THE PEW CHARITABLE TRUSTS

2005 Market Street, Suite 2800
Philadelphia, PA 19103-7077
P 215.575.9050
F 215.575.4939

901 E Street NW, 10th Floor
Washington, DC 20004
pewtrusts.org
P 202.552.2000
F 202.552.2299

Proponent Testimony on House Bill 123
House Government Accountability and Oversight Committee
Nick Bourke, Director of Consumer Finance, The Pew Charitable Trusts
January 17, 2018

Chairman Blessing, Vice-Chair Reineke, Ranking Member Clyde, and members of the House Government Accountability and Oversight Committee:

Thank you for undertaking this important review of the problems in the payday loan market in Ohio. My name is Nick Bourke and I am director of the consumer finance project at The Pew Charitable Trusts. I have nearly 20 years of experience as a product manager, consultant, attorney, and researcher in the consumer finance industry. My testimony is informed by in-depth research Pew has conducted on the small-loan market since 2011. This research includes four nationally representative surveys of borrowers, 22 focus groups with borrowers of high-cost credit across the country, polls of the public, including in Ohio, extensive analysis of market and regulatory data, and the laws of all 50 states. We have published reports, briefs, and fact sheets available at www.pewtrusts.org/small-loans. **Certain information that may be helpful in your deliberations is also attached as appendices.** I appreciate the opportunity to share these findings.

Ohio has an extreme payday loan problem. Companies charge Ohioans four times more for short-term loans than they charge elsewhere, and they make payday installment loans at Annual Percentage Rates (APRs) of 300 percent or more with unaffordable payments.

I have studied payday loan markets in all 50 states for more than six years, and lenders list higher prices in Ohio than in any other state in the country. Because lenders operate outside the statute the legislature created for them, **Ohio borrowers have the fewest protections in the country. At the same time, there is no statute enabling lower-cost installment lending. This combination of the highest prices, the fewest consumer protections, and the effective prohibition of competition from lower-cost lenders combine to make Ohio's small-loan market the most harmful in the United States.**

After the legislature passed a reform bill in 2008, and after Ohio voters overwhelmingly approved the 28 percent interest rate limit included in that bill, payday lenders sidestepped that law entirely. There are now no licensees under the Short-Term Loan Act (STLA) the legislature designed. Instead, **payday lenders have employed elaborate tactics to avoid the STLA and circumvent the will of Ohio voters.**

Under this evasion, **payday lenders in Ohio have abandoned the payday loan statute and instead obtained licenses under a non-lending statute known as the Credit Services Organization (CSO) Act.** It was designed to enable licensees to broker low-cost installment loans of about $10,000 or more so that consumers could pay off higher-cost credit card and other debt, helping them lower their debt burden. But CSO payday loans are most definitely *not* helping Ohio families in that way.

The payday lender technically brokers the loan using a Credit Services Organization (or CSO) license, but in reality it acts more like a lender because it provides the loan to the borrower and indemnifies the lender-of-record from loss. CSO payday loans are extremely high-cost loans, such as a $500 loan for a fee of $125 per two weeks outstanding, or a $500 loan that lasts 18 months and carries $2,000 in fees. **(See Appendix A for Ohio loan examples.)** These CSO payday loans are far more costly than those that existed before the 2008 law. The typical APR for a 300, 2-week payday loan was 391% before 2008. Thanks to the CSO loophole, that price is now 200 percentage points higher. In other words, these loans now drain approximately three dollars from borrowers' pockets for every two dollars they would have taken before the thwarted 2008 effort. Longer-term CSO payday and auto title installment loans have also emerged under this evasive tactic.

