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OHIO CONSUMER
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<u>Government Accountability and Oversight Committee Hearing</u>
H.B. 123 Testimony
Ted Saunders
April 18, 2018

Chairman Blessing, Vice–Chair Reineke, Ranking Member Clyde and members of this committee, I'd like to extend my sincere appreciation to each of you for the opportunity to discuss this proposed legislation. My name is Ted Saunders and I am the Chairman and CEO of Community Choice Financial Inc., the parent-company of the Checksmart brand that has 93 retail locations and its corporate headquarters in Ohio. I am here today proud to represent not only my company, but also the more than 1,300 Ohioans that we employ or who are dependents of those we employ, the 94 landlords to whom we pay rent for property in Ohio, and the hundreds of thousands of Ohioans who rely on our products and services each year. In addition, I am also the President of the Ohio Consumer Lenders Association, a trade association with 9 members, and over 5,000 employees each of whom have committed to operating consistent with rigorous best practices and none of whom have conduct operations that come anywhere close to the inaccurate statistics repeatedly advanced by out-of-state activists.

For the last nine months, OCLA, actively and in good-faith, participated in a number of Interested Party Meetings with members of leadership. Significant progress and compromise came out of those meetings. Compromises such as extended payment plans, longer minimum loan terms, loan repayment in installments, no prepayment penalties, additional disclosure documents, financial education programs and fee caps, were positive for consumers and evidence the considerable willingness to compromise exhibited by OCLA-member companies. And yet, regardless of our willingness to make concessions, we are today confronted with H.B. 123, which is anything but compromise.

H.B. 123 undermines the principles of free enterprise under the guise of consumer protection. It is a sad state of affairs when out-of-state interests can come into the General Assembly, make up their own story, sell them as facts, but repeat them often enough, and set that story on the path to become ideology. Such is the case in this poorly understood bill that attempts to bury the truth under an avalanche of deception. An avalanche triggered by an out-of-state activist, special interest group that masquerades as a research institute. The so-called data used to construct this bill was sourced from this special interest group, which relied on anecdotal evidence of unusual cases and hyperbole to create an echo chamber that advances their agenda of social change. A scheme that should evoke skepticism, if not outrage, by the members of this committee.

Another fallacy the opposition would like you to believe is our customers are not only poverty-stricken, but they are dissatisfied with our products and services. Neither is true. Those who oppose our industry resort to the tired tactics of fear mongering by citing the most outrageous, albeit infrequent, horror stories. And while there are certainly occasions of legitimate consumer dissatisfaction, as in any consumer business, in point of fact, our customer satisfaction rates are some of the highest you'll find in financial services. Just last week, the federal Consumer Financial Protection Agency issued its Consumer Response Annual Report that provides an analysis of the approximately 320,200 complaints received by the CFPB between January 1 and December 31, 2017. The report provides data on the most common types of complaints for each product and the handling of complaints. Based on the CFPB's breakdown of the number of complaints received in each category, credit reporting (100,000), debt collection (84,500), and mortgages (37,300) accounted for 69% of all 2017 complaints. Conversely, short-term loans constituted just 0.9% (2,900) of the complaints received by the CFPB in 2017. In fact, in the approximately five years that the CFPB researched small-dollar loan transactions, they found the complaint rate to be one for every 32,000 loan transactions. Extremely low complaint rates are consistent with Ohio-specific findings as well. Last year, Attorney General Mike DeWine announced the top consumer complaints his office received in 2017, where more than 22,000 complaints were filed. Short-term loans did not even make the list. This is a classic example of a supposed solution in search of a problem.

Instead of focusing on bad data and hyperbole, lets shift focus to what is truly important, assuring that Ohioans continue to have access to credit when they need it most. I think it wise to provide a brief glimpse into the economic reality of our consumer. The Federal Reserve Report on the Economic Well-Being of U.S. Households states approximately half of adults could not cover an unexpected expense of $400 without resorting to borrowing from a lender or selling personal property. A related study shows 76% of Americans identify as living "**paycheck-to-paycheck**." In such an environment, access to credit is imperative, and any measure that results in restricting or reducing access to potential sources of credit must be undertaken with great circumspection.

