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

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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, and provide analysis of how the proposed amendment being discussed today would affect Ohio families.** It is our understanding that under this amendment, the bill would move Ohio's small-loan market out of the shadows of the Credit Services Organization loophole and into the Small Loan Act, amending that Act to give borrowers more time to repay, control overall loan costs, and introduce other safeguards. **If these provisions hold, the amended bill would fall short of the original HB 123 but it would represent a qualified improvement over the status quo.**

HB123 as introduced is a well-balanced bill with crucial, evidence-based, and carefully crafted consumer protections. Because of provisions in the amendment that weaken key protections for Ohio consumers around pricing and affordability of payments, we have moved from proponent to interested party. **But the amendment also preserves certain safeguards included in HB 123 and adds new ones. For that reason, our analysis indicates it would make Ohio families better off than they are today, though we are not supporting the amendment because provisions related to pricing, affordability, and other factors fall short of our research-based recommendations. With those changes, Ohio consumers will spend more than they would have under HB 123 or under Colorado's successful state law.** For more detail and background on HB 123 and the severity of Ohio's payday lending problem, please see our prior testimony on HB 123.[1]

HB 123 as proposed allows lenders enough revenue to operate profitably and maintain access to credit in Ohio while ensuring three key consumer safeguards: lower prices, affordable payments, and reasonable time to repay. It draws on other states' experiences, using the elements that have created successful markets and avoiding the pitfalls that have plagued failed efforts.

The amendment being proposed today allows larger loans, larger payments, and higher annual percentage rates than HB 123. But it also gives borrowers more time to repay and would bring down prices from current levels. **Those changes from the status quo would improve outcomes for borrowers.**

The amendment modifies the Small Loan Act. A downside of that approach is it gives payday lenders and also auto title lenders a legal way to make loans up to $5,000 at very high prices. While payday loan sizes are capped at $500 in Colorado, under HB 123 as introduced, and at that level or lower in a majority of states that allow payday lending, this amendment would permit loans up to $5,000 (the allowable loan size under the current Small Loan Act). The pricing is also much higher than necessary for lenders to operate profitably. **But the safeguards in the amendment mean that such loans will be less dangerous to consumers than they are in Ohio today, and the prices will be lower**.

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[1] Available at: http://search-prod.lis.state.oh.us/cm_pub_api/api/unwrap/chamber/132nd_ga/ready_for_publication/committee_docs/cmte_h_gao_1/testimony/cmte_h_gao_1_2018-03-22-0900_1276/hb123nicholasdinardowritten.pdf (March 22, 2018; incorporates prior testimony dated January 17, 2018, available separately at http://search-prod.lis.state.oh.us/cm_pub_api/api/unwrap/chamber/132nd_ga/ready_for_publication/committee_docs/cmte_h_gao_1/testimony/cmte_h_gao_1_2018-01-17-0800_1024/hb123nickbourkepro.pdf).

Payday lenders have the power to reach into borrowers' checking accounts and take too much of their income. The amendment lacks HB 123's affordability provisions that would cap installment payments at 5 percent of each paycheck, but by giving consumers more time to repay, controlling loan costs, and protecting against front-loading of fees and lender-driven refinancing known as loan-flipping, it adds some protections. Lenders gain much more flexibility than HB 123 would have given them, which poses risk to borrowers. Average payday loan borrowers earn about $30,000 annually, or $2,500 per month. 5 percent of that is $125. This amendment would allow larger payments, which research suggests will be difficult for some borrowers to afford. And payday lenders will still have access to borrower checking accounts to get paid before mortgage lenders, auto lenders, utility providers, and the local grocery store.

In short, the proposed amendment would weaken the strong but well-balanced consumer protections in HB 123. But it keeps some safeguards in the bill and adds some that are new. Lenders would be able to issue larger loans at higher prices than under HB 123, which puts borrowers at risk without adequate protections for affordable payments or prices as low as Colorado's. For those reasons, we cannot endorse it. But the improvements over the status quo include more time to repay and lower rates. **Though it's far from optimal and allows excessive pricing, we take a neutral position because our analysis is that the bill is still a step forward and will make Ohio families better off.**

Respectfully submitted,
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