My name is David Rothstein, an Ohio resident and long-time project director for financial inclusion programs. I have researched small-dollar loans for more than a decade. Last year, I created a national organization known as the Coalition for Safe Loan Alternatives, a group that provides technical assistance and a platform for community groups, philanthropy, employers, local governments and credit unions. We have more than 200 members participating in our coalition to develop affordable small-dollar loan options for consumers.

I appreciate the opportunity to offer supportive testimony on HB 123 today.

<u>History</u>

Over the years I have watched the troubled history of payday and auto-title lending in Ohio unfold. A small group of powerful, mostly out-of-state companies offering high-priced loans were given a special exemption from the state's long-standing usury laws in 1995. They were granted the power to take access to a borrower's checking account as collateral – so they would get paid even if the borrower could not afford it. These lenders would go on to charge the maximum fees allowed by state law. In 2008, lawmakers recognized that this powerful exemption was not working as intended and they put forth a bipartisan effort to cap maximum interest rates at 28 percent APR. It did not work and now lenders- who now also take auto titles as collateral- charge even higher prices using the "credit services organization" loophole.

One of Ohio's Supreme Court Justices wrote about Ohio's 2008 failed reform as the court pointed back to the General Assembly to resolve this issue once and for all[1]:

> *There was great angst in the air. Payday lending was a scourge. It had to be eliminated or at least controlled. So the General Assembly enacted a bill, the Short-Term Lender Act ("STLA"), R.C. 1321.35 to 1321.48, to regulate short-term, or payday, loans. And then a funny thing happened: nothing. It was as if the STLA did not exist. Not a single lender in Ohio is subject to the law. How is this possible? How can the General Assembly set out to regulate a controversial industry and achieve absolutely nothing? Were the lobbyists smarter than the legislators? Did the legislators realize that the bill was smoke and mirrors and would accomplish nothing?*

In today's virtually unregulated context, HB 123 would be a step in the right direction that is long overdue. It is not a ban or a strict 28 percent rate cap, but a compromise. To be honest, I am hesitant to emphatically support HB123 because it would still allow triple-digit APRs of up to 120 percent. It does use a proven approach to maintain access to credit, and it will allow lower-cost alternatives to compete on a level playing field.

<u>Loan Design</u>

From the perspective of someone who has counseled individual borrowers and set-up alternative small dollar loan programs, I would like to offer perspective on why the current payday and auto-title loans are not designed to serve borrowers well. The affordability and transparency of the loan is the critical piece to understand here. A two week or one-month loan that requires a balloon repayment of principal and interest made to people living paycheck to paycheck is not designed for success. The math does not work. It seems like a short-term solution, for a relatively small fee. But as soon as the borrower gets

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[1] Ohio Neighborhood Fin., Inc. v. Scott, 139 Ohio St.3d 536, 2014-Ohio-2440.

paid, that money goes toward repayment of their payday loan and not their expenses. This explains why loans are churned – meaning people continuously pay fees to reborrow for months. The hole grows rather than shrinks. Auto-title loans are particularly egregious given the larger principal ($1000 on average) that needs to be paid back in typically just one-month. The true costs of borrowing for months of churning a loan are concealed. Meanwhile, responsible lenders who disclose their total costs with realistic loan terms and amortizing monthly payments are put at a disadvantage.

The Market

What HB 123 does that its predecessor bills have not done, is require that all loans are structured with affordable payments, making it easier for lower-cost providers to compete in Ohio on a transparent playing field. The alternative providers who are active in our network are not interested in abusing the Credit Service Organization (CSO) statute or being licensed as a mortgage lender. Take one member of our coalition, True Connect, which is a workplace lending program that partners with companies and localities to facilitate loans to employees through direct deposit. These loans are paid back through payroll deduction at an interest rate under 25% APR. They are currently working with a number of employers in Ohio and they would like to expand. However, their partner lenders see Ohio's situation as too risky for expansion because of the state's broken laws. They would absolutely like to work with small and regional banks to offer a product at scale at a fraction of the cost, but cannot do so until our lending laws are harmonized.

Reining in expensive forms of credit will make it possible for payday loan alternatives to compete. It will give borrowers the ability to compare their options and make good choices between a variety of products and ultimately save money, while today's situation is toxic and actually decreases their options. I hope that you will see HB123 for what it is- a sensible compromise that Ohio borrowers, responsible lenders and the public have long been waiting for.

I appreciate the Committee's time today and earnest intent on improving the lending situation in Ohio. I am happy to answer any questions at this time. Thank you.