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Written Testimony in Support of HB123 as Introduced

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The Ohio Poverty Law Center advocates for evidence-based policies that protect and expand the rights of low-income Ohioans. We are a non-profit law firm working closely with Ohio's legal aid community serving Ohioans who are living, working, and raising their families in poverty.

The Ohio Poverty Law Center supports HB123, as introduced, since it is a proven approach for keeping credit available while safeguarding consumers. We oppose efforts to undo the provisions of HB123 that would lead to higher prices or lender-friendly policies, like cooling-off periods, that have failed to protect borrowers in other states.

Payday and car title lending is a critical issue that affects hundreds of thousands of struggling Ohio families. In the payday and car title loan market, lenders advertise these loans as short-term solutions for meeting life emergencies. In fact, studies show that typical borrowers are low income workers who are struggling to make ends meet and end up in debt for months on end. National research shows that over 50% of title loan borrowers have trouble meeting living expenses at least half of the time. Nearly 70% of payday customers use loans to pay recurring monthly expenses. The payday lending industry exploits borrowers who are in financial distress by taking security interest in the family's car title or checking account and by structuring loans with unaffordable payments and unrealistic repayment schedules. The lender is first in line to collect from the borrower's checking account, even though the loan payments exceed the borrower's ability to repay and the loan terms are unrealistic. As a result, 80 percent of payday loans are taken out within two weeks of a previous loan and most payday loan borrowers end up paying more in fees than they originally received in credit.

Research from the National Consumer Law Center and Center for Responsible Lending has found that installment versions of payday loans just keep borrowers trapped in debt for longer, rather than giving them a pathway out of debt via affordable payments. Paying back these expensive credit products prevents hard-working, cash strapped families from building the assets necessary to stabilize their families' economic health and well-being.

Lenders in Ohio have exploited a loophole in Ohio's 2008 legislation. Now they operate as loan brokers, which enables them to dramatically increase the fees they charge. As a result, we pay the highest prices of any state, and auto title lenders operate with abandon, even though the legislature

has never authorized auto title loans. It also enables these companies to make dangerous installment loan products without any safeguards.

HB123 as introduced will reform the payday loan market, save Ohioans \$75 million each year, and maintain access to credit for borrowers. Protections in this sensible reform include:

- Rates that are fair for borrowers and viable for lenders.
- Affordable installments payments that shield 95% of a borrower's income from lenders.
- Reasonable time to repay.
- Fees and interest spread evenly over the life of the loan, rather than front-loaded.

We ask you to resist the urge to compromise on the legislation in a way that will weaken the consumer protections in favor of a small group of lenders. As introduced, HB 123 would not put payday lenders out of business, but it would ensure that they are competing under a more transparent law to the benefit of Ohio's consumers and communities. Please quickly pass this sensible legislation out of committee and give Ohio families much needed relief.