This is what is happening throughout Ohio right now:

- Payday lenders have partnered with a nominal, third-party lender operating under the **Small Loan Act** or even the **Mortgage Loan Act**.
- The payday lender, using its license as a broker under the **Credit Services Organization Act**, charges an Ohio consumer an up-front fee for originating the loan with the affiliated lender. **Because the CSO Act was never intended for this purpose, there are essentially no legal guidelines in place to govern it. That is why this fee can be—and almost always is—breathtakingly high, as seen Appendix A**.
- Next, the affiliated lender issues a loan to the Ohio consumer. This might be a $1,000 installment loan issued under the Small Loan Act, a $500 "small mortgage" (which is not actually secured by real property) issued under the Mortgage Loan Act (MLA), or a balloon-payment loan due in full on the borrower's next payday.
- Behind the scenes, t**he CSO payday lender has made an agreement to service the loan and guarantee it, meaning the affiliated lender is not acting like a lender so much as facilitating the CSO payday loan broker to act like a lender**.
- At the end of the day, **this unnecessarily complex arrangement results in the Ohio consumer getting a loan that includes the highest cost with the fewest protections that these companies list anywhere in the country.**

In short, Ohio's payday loan law is broken.

The question before you today is how to fix Ohio's payday loan law.

There are a few ways to do this, but **only one approach will result in both a stronger and more rational law that also enables widespread access to credit at far lower prices, and that approach is encapsulated in the bill you have before you today.** But before I discuss the mechanics of HB 123, I will briefly note how this bill compares to two other points of view on this matter.

One point of view is that payday loans are so damaging they should be eliminated. Proponents of this approach argue that payday lenders should be forced to abide by the strict interest rate cap found in the Short-Term Loan Act as enacted by this legislative body enacted in 2008, and which the voters overwhelmingly approved by a 27-point margin. This is the view that some consumer and community advocates have, and which many members of the public share. This approach would prompt payday lenders to leave Ohio unless the STLA were amended at the same time to allow certain other fees and practices. It is a reasonable point of view. While research is mixed as to the benefits of having access to high-cost loans, there is clear evidence that that status quo in payday loan markets such as Ohio's leads to many harm; and since resistance to reasonable reform plans often seems insurmountable, simply banning payday loans seems like a simpler and more effective approach to many people.

Another point of view, held by the six payday loan companies that control 90 percent of Ohio's market today, is that there is no problem with payday loans or Ohio's payday loan law. These companies argue that any attempt whatsoever to make substantive improvements to Ohio's payday loan law will result in catastrophic loss of credit. This is not a reasonable point of view. These companies will refuse to acknowledge that it is possible and profitable to offer credit to borrowers with the same credit risk at four times lower prices even though some of them are doing so in other states. Instead, as they have in other states, the large companies that control Ohio's payday loan market may attempt to divert the attention of this legislative body to other issues, such as unlicensed lenders making loans online or in back alleys—which if documented to be true would surely be worth addressing, but that would not be an adequate means of fixing Ohio's broken payday loan law. They may also attempt to divert your attention to no-cost payment plans, rollover bans, or financial literacy initiatives that have been tried in other states but have not reduced prices, improved affordability, or decreased consumer indebtedness, let alone rationalized underlying law. *I urge you to keep your attention on the primary opportunity before you: improving Ohio's law so that Ohioans have access to safer, more affordable small-dollar loans that help them and their communities.*

These views represent the polar opposites of this debate: either eliminate payday lending or do little about it. But in between these extremes is the HB123 option: improve Ohio's payday loan law to keep access to credit, bolster competition, and improve outcomes for Ohio families.

This bill is earnest and well-thought-out. It is the best example of a workable compromise on the payday loan issue that I have seen. **HB 123 will save Ohio families more than $75 million *each year*.** But every day that passes without the enactment of HB 123 takes $200,000 from the pockets of Ohioans who are payday loan borrowers.

There is tremendous desire in Ohio to achieve the type of compromise to this problem that HB 123 represents. My colleagues and I have heard this point of view expressed over the course of two years of conversations with members of this legislative body and your colleagues elsewhere in Ohio government.

Many people who live, work, and own businesses throughout the state share the goal of solving the payday loan problem while maintaining access to credit. A poll showed that most Ohio voters—Republicans and Democrats alike —support by overwhelming margins the fixes found in the reform bill, as do payday loan borrowers themselves. You will hear today from industry representatives that payday loan customers are satisfied. Borrowers have explained to us that what that means is they appreciate credit in a tough time, but a majority also report feeling taken advantage of because payments are unaffordable and prices are so high.

