House Government Accountability and Oversight Committee
The Ohio House of Representatives
77 South High Street
Columbus, Ohio 43215

To: Ohio House of Representatives Government Accountability and Oversight Committee
From: Advocates for Basic Legal Equality

Chair Louis W. Blessing III, Vice Chair Bill Reineke, Ranking Member Kathleen Clyde, and members of the Government Accountability and Oversight Committee,

The undersigned organization writes to express our strong support for House Bill 123, to "Modify short-term, small, and mortgage loan laws". We strongly support this bill, and urge this Committee to pass it and bring to a House vote. As a legal services organization, ABLE advocates and attorneys see many structural barriers to economic mobility, but few rank as high as financial exploitation. Despite attempts by this Legislature and Ohio voters at regulating what has proven to be an exploitative industry, payday lenders continue to take advantage of our residents. They charge the highest rates in the country, with unforgiving terms, and suck millions of dollars from our state everyday.

1. **The provisions of this bill would close the loophole that has allowed payday lenders to exploit the most vulnerable Ohioans, and would further economic development**.

In 2008, the Ohio State Legislature passed modifications to the Short Term Loan Act, with strong bipartisan support. The Short Term Loan Act was intended to protect borrowers: it capped loan amounts to $500, capped Annual Percentage Rates at 28%, capped the maximum loan amount, limited the number of loans a lender can give, required a 30 day minimum on each loan, and stipulated that the amount due can not be more than 25% of a borrower's gross salary. This bill was then overwhelmingly supported by Ohio voters. After the bill passed, the payday lending industry put the bill on the November 2008 ballot-hoping that Ohio voters would support them and overturn the law. However, in an overwhelming defeat, the bill won by over 63% of the vote.

Still, payday lenders found a loophole that essentially made the law and ensuing referendum defunct, replicating the same problems that plagued borrowers before. Instead of registering as a short term loan provider-which would have made them subject to this new law-they registered under the Mortgage Lending Act, which only caps interest rates. They then used *another* loophole to get past the interest rate cap, by licensing as Credit Service Organizations. There is no cap on the fee that Credit Service Organizations can charge. Within months of passage of the bill and the referendum, payday lenders were back to how they were before any of these reforms happened: charging extremely high rates, with unforgiving terms, that forces vulnerable individuals to take out more loans and get stuck in a cycle of debt.

HB 123 closes this loophole. HB 123 is a proposal to reform a law that should have already been working to protect Ohio consumers, but for the payday lenders gymnastics in interpreting that law. This is what Ohio voters want, as evidenced not only by their strong approval in 2008, but also in recent polling. When polled last year, over 80% of Ohioans were in favor of the reforms in HB 123.

More importantly, reforming the payday lending industry in Ohio will have a positive impact on the overall economy. The amount of money these lenders provide to communities is incomparable to the amount of money they drain from communities. A study done by the Insight Center for Community Economic Development, a national economic justice think tank, found that the payday lending industry had a negative net impact of over $774 million dollars, meaning the economy lost $774 million. [1] The Insight Center did a dollar by dollar analysis and found that, for every dollar paid in interest (as much of the money paid for payday loans tends to be), subtracts $1.94 from the economy because of reduced household spending, and only adds $1.70 to through spending by the payday industry. In other words, for each dollar of payday interest paid, the US economy loses 24 cents. In the aggregate, the economy loses millions of dollars this way. This loss is particularly acute in Ohio, where rates reach 591% per payday loan. In communities that are already struggling to stay afloat, expensive payday loans can be and have been the nail in the coffin.

By passing HB 123, the Ohio Legislature can ensure that our residents and economy stop losing millions of dollars a year, and implement what residents already want: better protections for consumers of payday loans.

2. **This bill would not eliminate payday lenders, it would simply regulate them to bring Ohio back on par with our neighboring states**.

Many opponents of this bill, as well as those in the payday lending industry, will argue that it will lead to the elimination of payday lenders in Ohio, cutting off access for people who desperately need credit but cannot get it from a more traditional source. This point is an exaggeration, at best.

HB 123 is not the first of its kind--several states have passed similar bills, without the dire consequences that opponents describe. The clearest example is Colorado, who passed a similar bill and saw a 42% decrease in how much consumers paid as well as a great decrease in consumer defaults. Beyond the benefits to the consumer, the law also improved market

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[1] Net impact of payday lending, Insight Center

efficiency as a whole. The average payday lender in Colorado before the law was passed was serving an average of 550 borrowers per year. After the law was passed, each store was serving an average of over a 1,000 per year. Further, the reforms did not limit credit to the under-banked. The demographics and incomes of customers in Colorado, did not significantly change, meaning access to that customer base did not decrease.

People who need them will still have access, the market will be more efficient, and the state residents will save millions of dollars.

Many of our clients get caught up in this destructive cycle of debt, led by an industry whose business model is reliant on keeping cash-strapped individuals in that cycle of debt. We therefore ask that you please support HB 123, and move for a House vote as soon as possible.

Sincerely,
George Thomas
Aisha Sleiman