, and if you repeat them often enough, have the possibility of it becoming ideology. Such is the case in this poorly understood bill that attempts to bury the truth under an avalanche of deception. An avalanche triggered by a special interest group that masquerades as a research institute known as PEW. The very data used to construct this bill is sourced by this special interest group who resorts to anecdotal evidence and hyperbole in an attempt to create an echo chamber of negativity. A scheme that should evoke skepticism, if not outrage, by the members of this committee.

Some of the things you may have heard or seen about the short-term loan industry are not only false, but complete fabrications by PEW. First, and what has incited the fervor of public interest, or better described as the perception of public interest is the concept that Ohio has the *"highest fees in the nation*." Those who attempt to beat the drum of progressive virtue signaling have managed to sell this lie as they continually distribute a "Fact Sheet" to the media and other stakeholders throughout the state of Ohio that is anything but factual. Not only is this "Fact Sheet" not accurate, the methodology used by PEW to arrive at their assertions is **intentionally deceptive**. The facts can only be discovered by studying the loan transaction data. By their own admission in an Interested Party meeting, PEW failed to analyze this loan transaction data. PEW further conceded this point in a letter to Representative Bill Seitz. Conversely, our trade association was able to cite a data study of 4.6 million storefront payday loans made between 2010 – 2014 conducted by NonPrime101, a research arm of Clarity Services which is owned by Experian. Quoting this data study, prices in Ohio are "less than half of what is alleged in the Fact Sheet, based on actual loans made at the time the authors of the Fact Sheet studied Ohio Prices." Fact is, and what the opposition doesn't want you to know, the average cost for a short-term loan in the state of Ohio falls well below the national average. Also in this so-called "Fact Sheet," and unfortunately relied upon and recited in Representative Koehler's sponsor testimony was the description of an example loan in the state of Ohio. Again, after examining the actual data of loans made in Ohio during that time, NonPrime101 found that the "example in the Fact Sheet is so rare as to be **completely misleading**." More specifically, the data showed the *typical loan* that was depicted in the opposition's alleged "Fact Sheet" occurred in less than 1 in 1,000 storefront loans. When PEW was asked by Representative Seitz to explain how they came up with this assertion, they admitted <u>in writing</u> they had not reviewed any actual loan transaction data. The entire "research" upon which they based their claim that Ohio had the "highest fees in the nation" was predicated upon a cursory review of four companies' websites who operate in Ohio where they took one loan example – which happened to be the worst-case scenario – and allege the average of these worst-case scenarios as being the “typical” loan transaction. Again, intentionally misleading and desperately inadequate to qualify as true research.

Another fallacy the opposition would like you to believe is our customers are not only poverty-stricken, but they are dissatisfied with our products and services. Neither is true. Those who oppose our industry resort to the tired tactics of fear mongering by citing the most outrageous, albeit infrequent, horror stories. I sympathize with those who have tried and had unpleasant experiences with our products and services. Our industry is not unlike any other, we are not without fault and I am sure there are areas in which we can improve. But horror stories intentionally amplified by those who oppose our industry are not representative of the quality of service we provide or the satisfaction our customers receive. As a matter of fact, our customer satisfaction rates are some of the highest you’ll find in financial services. The Consumer Financial Protection Bureau’s, a federal agency that is most critical of the short-term loan industry, own findings confirm this fact. Our industry’s complaint rates fare better than virtually any other form of lending including Mortgages, Student Loans, Credit Cards, and Bank Loans. In the five years the bureau researched small-dollar loan transactions, they found the complaint rate to be one for every 32,000 loan transactions. Extremely low complaint rates are consistent with Ohio-specific findings as well. Most recently, Attorney General Mike Dewine announced the top consumer complaints his office received in 2017, where more than 22,000 complaints were filed. Short-term loans did not even make the list. This is a classic example of a supposed solution in search of a problem; a living testament to the concept of legislative over-reach which would inevitably injure the very constituents it seeks to protect.