What has emerged after nearly two years of engaging with Ohio officials and community members is a consensus view that Ohio's payday loan law should be fixed, and that lawmakers should choose an approach that creates a way for small-dollar credit to flow. HB 123 would do this.

HB 123 is an extremely effective compromise because it is not rooted in the vexed question of whether payday lending should or should not exist. Instead, it presents a pragmatic solution to the problem so that payday and small-dollar lending can be better and provided by a larger variety of lenders operating in a more competitive marketplace. This compromise would improve Ohio's law in ways designed with the interests of both borrowers and lenders in mind, carefully crafted to use the simplest possible approach to improving outcomes. That is why Pew strongly endorses this bill.

For example, HB 123 would allow lenders to continue to secure their loans by tying repayment to the borrower's checking account and income stream, and in exchange for that powerful legal right it simply requires that monthly installment loans be affordable, determined through the very simple approach of limiting the payment to five percent of the borrower's paycheck. This easy-to-implement rule is a powerful consumer protection that is easy for lenders to implement because it requires no new types of documentation and is easy to automate, meaning it adds no cost to the loan origination process and helps the lender be profitable even at lower prices to the consumer.

SOLUTIONS

HB 123 would solve Ohio's payday loan problems by closing the Credit Services Organization loophole, giving borrowers time to repay in installments, and limiting prices to levels that are affordable for borrowers and profitable for lenders. It would require payday lenders to operate under the statute the legislature created, where no lenders do business today. With well-designed product safety standards, policymakers can align the interests of borrowers and lenders, ensuring an efficient marketplace with widespread access to credit.

In Colorado, where similar reform has been in place for seven years, it has led to more than $250 million in savings. In several notable ways, HB123 improves upon the Colorado model with modifications that would grant additional flexibility to lenders and borrowers, while keeping the core elements the same, including payment size, loan structure, and typical APR.

Specifically HB 123 would ensure six key improvements:

1. **Affordable payments.** This reform would require affordable installment payments limited to 5% of a borrower's paycheck vs. the one-third that is consumed today. Research shows that payments of 5% of income are viable for efficient lenders and affordable for borrowers.

2. **Reasonable cost.** An interest rate of 28 percent and a standard monthly fee of $5 per $100 loaned, not to exceed $20 per month, provide enough revenue for efficient lenders to continue making credit available. HB 123 would allow lenders to earn monthly fees immediately, giving lenders more revenue in the early months of the loan compared to the Colorado model.

3. **No front-loaded charges.** Similar to Colorado, HB 123 would remove incentives for lenders to refinance loans by prohibiting front-loaded charges like nonrefundable origination fees. This spreads costs evenly over the life of the loan and helps ensure that lending relationships are more transparent.

4. **Enough time to repay.** HB 123 would ensure that borrowers have a reasonable time to pay off their loans in small installments. It is more flexible than Colorado's six-month minimum term, with no fixed minimum or maximum duration.

5. **Limits on long-term indebtedness**. By limiting loan costs to no more than half of the loan principal it prevents loans with unreasonably long terms and excessive costs, without being too prescriptive about how loans are structured. (For example, total fees and interest on a $500 loan could not exceed $250, meaning lenders would not have an incentive to make the loan repayment period last too long.)

6. **Efficient lenders—large and small—would provide access to credit across the state.** In Colorado, some stores consolidated but the remaining stores each serve twice as many customers, including in rural areas. Access to credit is virtually unchanged throughout the state and tens of millions of dollars have been returned to local economies.

FEDERAL REGULATORS WILL NOT SOLVE OHIO'S CSO PAYDAY LOAN PROBLEM

In October, The Consumer Financial Protection Bureau (CFPB) issued the first federal regulations for payday loans. The final rule, which has been scaled back from an earlier proposal, covers payday and auto title loans that have terms up to 45 days or carry a balloon payment. The federal regulation could not and does not limit interest rates and fees; state legislatures retain that authority to limit the fees of state-licensed lenders, and Ohio is one of the only states in the U.S. where payday lenders operate without rate limits. In Ohio, the increasingly common 300%+ APR payday and auto title installment loans lasting more than 45 days are mostly not covered by the regulation. The $500, 18-month loan with more than $2,000 in fees on the market in Ohio today is not covered, because it lasts more than 45 days. Ohioans will only be protected from these types of dangerous terms and gain access to better loans if this legislature acts.

