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Proponent Testimony on H. B. No. 123
Senate Finance Committee
Nick Bourke, Director, Consumer Finance, The Pew Charitable Trusts
July 9, 2018

Chairman Oelslager, Vice-Chair Manning, Ranking Member Skindell, and members of the Senate Finance Committee:

It is a pleasure to be with you again today to discuss progress on HB 123 and meaningful reform of Ohio's payday and small-dollar loan market.

Before addressing the bill and the anticipated amendment, I would like to thank each of you for engaging in a serious, thorough legislative effort. The debate around payday and subprime lending policy is always difficult, and it is often rancorous. But I can say from long experience that only rarely is the debate a substantive, data-driven one the way it has been here in recent days.

Over the past month, this committee has held six hearings and its members and staff have engaged in conversations that have been deeply considered. This committee has taken a difficult issue that has languished for years and moved it forward significantly. Now, you appear to be on the verge of reporting a bill that will achieve true payday loan reform and save working Ohioans tens of millions of dollars per year—and preserve access to credit.

Of course, the job is not yet done. You will hear negative or bombastic assertions about this legislation from some payday loan firms. Of course, these lenders are in control of Ohio's unreformed market today, and they have a financial stake in defending it. Lenders have made similar claims before that do not stand up to scrutiny. They did so in Colorado in 2010, and yet eight years later three of Ohio's largest payday lenders also continue to operate throughout Colorado.

Under the proposal before you today, small-dollar credit will continue to flow in Ohio. Consider that substitute HB 123, as I understand it, will make key changes that enrich lenders' ability to operate successfully, including:

- It doubles the maximum loan size from $500 to $1,000.
- It increases the maximum revenue a lender may receive on a loan, going from $250 on a $500 loan to more than $500 on a $1,000 loan. Lenders will earn this revenue more quickly, with the monthly service fee increasing from $20 to $30 (in addition to allowable 28% interest) and an additional fee added for larger loans.

- It increases the maximum monthly payment for a typical borrower from $125 per month to $150 per month, and there is no longer a maximum payment size if the lender gives the borrower at least three months to repay.
- It raises the maximum revenue on each loan from 50% of principal to 60% of principal.
- It authorizes loan durations up to 12 months.

These and other provisions ensure that credit will be widely available. And yet the core consumer safeguards will be maintained, so borrowers are protected. This will lead to a safer, lower cost, and more competitive small-dollar loan market in Ohio. The market will also be more efficient because direct lending will now be possible, rather than a two-company workaround via the Credit Services Organization Act.

Some consumer advocates have favored more stringent measures like prohibiting lenders from gaining access to borrowers' checking accounts on pay day, but this proposal will not take those steps. It leaves the lender first in line to obtain payment, creating a very strong ability to collect what is owed, which meets lenders' need to minimize losses. But critically, this amendment also restores balance between lenders and borrowers, and it makes the success of lenders contingent on the success of borrowers.

If you enact the bill under the proposed amendment, Ohio law will govern small-dollar loans with strong and important protections. It would:

- Promote affordability by giving borrowers at least three months to repay or limiting monthly payments on short-term loans to 6% of the borrower's gross monthly income;
- Help borrowers avoid being trapped in debt by requiring equal periodic payments consisting of principal, interest, and fees combined, plus a reasonable amount of time to repay.
- Prohibit origination fees on small loans and cap them at $10 to $20 for loans of $500 or more.
- Authorize a pricing structure that aligns the interests of lenders and borrowers, while maintaining widespread access to credit.
- Prevent problems associated with telephone, internet, and mail solicitations.
- Require all lenders to be licensed, and make loans made by unlicensed lenders void and uncollectable.
- Prevent lenders from using unintended statutes to avoid consumer lending laws and protections.
- Put borrowers in control by allowing them to prepay at any time without penalty and receive a pro-rata refund of assessed charges.
- Ensure that Ohio law conforms with the federal Military Lending Act.
- Prohibit taking vehicle titles or registrations as collateral for loans under this statute.
- Allow third parties to pay off loans on behalf of a borrower.
- Protect checking accounts against harmful collections practices.

The bill will no longer permit loans that take one-third of a borrower's next paycheck, leaving the borrower with little choice but to take another loan immediately. This proposal will end the cycle of debt in Ohio.

The amended bill as I understand it will be somewhat more generous to lenders than Colorado's much-discussed 2010 reform, but the safeguards in the bill—unless they are weakened—are strong enough that it will protect borrowers. With the $1,000 loan size vs. Colorado's $500 maximum, the bill will also ensure access to credit well into the future and spur competition from lenders who have not previously offered small loans in Ohio.

The impact for Ohio residents will be deep and positive, including:

- Savings of tens of millions of dollars per year.
- Reduction of problems caused by payday loans, including loss of bank accounts; bankruptcy; inability to pay utilities, rent, car payments, or other bills; and related hardships.
- Stronger communities, as struggling families are left with more to spend at the grocery store, on meeting their kids' needs, and making the struggle from paycheck to paycheck easier.

To be clear, this amended bill will not be perfect. Its provisions for affordable payments and lower costs are not as strong as the original bill, and it allows lenders to tack on a back-end fee for cashing their own loan origination checks. But HB 123 as amended will be a very good bill. We urge this panel to report the bill out favorably without further delay or changes to allowable loan terms.

As we understand it, the proposed substitute for HB 123 is a thoughtful and fair compromise that will provide lenders with more revenue than the original bill, while maintaining strong consumer protections and ending harmful practices that trap Ohioans in debt. It will achieve lower prices, affordable payments, and reasonable time to repay. If it becomes law, HB 123 under the Chairman's amendment will be a national model for well-balanced and fair-minded reform in states that permit payday lending.

Thank you again for your dedication and thoughtful deliberation. We would be happy to respond to any questions.

Regards,

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Appendix: Expected Substitute HB 123 vs. Colorado Loan Examples

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Amended HB123 pricing: 28% interest + monthly fee of 10% of loan amount (max. $30) – WITH the allowable $10 check cashing fee.

Cost of borrowing…	Ohio Today	Amended HB123	Colorado (experienced)
$200 for 2 months	$122 (cost) 399% (APR)	$57 222%	$25 99%
$400 for 3 months	$367 399%	$119 171%	$112 117%
$500 for 4 months	$474 399%	$170 154%	$154 140%
$1,000 for 10 months	$2,525 399%	$463 91%	prohibited

Amended HB123 pricing: 28% interest + monthly fee of 10% of loan amount (max. $30) – WITHOUT the allowable check cashing fee.

Cost of borrowing…	Ohio Today	Amended HB123	Colorado (experienced)
$200 for 2 months	$122 (cost) 399% (APR)	$47 184%	$25 99%
$400 for 3 months	$367 399%	$109 157%	$112 117%
$500 for 4 months	$474 399%	$160 145%	$154 140%
$1,000 for 10 months	$2,525 399%	$453 89%	prohibited