**Interested Party Testimony on House Bill 123**
**House Government Accountability and Oversight Committee**

Carl F. Hughes, Chairman, President and Chief Executive Officer, The Fahey Banking Company

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As a community bank based in Marion, Ohio, we are concerned about the effect payday and auto title lending are having on our community and the local economy. When our customers begin using today's payday loans, their financial health suffers. It's very difficult for them to pay back this high-cost credit without borrowing again, but it's also difficult for them to default, because payday lenders withdraw their loan payments on payday. These are unaffordable loans with unconscionably high prices, and Ohio can do better. We support the type of reform included in Ohio House Bill 123, though we would recommend several changes before becoming proponents of the bill.

As a highly regulated institution, we recognize rules are required to ensure that products on the market are safe, but these rules and their enforcement must not be overly burdensome. HB123 strikes the appropriate balance, providing consumer protection without regulatory overreach. As introduced, HB123 would ensure that all small loans have affordable payments, no hidden or up-front fees, reasonable time to repay, clear disclosures, and sensible limits on price that ensure that credit is able to flow to consumers.

From our perspective as lenders who value long-term, win-win relationships with our account holders, we see the negative outcomes associated with payday loans. We also see just how much affordable credit can help people who are struggling. By definition, payday loan borrowers are bank customers or credit union members, and payday lenders rely on access to the borrower's checking account as loan collateral.  Payday lenders use that access to be first-in-line to collect on loans, before the consumer can meet other financial obligations. This powerful leverage enables lending to those with damaged credit histories, but it can harm consumers who are financially fragile. Payday lending market practices—like aggressive debiting of consumers' checking accounts--can threaten trusted relationships that we work hard to develop with our customers. Academic research has found payday loan usage makes consumers more likely to bounce out of the banking system.

In part, today's situation in Ohio is the product of unintended consequences. Banks have competitive advantages that would enable us to make better, lower-cost products available in the future. Federal regulatory uncertainty has made that difficult, but incoming federal regulators have signaled their support for allowing banks to make lower-cost loans without undue compliance. Although banks and nonbanks are governed by different state statutes, the types of loans permitted by HB123 would be attractive to banks. We would welcome the opportunity to serve our customers who borrow from payday lenders, at a far lower price point.

HB123 (Sec. 1321.36. (D)) does not cover depository institutions, because they are governed by other statutes, and we support this provision. We would recommend the legislature include authorizing language to make clear that state-chartered banks and credit unions, if they so choose, can offer the loans authorized under HB123. This type of clarity would send a strong signal to regulators that the legislature supports lower-cost competition.

We also believe that it would be advisable to allow larger loans, subject to the other protections included in HB123, including ensuring that the loan's APR declines as the loan size increases. This can be achieved by eliminating the $500 loan limit in the proposed bill (Sec. 1321.39. (A)), or using a larger maximum loan size. This will allow consumers to use affordable loans to cope with larger hardships.

The sensible provisions contained in HB123 would reduce the threat of borrowers losing their checking accounts because of payday loans, and would make it easier for banks, credit unions, and responsible non-bank lenders to compete in the future. But with the few modifications outlined, the policy outcome would be more beneficial to providers and consumers.

Respectfully,

Carl F. Hughes
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The Fahey Banking Company
Marion, Ohio