APPROACHES THAT WOULD NOT PROTECT OHIO

In other states, payday lenders seeking to prevent reform have offered up legislative suggestions that may seem to provide consumer protection but allow the same abuses that are pervasive today, such as a no-cost payment plan, a rollover ban, or financial literacy initiatives. These steps have been taken in other states, but they have not reduced prices, improved affordability, or decreased consumer indebtedness. Such approaches would not noticeably improve Ohio's payday loan law or fix where it is broken. State and federal regulatory data make clear that they have been ineffective because lenders can easily circumvent them.

I shall briefly review each of these ineffectual approaches. No-cost payment plans are sometimes promoted as a means of allowing consumers trapped in debt to use an installment plan to repay. This may sound appealing, but it does not solve the problem that loans taking one-third of a borrower's next paycheck are routinely and predictably unaffordable for most borrowers in the first place. Besides, few borrowers become aware of these plans, and lenders discourage their use. In Florida and Michigan, where these plans are part of state law, fewer than 1 percent of loans are converted to them.

Another ineffective approach is a rollover ban, preventing borrowers from paying a fee to buy two more weeks of credit. In states with this requirement, borrowers repay the loans on payday, when they have money, and then immediately re-borrow the loan to pay their bills. In this way "rollover" limits are easily avoided.

Lenders also sometimes promote financial literacy as a solution to payday loan problems. While this can be an effective component of reform, it is not as lenders often claim a sufficient alternative to fixing deficient laws or bolstering consumer protection. The academic research on financial education has found it to be costly and largely ineffective. When consumers have few good options, and when the small-loan market is characterized by weak competition and insufficiently clear legal requirements like in Ohio, the prospects for financial education alone improving consumers' well-being are dim.

In closing, **with the changes outlined in HB123, Ohio would no longer have the highest payday loan prices in the U.S., Ohio families would save more than $75 million annually, and that money would stay in the local economy. If you're even a little concerned about payday lending, then consider that no lawmaker has had a better chance than you do today to do something about it. HB 123 is that chance.** I am happy to take any of your questions.

Thank you,

Nick Bourke
Director, Consumer Finance
The Pew Charitable Trusts
www.pewtrusts.org/small-loans

Appendices:

A. Lenders' Published Rates in Ohio
B. Summary of Payday Loan Research and Facts from Third Parties
C. HB 123 is a Compromise That Keeps Credit Available
D. Summary of Ohio Non-Depository Lending Statutes
E. Payday Loan Rates Nationwide
F. Just Six Companies Control Almost All of Ohio's Payday Loan Market

This page intentionally blank.

Appendix A: Lenders' Published Terms in Ohio

ACE CASH EXPRESS®

Loan Amount	Lender Interest	Lender Credit Investigation Fee	CSO Fee	Total Finance Charge	Total Amount Due To CSO	To Lender	Total	APR (Assumes 14-day term)
$500	$4.79	$10	$125	$139.79	$125	$514.79	$639.79	728.90%

Advance America

− $537.63 +	
Loan Amount:	$537.63
Finance Charge:	$45.53
APR:	220.78% *
Total Amount Due:	$583.16

Assumes a 14 day term. Loans subject to approval. Examples provided are typical loans offered to qualified applicants. Other loan amounts and terms may be available. Checks issued instead of cash. Loans offered by Advance America Small Loans of Ohio, Inc. OH Lic. #SM501671. Check cashing offered by Advance America, Cash Advance Centers of Ohio, Inc. OH Lic. #CC700078.

*Note that check cashing fees can lead to higher APRs

Check 'n Go

Loan Summary

Your Borrow:	$500.00
APR	676.76%
Finance Charge	$129.79

You Pay Back: $629.79

* Based on a 14 day loan term.

