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Proponent Testimony on House Bill 123
House Government Accountability and Oversight Committee
Nick Bourke, Director of Consumer Finance, The Pew Charitable Trusts
March 22, 2018

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

I am writing on behalf of The Pew Charitable Trusts to reiterate our strong support for HB 123 as introduced on March 9, 2017. Given the emergency nature of this hearing, which was scheduled less than 48 hours in advance, we regretfully were unable to arrange to testify in person. Please accept these written comments, and the attached copy of our testimony from the prior hearing in January.

More than one year after the introduction of HB 123 we see broad, bipartisan consensus in support of it but unfortunately little progress in this chamber toward enacting it. This is suppressing fair competition in Ohio's small-dollar loan market and costing Ohioans $200,000 per day. As we have summarized previously, opposition to the reasonable, responsible compromise reflected in HB 123 comes primarily from two groups. On one side, some consumer advocates oppose any policy that allows companies to charge more than the 28 percent interest rate cap reflected in Ohio's current Short-Term Loan Act. But mostly, opposition to HB 123 comes from a small but vocal group of payday lenders who have monopoly control over a market predicated on exploiting a legal loophole. They oppose any substantive reform that would close this loophole or introduce competition from more mainstream, lower-cost providers. (Just six companies control more than 90 percent of Ohio's payday loan market.) For these companies—and one company that generates its income by being an intermediary that enables payday loan providers to exploit Ohio's CSO loophole—true reform is a non-starter.

This committee should resist the temptation to appease the small but vocal group of payday lenders who oppose reform, and instead embrace the opportunity to open up Ohio's small-loan market to fair competition governed by clear law. Media reports have indicated that payday lenders are working with some members of this chamber to set aside HB 123 and develop an alternative approach to addressing this problem. If that is true, the process has been conducted out of public view and without the input or support of those of us who have dedicated ourselves to finding a fair and reasonable way to improve Ohio's consumer credit market. That is, this conversation, if it exists, has not taken input from the researchers, community advocates, veterans' groups, and small businesses who supported HB 123 when it was introduced more than a year ago and continue to support it, and who have spent countless hours discussing how to make the law work for mainstream lenders, consumers, and their communities. As introduced, HB 123 would not put payday lenders out of business, but it would force them to compete under a more transparent and rational law, to the benefit of Ohio consumers and communities.

We caution against accepting false remedies that payday lenders have promoted in other states to defend their monopolistic control and divert lawmakers from substantive reform. The overarching goal of HB 123 is to reform the laws for small-dollar credit so that all loans are suitable to a borrower's circumstances (with affordable payments, reasonable time to repay, and other reasonable features), and credit remains widely available. The payday lenders that oppose this bill do not share these goals. Consequently over the years they have tried to convince lawmakers in various states to enact cosmetic changes to laws, or worse, to codify into law their harmful practices. Here is a small sample of approaches that we have seen payday lenders use elsewhere in an attempt to distract lawmakers from substantive reform. Though these options may seem appealing at first glance they have failed in other states, and we urge this committee to resist them.

- **Creating "options" that do not fix underlying problems.** Creating new types of loans without closing loopholes that permit harmful loans (such as Ohio's CSO loophole)—or without requiring uniform standards over all loans (such as requirements for affordable installment payments in HB 123 as introduced)—does not solve the underlying problems. For example, giving payday lenders the option of making a new type of high-cost installment loan without changing how conventional payday loans work merely gives those payday lenders another option for doing business without resolving existing problems. Consumers get harmed, and payday lenders maintain unfair advantages over consumers and competitors.
- **Praising "competition" by allowing more companies to engage in predatory practices.** Allowing other types of companies—such as banks or online lenders—to make harmful short-term loans does not increase competition; it just legitimizes harmful practices. Responsible lenders are unwilling to use loopholes, charge exorbitant prices, or use the aggressive practices of payday lenders. Competition requires closing legal loopholes and reforming lending laws so that all loans are safe and transparent and lenders can compete on a level playing field.
- **Controlling behavior**. Payday lenders often favor rules that would attempt to control borrower behavior, such as limiting the number of loans borrowers may take, instituting cooling off periods between loans, mandating education or financial literacy tests, or asking the state to give a contract to a private company to track borrowing. This shifts the focus onto consumers and away from harmful lending practices or broken laws. It is worth considering why a legislature would attempt to micromanage consumer behavior or choices when it could instead rationalize the laws governing consumer credit so that all loans are safe and transparent, leaving consumers and market competitors free to make their own choices about when to borrow and when to lend.
- **Vague or meaningless standards.** Proclamations about making best efforts to assess a borrower's ability to repay are generally meaningless when lenders can charge outsize CSO or brokerage fees, require payment in full in as little as one pay period (which takes one-third or more of typical borrower paychecks), and secure repayment despite these predatory practices by gaining access to borrower checking accounts via checks or electronic debit authorization.
- **"Off ramps" that have failed elsewhere**. A national payday lender trade group includes an "off-ramp," or extended payment plan, in its list of best practices, which introduces the idea of giving borrowers a way to request an optional installment plan for paying off a short-term loan. This has been completely ineffective wherever it has been added to state law, such as in Florida, Michigan, or Utah. The underlying problem is that conventional payday loans have unaffordable payments and state laws sometimes actually prevent structuring loans to be safer and more affordable. By contrast, HB 123 would fix this problem in Ohio by preventing large up-front fees, requiring lenders to structure loans to be repaid over the course of months not weeks, and setting simple rules for affordable payments so that most consumers will never need assistance with repaying loans.

