Proponent Testimony on House Bill 123
House Government Accountability and Government Oversight Committee
Mark Ferrandino, former Speaker of the Colorado House of Representatives
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In 2010, I championed payday loan reform legislation that Colorado enacted, which achieved affordable payments, lower prices, and continued access to credit.

Prior to 2010, Colorado had payday loans with APRs of more than 300 percent. These loans consumed more than one-third of a typical borrower's paycheck, so they could not afford to pay back the loan and cover their basic expenses without continuing to borrow, putting them in a cycle of debt.

Our 2010 payday loan reform required loans to be repaid in affordable installments over time. It also established lower prices, but allowed lenders enough revenue to stay in business if they became more efficient. This law prohibited lenders from earning large fees up front and then flipping loans to earn another fee. It banned prepayment penalties, balloon payments, and the practice of charging multiple bounced-check fees. It included provisions that discouraged refinancing and loans that drove up consumers' costs by dragging on for much longer than six months.

As a result, seven years after the law took effect, consumers benefit from prices that are almost three times lower than before reform, affordable payments take up only 4 to 5 percent of borrowers' paychecks on average, and credit is still available from payday lenders, including both national companies and some small, local lenders. Approximately 180 payday loan stores remain open in Colorado. The Colorado Attorney General's most recent annual report on payday lending confirms that loans continue to be available, but with far better outcomes for consumers, including savings of more than $50 million in 2016,[i] and well over $250 million since the law took effect.

Not everyone foresaw this success at the time. Some lenders and critics predicted Colorado's reform law would harm consumers' access to credit, although the comprehensive statewide report demonstrates conclusively this has not occurred. Consumer advocates, legislators, faith leaders, and most importantly, borrowers themselves, all report the law change has been a major improvement. Interestingly, even some payday lenders have come to acknowledge it is working well. The law also enjoys strong support from both Democratic and Republican officials, and has been cited by editorial boards around the country as a model for well-balanced reform that enables lenders to operate profitably while protecting consumers with affordable payments and lower prices.

I know that Ohio households that use payday loans are facing many of the same problems that Colorado households were facing prior to 2010. As you debate a bill modeled closely on our reform, I hope that our experience can provide insight as to how this law change would benefit Ohio families.

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[i] State of Colorado Department of Law, 2016 Deferred Deposit/Payday Lenders Annual Report, https://coag.gov/sites/default/files/contentuploads/cp/ConsumerCreditUnit/UCCC/AnnualReportComposites/2016_ddl_composite.pdf.