CHECK INTO CASH

Amount Financed	Finance Charge	Total of Payments	Annual Percentage Rate (APR)*
$ 500.00	$ 130.99	$ 630.99	683.02%

Appendix A: Lenders' Published Terms in Ohio

cashcentral

a proud member of Community Choice Financial

Example Loans			
Loan Amount	Term in Days	Annual Percentage Rate	Finance Charge
$200	14	360.56%	$27.66
$300	14	353.96%	$40.73
$400	14	350.66%	$53.80
$500	14	348.67%	$66.87

Cash America Pawn®

Ohio Cash Advance Rates/Fees

Proceeds of Loan to Customer	Credit Investigation Fee	Origination Fee	Interest Charge	APR (14-Day Term)[1]	Total Loan Amount	Total Amount Due
$100.00	$10.00	$3.00	$1.08	367.08%	$113.00	$114.08
$300.00	$10.00	$15.00	$3.12	244.37%	$325.00	$328.12
$475.00	$10.00	$30.00	$4.94	246.66%	$515.00	$519.94
$500.00	$10.00	$30.00	$5.18	235.58%	$540.00	$545.18
$1,040.00	$10.00	$100.00	$11.30	303.40%	$1,150.00	$1,161.03
$1,140.00	$10.00	$100.00	$11.99	278.98%	$1,250.00	$1,261.99

Appendix A: Lenders' Published Terms in Ohio

ACE CASH EXPRESS®

Loan Amount	Components of the Finance Charge			Total Finance Charge	Payment 1	Payments 2 - 7	Payment 8	Total of Payments	APR (assumes a 112 day term)*
	Credit Investigation Fee	CSO Fee paid to loan broker	Interest paid to lender (25% per annum)						
$200.00	$10.00	$192.00	$8.38	$210.38	$60.91	$50.91	$44.01	$410.38	529.42%
$500.00	$10.00	$480.00	$21.02	$511.02	$137.29	$127.29	$109.99	$1,011.02	507.01%
$1,000.00	$10.00	$960.00	$42.08	$1,012.08	$264.58	$254.58	$220.02	$2,012.08	499.65%

Advance America

– $500.00 +

Loan Amount:	$500.00
Finance Charge:	$520.12
Number of Payments:	13
Approximate Installment Payment Amount:	$78.47
APR:	316.31%
Total Amount Due:	$1,020.12

Assumes an approximately six month term with bi-weekly payments. Examples provided are typical of loans arranged for qualified applicants. Fees include third-party lender interest and Advance America's CSO fee. Other loan terms are available and may vary from Advance America locations.

SPEEDY CASH

Advance Amount: (amount financed)	$500
Third—Party Lender Interest:	$105.09
CSO Fee:	$2,070.00
Finance Charge: (cost of loan) *Assuming all payments are made as scheduled	$2,175.09
Number of Payments:	18
Payment Amount:	17 monthly payments of $148.61, final payment of $148.72
Total Repayment Amount:	$2,675.09
Loan Term:	18 months
APR**	353.24%

CashNetUSA Money's on the way®

Loan Amount	Recurring Payment	Number of Payments	APR	CSO Fee	Lender Interest	Total Amount Due
$600.00	$135.22	10	479.0%	$683.76	$68.04	$1,351.80

This page intentionally blank.

Appendix B: Summary of Payday Loan Research and Facts—Third Parties

Quick Facts on Payday Lending

Payday loans are usually due on the borrower's next payday, typically about two weeks away. The average payday loan takes up one-third of a borrower's next paycheck. Most cannot afford to repay and cover expenses, but it is difficult to default because the lender holds access to the borrower's checking account on payday. So most borrow repeatedly, and 80 percent of payday loans are taken out in succession, within two weeks of a previous payday loan.
Sources: Federal Reserve Board; Consumer Financial Protection Bureau; University of New Mexico Law School

As a result, most borrowers pay more in fees than they received in credit. Even among those who ultimately default, most pay repeated fees.
Sources: Consumer Financial Protection Bureau; University of Pennsylvania & Vanderbilt Law School

Payday installment loans are due back over longer periods of time, and they are also secured by access to the borrower's checking account on multiple paydays. These loans often carry interest and fees that exceed the amount borrowed.
Sources: National Consumer Law Center; Speedy Cash; Rise Credit; Advance America