These are just a few examples of cosmetic or ineffective approaches to payday loan reform.

The consumer credit market is highly complex. Many of the ideas put forth by payday lenders in other states sound fair and reasonable, and in fact some of the ideas are reasonable (such as clear disclosures and a ban on prepayment penalties). But a systemic approach to rationalizing the law and requiring *all loans—not just some loans*—to follow the basic rules of fair installment lending is the only way to ensure a fair and competitive small-loan market in Ohio. HB 123 starts with that goal in mind, and is the right basis for this conversation. The collection of ineffectual tactics noted above is not.

Pew—and many other organizations including researchers, community advocates, veterans groups, business owners, and mainstream lenders—remain committed to helping this legislature devise reasonable reforms that navigate between the narrow interests of the handful of payday lenders who profit from Ohio's legal loopholes today, and some consumer advocates whose frustration with the extreme consumer harm occurring in Ohio today call for total elimination of this market. Most stakeholders agree on the reasonable ideas reflected in HB 123 as introduced more than a year ago, and together with many community advocates Pew stands ready to help this institution evolve it into a law that could be one of the best small-loan laws in the country. So far, our efforts to engage on the ideas reflected in HB 123 have been largely unanswered by leaders in this chamber, though many members have expressed a strong interest in them.

The Ohio public overwhelmingly supports payday loan reform. Debate on this issue has highlighted a major flaw in state law—the CSO loophole. Any attempt at reform that does not firmly close the CSO loophole would be meaningless. You have before you, in HB 123 as introduced, a sensible way to close the CSO loophole *and* reform the laws of small-dollar lending in a way that will keep access to safe and affordable credit widely available. The six payday loan companies that control this market, and the one company that operates solely on the basis of helping payday lenders exploit the loophole, will strongly resist real reform. We urge you not to undermine the reasonable approach presented in HB 123 by giving in to the fringe views of this small group of payday lenders.

Finally, it is important to note why mainstream lenders do not operate in Ohio's small-dollar loan market. As explained in our attached comment letter, one big flaw in Ohio's existing law is the fact that small-dollar lenders are essentially barred from operating unless they act as Credit Services Organizations, that is, loan brokers. To do this, they need to obtain a special CSO license and partner with another company that charges its own additional interest rate for being the lender of record; and in order to gain sufficient revenue to be profitable the CSO payday lender must charge a large brokerage fee, which the consumer becomes liable for paying up front regardless of how large the loan is or how long it takes to repay it. This is not how true lenders operate, and it is not a system that lawmakers designed intentionally. It is simply a loophole. Mainstream lenders, who have investors and multiple lines of business and reputations to protect, do not in general wish to operate under this kind of business model and cannot put resources at risk on the basis of legal loopholes. That is why all but a handful of companies currently stay out of Ohio's small-dollar loan market. This market would be vibrant, competitive, and save Ohio families millions of dollars per year if Ohio's lawmakers were to rationalize state law based on HB 123 as introduced.

Respectfully submitted,

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

Attachment: Testimony from The Pew Charitable Trusts (January 17, 2018)

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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

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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: Credit Investigation Fee	CSO Fee paid to loan broker	Interest paid to lender (25% per annum)	Total Finance Charge	Payment 1	Payments 2 - 7	Payment 8	Total of Payments	APR (assumes a 112 day term)*
$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

Appendix A: Lenders' Published Terms in Ohio

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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.

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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

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<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. However, individual companies charge significantly different prices across state lines. Many companies charge double in one state what they charge in another.*
		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					
$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

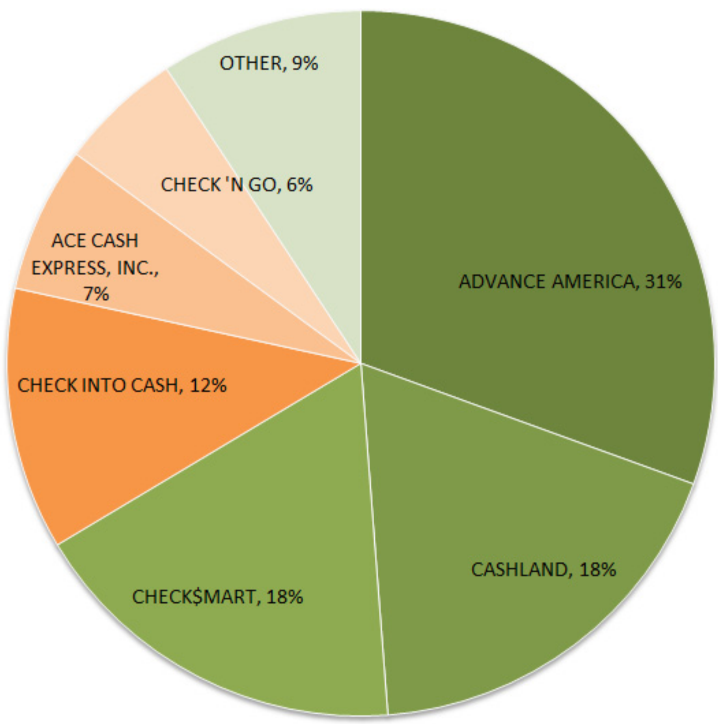
Appendix F: Just Six Companies Control Almost All of Ohio's Payday Loan Market

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

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