Instead of focusing on bad data and hyperbole, lets shift focus to what is truly important, assuring that Ohioans continue to have access to credit when they need it most. I think it wise to provide a brief glimpse into the economic reality of our consumer. The Federal Reserve Report on the Economic Well-Being of US Households states approximately half of adults could not cover an unexpected expense of $400 without resorting to borrowing from a lender or selling personal property. A related study shows 76% of Americans identify as living “**paycheck-to-paycheck**.” In such an environment, access to credit is imperative, and any measure that results in restricting or reducing access to potential sources of credit must be undertaken with great circumspection.

With this critical factor in mind, the unintended consequences of HB 123 begin to take sharper focus. The bill sponsors, or perhaps better stated – the special interest groups on whom these sponsors relied, have paraded the current model in Colorado as a suitable proxy for consumer lending in Ohio. These same special interest groups, or their associates, were integrally involved in designing the “Colorado Model” so it comes as no surprise it’s being used as the template here. Even a cursory review of the outcome of Colorado’s lending practices shows a clear reduction in the availability of credit. Since this model was put in place in 2010, not a single new storefront location has opened in the state of Colorado and over 48% of the storefront locations have closed. 76% of the locally owned storefront locations have been forced to close. The percentage of Colorado consumers who now qualify for short-term credit have plummeted. The average income it takes for a Colorado consumer to qualify for a loan is now 50% greater than what it was prior to this Model going into effect. What has been the outcome? Fewer Coloradans have access to state-regulated, storefront lenders.

This is precisely what would happen to consumers in Ohio, but worse. What’s even more alarming is the fact that HB 123 is actually much more onerous than Colorado’s current statute. If implemented “as-is” consumer access to credit will most likely shrivel to a level of eventual obscurity, which seems to be the actual motivation of those special interests behind this bill. The reality is, you can eliminate sources of supply but the demand for short-term credit will remain. HB 123 purports to create an environment that is more “fair;” however, keep in mind operators already have the ability to enter this market and charge fees at the levels the opposition would have you believe are sustainable. If this were true, me or one of my competitors would already be offering this product at prices near HB 123’s level in an effort to win market share. Make no mistake, I’m in business to make profits. If lowering my prices would allow me to achieve greater market share and boost my overall profits, I would leap at the opportunity to do so. The simple fact, however, is that HB 123’s rate caps don’t create a “fair” market. Rather, it would impose an unnecessary and onerous price cap that would eventually lead to the destruction of my company and most, if not all, of my competitors.

As I conclude, I want to remind you who the real losers are if HB 123 is voted into law. The customers we serve every day – the over five million Ohioans who are not prepared for a $400 unexpected expense and the 76% of Ohioans who are living “paycheck to paycheck.” Those are the people who will feel the pain of this misguided over-reach. While the special interests who stand behind this bill rejoice, the people who are actually using our products and overwhelmingly support the manner in which we operate will begin to see their options for available credit disappear. The demand for bridge financing doesn’t go away and any measure that constricts the supply will merely push customers to other forms of unregulated lending. Online lending with non-licensed tribal and offshore lenders who charge double or triple what traditional storefront short-term lenders do will skyrocket. Back-alley loan-sharking will grow exponentially, and the other options just get worse and worse.

I recognize there are a number of well-intentioned people who wish there wasn’t a need for our product. But it’s an unavoidable reality that over a million Ohioans in need of credit come to us each year because we are the best and safest option for them. Nothing in HB 123 gives more credit options to these Ohioans. What it does is eliminate one of the only legal, regulated options they do have. Allow the data to speak for itself; allow our customers to speak for themselves. Allow the free-market to work. Passing this bill will put me out of business, force my 303 Ohio employees into the unemployment line and I’m confident it will have a similar impact on most, if not all, of my competitors. Before such a draconian decision is made, I urge you to engage further and allow the real facts to speak. Thank you for your time today.

Respectfully,

Cheney Pruett
CashMax-Ohio