The average payday loan store serves just 500 unique borrowers per year. The substantial overhead of running a store and the small number of customers served explains most of why the loans are so expensive.
Sources: Federal Deposit Insurance Corporation (FDIC); Advance America

Lenders mostly compete on speed, customer service, and certainty of approval rather than price. This is because when loan-seekers are in financial distress, they focus on these factors instead of a loan's cost or the affordability of payments. That does not occur in most markets, and it explains why lenders mostly do not compete on price: if customers are price insensitive, there is little to gain by underpricing the competition.
Sources: Veritec Solutions, LLC; Elevate Center for the New Middle Class; FDIC; University of Florida

In conventional markets, when the price of a good is limited, supply is constrained. But in the payday loan market, when states have reduced allowable prices, loans have remained widely available, unless the prices are so low that lenders cannot operate.
Sources: Veritec Solutions, LLC; University of Chicago; Virginia Bureau of Financial Institutions; Auburn University

Colorado's legislature limited prices in 2010, resulting in average APRs of about 120 percent, with payments averaging 4-5% of borrowers' paychecks. Seven years after reform, the amount of credit extended and used in the state has not decreased. Instead, in the several years after reform, half of stores closed and remaining stores doubled their customer count, covering their overhead by serving more customers. Revenue per store is higher now than before reform, although prices are far lower.
Sources: Colorado Attorney General's Office; Colorado Financial Service Centers Association

In Colorado, payday lenders are still in business, borrowers fare far better, and the state's payday loan law has widespread, bipartisan support. Some of the same lenders operate in both Ohio and Colorado, but they charge Ohio residents four times more than Colorado residents. HB123 makes improvements on Colorado's law, and also matches its average APR, payment size, and maximum loan size.
Sources: Colorado Attorney General's Office; McClatchy Tribune; American Banker; ACE Cash Express; Check into Cash

State policy reform efforts fail to align the incentives of borrowers and lenders when they attempt to a) regulate borrower behavior i.e. limiting the number of renewals, or b) require no-cost payment plans. Florida, Michigan, and Oklahoma, allow lenders to make lump-sum loans and require them to offer installment plans but only a small share of loans are converted to installment plans. In Washington, where borrowers may request a no-cost installment plan at any time, only 10 to 13 percent of loans are converted. Instead, Colorado's loans have affordable payments from day one.

Sources: Washington State Department of Financial Institutions; Veritec Solutions LLC

Appendix C: HB 123 is a Compromise That Keeps Credit Available

2008 REFORM	COMPROMISE	STATUS QUO
28% APR	**28% + $20**	**591% APR**
In 2008, the Ohio Legislature passed a bill (sub HB 545) capping interest rates on payday loans at 28%. Later that same year, voters overwhelming approved a referendum (5) reaffirming the 28% rate cap. Payday loan storefronts do not operate in states with similarly low rate caps.	HB 123 establishes a maximum interest rate of 28% plus a maximum monthly fee of 5% not to exceed $20. Borrowers make affordable payments over a longer period of time creating a pathway out of debt. The compromise bill uses a proven approach from other states to keep credit available at rates that are fair to borrowers but remain profitable for lenders.	Ignoring the intent of the legislature and the will of the voters, lenders identified a loophole in the 2008 law. Payday lenders abandoned the short-term lender statute and now operate under other unintended statutes. Lenders use a loophole to charge Ohioans virtually unlimited fees, with short-term loan APRs averaging 591%.

More about the Compromise

HB 123

- **Competitively priced loans:** Instead of charging Ohio borrowers four times more than they do in other states, lenders would operate more efficiently and remain profitable.
- **Reasonable time to repay:** Loans are paid back over time, rather than in one balloon payment on the borrower's next payday.
- **Affordable installment payments:** Borrowers spend no more than 5 percent of their monthly paycheck to repay the loan.
- **Credit remains available:** By establishing rates that are both fair to borrowers and viable for lenders, companies will continue to offer loans at the prices they charge in other states.
- **Ohioans save over $75 million:** Borrowers will save more than $75 million a year, money that will be reinvested locally, rather than sent to payday lenders' out-of-state corporate offices.

This page intentionally blank.

