Proponent Testimony on House Bill 123
House Government Accountability and Government Oversight Committee
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January 17, 2018

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 proponent testimony on House Bill 123, a bipartisan bill that brings much needed reform to payday lending in Ohio.

My name is Michal Marcus, I am the Executive Director of the HFLA of Northeast Ohio. We are a 113-year-old nonprofit organization. The mission of HFLA of Northeast Ohio is to provide interest-free loans to address the financial challenges of residents of Northeast Ohio who lack access to traditional lending sources.

Over the last several years we have refinanced dozens of households out of predatory lending situations by providing over $200,000 in interest-free loans. Most of the people we have helped get out of a "payday" loan situation first went to these high-cost lenders because of unexpected circumstances: a funeral, a car repair, being out of a job because of an illness. They believe that they would be able to turn around and pay off the first loan quickly, which is how these loans are advertised– as a "quick fix." Instead borrowers are trapped in a perpetual cycle of loan after loan, often borrowing from one payday lender to pay another. This is because the loans are not required to have affordable payments and the fees are far too high.

One of our borrowers, John, is a veteran and a senior citizen. He borrowed money from a payday lender when a relative in Alabama died suddenly. It was impossible for him to repay the loan in just two-weeks, so he turned to another payday lender to try and pay off the first loan. By the time he came to HFLA, John had three payday loans from three payday loan operations and was paying over $400 in interest charges alone each month. By the time we intervened, he had been paying the interest-only fees on these three loans for over three years, amounting to thousands of dollars stripped out of his household budget.

Another couple, Richard and Grace, came to us as a last resort. Grace had a diabetic infection which caused a terrible wound on her leg. Her insurance did not cover the medication and materials needed to care for the wound, and she was left with co-pays and balances with her doctors. Richard and Grace turned to payday lenders to try to solve their financial woes. Their payday loan situation got so bad that when they came to us they had fallen behind on their mortgage and were facing foreclosure. We were able to help bring them current on their mortgage and take care of the root of the problem: the four payday loans, which were all charging interest over 300%.

I want to be sure that the committee understands why I am sharing these stories on behalf of our borrowers. The majority of them work at least one job, and cannot afford to miss work. When they first took out the loan, they were trying to do the right thing- responsibly paying their bills on time. Many of them are embarrassed to be in a difficult financial situation, which they thought they were handling themselves, only to find themselves in deeper distress. The downward spiral that we see is not due to individual irresponsibility, it is by design. The way these payday loans are structured and the payday lenders' business model relies on borrowers being in long-term debt. Ohio's broken law has failed them and it's time to fix it.

While your constituents' financial struggles with payday loans should be enough to compel action from this committee, I hope you will also take note of a disturbing trend that we see when we intervene on behalf of borrowers. The loans that we encounter are all tracing back to a very small number of companies, a sign that there is something broken in the marketplace. When we refinance high-cost payday loans into interest-free loans we write checks directly to the loan companies. While the borrower is under the impression that they have been borrowing from a number of different companies (registered in Ohio as credit services organizations), the loans are all actually being originated by the same lender. So a borrower might have four payday loans from different storefronts but our repayment checks are all being written to NCP Finance, the company that facilitates loans under Ohio. The payday loan companies, which are registered as "credit services organizations" charge borrowers extremely high fees to broker and service these underlying loans. This convoluted system is a direct result of Ohio's legal loophole which has not been remedied by the legislature since 2008, when this body last tried to rein in the egregious interest rates that payday lenders charge. With HB123, you have the opportunity to correct this problem and create a well-regulated market that operates transparently.

HFLA's mission, as a nonprofit, nonsectarian lender, is to provide interest-free loans to address the financial challenges of Northeast Ohio residents who lack access to traditional lending sources. We aspire to give people loans to start businesses, or to go to college to get their degree. Helping people out of payday loans was never meant to be a major part of our organization's mission. But as a trusted community partner, we see more and more need from borrowers who are struggling to get out from under dangerous payday and auto title loan products. As a result of the state legislature's inaction we have seen our resources drained by these lenders who are operating with little to no oversight. House Bill 123 is desperately needed to close the "credit services organization" loophole and provide protections for borrowers.

Every day I see the benefits that credit can have in peoples' lives, when structured appropriately with sensible consumer protections- and every day I see the devastation that the current loophole causes for hard working families that take out a first payday loan looking for a lifeline but end up being drowned in debt. Fair financial tools for people to help themselves, such as HFLA and the credit options that would be available under HB123 are critical to empowering our community that is struggling to make ends meet.

HFLA would rather be able to help people thrive with interest-free loans before they get trapped in predatory loan situations. Giving people financial options that are safe and transparent, like HB123 does, will allow our borrowers and people across the state the ability to move forward with their lives and help themselves to maintain jobs, purchase homes, and start businesses. Until then, with the way payday loans are structured under Ohio law today, borrowers will keep coming to us asking for help because they have been set up for failure with unaffordable, high-cost loans.

Thank you for the opportunity to provide testimony on this important topic. I ask for your support of House Bill 123 and would be happy to answer any questions you may have.