With this critical factor in mind, the unintended consequences of H.B. 123 begin to take sharper focus. The bill sponsors, or perhaps better stated – the special interest groups on whom these sponsors relied, have paraded the current model in Colorado as a suitable proxy for consumer lending in Ohio. These same special interest groups, or their associates, were integrally involved in designing the "Colorado Model" so it comes as no surprise it's being used as the template here. Even a cursory review of the outcome of Colorado's lending practices shows a clear reduction in the availability of credit. Since this model was

OHIO CONSUMER LENDERS ASSOCIATION

put in place in 2010, not a single new storefront location has opened in the state of Colorado and over 48% of the storefront locations have closed. 76% of the locally owned storefront locations have been forced to close. The percentage of Colorado consumers who now qualify for short-term credit have plummeted. The average income it takes for a Colorado consumer to qualify for a loan is now 50% greater than what it was prior to this Model going into effect. What has been the outcome? Fewer Coloradans have access to state-regulated, storefront lenders.

And, let's be clear: anyone who wanted to operate under this Colorado model could do so today under current Ohio law. But none do. Why not? Because it is an unsustainable business model. Lenders simply cannot make sufficient revenue to cover their employee expenses, rent and utility payments and the losses that necessarily flow from making loans to higher-risk borrowers.

This is precisely what would happen to consumers in Ohio, but worse. What's even more alarming is the fact that H.B. 123 is actually much more onerous than Colorado's current statute. If implemented "as-is" consumer access to credit will most likely shrivel to a level of eventual obscurity, which seems to be the actual motivation of those social activists behind this bill. The reality is, you can eliminate sources of supply but the demand for short-term credit will remain. H.B. 123 purports to create an environment that is more "fair;" however, keep in mind operators already have the ability to enter this market and charge fees at the levels the opposition would have you believe are sustainable. If this were true, me or one of my competitors would already be offering this product at prices near H.B. 123's level in an effort to win market share. Make no mistake, I'm in business to make profits. If lowering my prices would allow me to achieve greater market share and boost my overall profits, I would leap at the opportunity to do so. The simple fact, however, is that H.B. 123's rate caps don't create a "fair" market. Rather, it would impose an artificial and onerous price cap that would eventually lead to the destruction of my company and most, if not all, of my competitors.

My specific request of you today is this: go back to the drawing board, learn from the many discussions that took place during the Interested Party process, understand the real impact of H.B. 123 on Ohio's businesses and its citizens who use the loan product, listen to lenders explain why the 180-day minimum term and 50% loan to principal ratio is unsustainable, fully comprehend the difference between the proposed gross income test and the CFPB rule's so-called "full-payment test," learn why the onerous database provisions cannot work in the real world, understand the impact on borrowers of a 3-day timeout. In summary, don't act in haste to "do something" just because you've been overwhelmed by the events of the recent few weeks.

As I conclude, I want to remind you who the real losers are if H.B. 123 is voted into law. The customers we serve every day – the over five million Ohioans who are not prepared for a $400 unexpected expense and the 76% of Ohioans who are living "paycheck to paycheck." Those are the people who will feel the pain of this misguided over-reach. While the special interests who stand behind this bill rejoice, the people who are actually using our products and overwhelmingly support the manner in which we operate will begin to see their options for available credit disappear. The demand for bridge financing doesn't go away and any measure that constricts the supply will merely push customers to other forms of unregulated lending. Online lending with non-licensed tribal and offshore lenders who charge double or triple what traditional storefront short-term lenders do will skyrocket. Back-alley loan-sharking will grow exponentially, and the other options just get worse and worse.

I recognize there are a number of well-intentioned people who wish there wasn't a need for our product. But it's an unavoidable reality that over a million Ohioans in need of credit come to us each year because we are the best and safest option for them. Nothing in H.B. 123 gives more credit options to these Ohioans. What it does is eliminate one of the only legal, regulated options they do have. Allow the data to speak for itself; allow our customers to speak for themselves. Allow the free-market to work. Passing this bill will likely result in mass retail closures, termination of thousands of employees who work for licensed lenders and credit service organizations, the corresponding loss of their and their families' health insurance, and hundreds of retail location will go dark, leaving landlords without rental income. Before such a draconian decision is made, I urge you to engage further and allow the real facts to speak.

Thank you for your time today.