Appendix D: Summary of Ohio Non-Depository Lending Statutes

Short-Term Loan Act (STLA)

(Note: 0 licensees)

- APR: 28%
- Max. loan amount: $500
- 4 loans max.
- Min. duration: 31 days
- Title loans prohibited

Mortgage Loan Act (MLA)

- Max. interest: 21%
- Max. loan amount: n/a
- No min./max. loan duration
- Origination fee: $15 (loan≤$500), $30 ($500< loan<$1000), $100 ($1000≤loan<$2000), $200 ($2000<loan<$5000)
- Credit investigation fee: max. $10

Small Loan Act (SLA)

- Max. interest: 28% (≤$1000) or 22% (>$1,000)
- Origination fee: greater of $15 or 1 % (loan≤$500) or greater of $30 or 1% (loan>$500)
- Max. loan amount: $5,000
- No min./max. loan duration
- Check-cashing fee

Credit Services Organization Act (CSOA)

- No max. fees
- No min./max. loan duration
- *CSO licensees operate as brokers in connection with third-party lenders (payday lenders have obtained CSO licenses to issue loans through affiliated MLA and SLA licensees)*

Consumer Installment Loan Act

- Max. interest: 25%
- Max. loan amount: $5,000
- No min./max. loan duration
- Origination fee: $15 (loan≤$500), $30 ($500< loan<$1000), $100 ($1000 ≤ loan<$2000), $200 ($2000≤loan<$5000), and $250 on a $5,000 loan
- Credit investigation fee: max. $25 (a licensee must obtain a report)
- Refinance is allowed only after 120 days

This page intentionally blank.

Appendix E: Payday Loan Rates Nationwide

<u>Conventional Payday Loans</u>

Payday Loans Cost More When States Fail to Limit Interest Rates

Lender pricing for comparable loans, by state price limit

Average cost to borrow $300 for 5 months*	Median stores per 100,000 residents	State	Max. charge allowed on a $300 loan per 2-week pay period	Average cost to borrow $300 per 2-week pay period*	Average cost to borrow $300 for 5 months*	Average annual percentage rate charged	Notes
Lower than average rate cap							
$281	3.0	Colorado	$16	$16	$172	129	*There is little or no price variation within each state. All competitors in a given state charge at or near the maximum allowable price.*
		Oregon	$18	$18	$177	156	
		Maine	$25	$25	$250	217	
		Minnesota	$29	$29	$288	252	
		Rhode Island	$30	$30	$300	261	
		Wyoming	$30	$30	$300	261	
		Mississippi†	$33	$33	$330	287	
		Florida	$35	$35	$345	304	
		Virginia	$37	$37	$370	305	
Average rate cap							*However, individual companies charge significantly different prices across state lines. Many companies charge double in one state what they charge in another.*
$435	7.2	Iowa	$39	$39	$390	339	
		Michigan	$42	$42	$425	369	
		Indiana	$44	$44	$440	382	
		California‡	$45	$45	$450	411	
		Kansas	$45	$45	$450	391	
		Oklahoma	$45	$45	$450	391	
		South Carolina	$45	$45	$450	391	
		Washington§	$45	$45	$360	192	
		Illinois	$47	$47	$465	330	
		New Mexico	$47	$47	$470	337	
Higher than average rate cap							
$528	14.9	Alaska	$50	$50	$500	435	
		Tennessee**	$53	$49	$490	426	
		Alabama	$53	$53	$525	461	
		Hawaii	$53	$53	$529	461	
		Nebraska	$53	$53	$530	461	
		Kentucky	$54	$54	$536	469	
		Louisiana**	$55	$47	$467	435	
		North Dakota	$61	$61	$610	530	
		Missouri	$225	$56	$563	455	

			OHIO				
		Ohio**	legal dispute	$68	$680	591	

Appendix E: Payday Loan Rates Nationwide

Average cost to borrow $300 for 5 months*	Median stores per 100,000 residents	State	Max. charge allowed on a $300 loan per 2-week pay period	Average cost to borrow $300 per 2-week pay period*	Average cost to borrow $300 for 5 months*	Average annual percentage rate charged	Notes
No rate cap							
$604	12.9	Nevada	no limit	$60	$596	521	*There is some price variation within each state. Lenders generally charge more than they do in states with rate limits.*
		Utah	no limit	$63	$627	474	
		Delaware*	no limit	$63	$315	517	
		South Dakota	no limit	$66	$660	574	
		Wisconsin	no limit	$66	$660	574	
		Idaho	no limit	$67	$668	582	
		Texas	no limit	$70	$701	454	
OHIO							
		Ohio**	legal dispute	$68	$680	591	

(Table notes omitted). Source: http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs/content-level_pages/fact_sheets/stateratelimitsfactsheetpdf.pdf

Payday Installment Loans

Payments Usually Exceed What Average Borrowers Can Afford

Installment model does not guarantee affordability

Lender (state)	Loan amount	Total cost	Loan duration	Monthly payment
ACE Cash Express (TX)	$600	$586	Four months	$297
CashNetUSA (NM)	$600	$952	Seven months	$222
Advance America (WI)	$500	$595	Five months	$219
Plain Green Loans (multiple states)	$500	$578	Six months	$180
Speedy Cash (IL)	$500	$542	Six months	$174
Colorado	$500	$290	Six months	$130

Source: http://www.pewtrusts.org/~/media/assets/2016/08/from_payday_to_small_installment_loans.pdf

Example from Ohio:

CashNetUSA Money's on the way®

Loan Amount	Recurring Payment	Number of Payments	APR	CSO Fee	Lender Interest	Total Amount Due
$600.00	**$135.22**	10	479.0%	$683.76	$68.04	$1,351.80

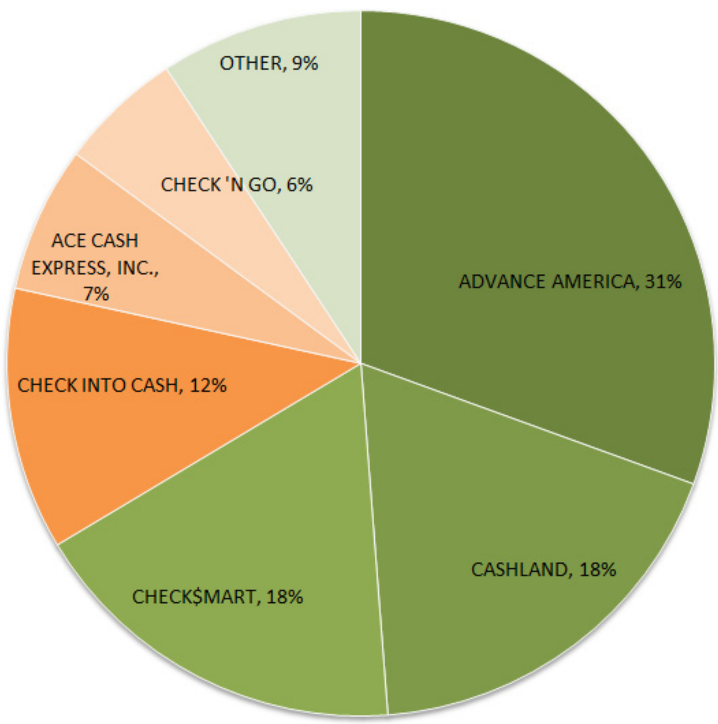
Appendix F: Just Six Companies Control Almost All of Ohio's Payday Loan Market

In Ohio, just six companies control 91 percent of payday loan market (the largest three companies alone control two-thirds of stores in the state). Compared to other states, Ohio's market is more consolidated in the hands of large multi-state companies; only one-in-ten stores in Ohio is operated by a small firm.

Just Six Companies Control 91% of Ohio's Payday Loan Market

	Company	% of stores	Cumulative Control
1	ADVANCE AMERICA	31%	**31%**
2	CASHLAND	18%	**49%**
3	CHECK$MART	18%	**66%**
4	CHECK INTO CASH	12%	**78%**
5	ACE CASH EXPRESS, INC.	7%	**85%**
6	CHECK 'N GO	6%	**91%**
	OTHER	9%	**100%**

Percentage of Ohio stores by company:



Source: Pew analysis, 2016

This page intentionally blank.