Policy Matters Ohio

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Consumer Protection & Asset Building

Testimony on House Bill 38 before Senate Insurance and Financial Institutions Committee

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Good Morning Chairman Hackett, Vice Chairman Hottinger, Ranking Member Craig and members of the Ohio Senate Insurance and Financial Institutions Committee. My name is Kalitha Williams and I am the project director of asset building at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable, and inclusive Ohio. My work centers on household financial stability and consumer protection issues in Ohio. I also convene Ohio CASH, a statewide coalition of organizations focused on improving the financial and economic conditions for low- and moderate-income families and communities in the state. I testify today to express concerns with amendment g_133_0602 and ask that its provisions not be added to House Bill 38 or any other legislation. The provisions in the amendment could harm financially vulnerable Ohioans.

Ohio has an unfortunate history with payday lending. Payday lending was authorized in Ohio by the Check Cashing Loan Act in 1996. Eleven years later, the industry ballooned from 107 stores to 1,638.[1] In 2008, the Ohio General Assembly and Ohio voters, through legislation and a statewide ballot initiative, overwhelmingly decided to limit payday lending by creating the Ohio Short-Term Loan Act. Despite the best efforts of legislators, consumer advocates and Ohio voters, payday lending grew and became more profitable to the detriment of vulnerable families. Ohio payday lenders charged some of the highest interest rates in the country, typically at 677 percent,[2] and their fees grew to over $500 million being drained each year from family budgets and the Ohio economy.[3]

In 2018, state policymakers passed legislation to implement stronger regulations on payday lending in Ohio. As federal and state regulations have tightened on traditional payday loans, lenders have

[1] Policy Matters Ohio, "The Continued Growth of Payday Lending in Ohio", 2008, http://www.policymattersohio.org/wp-content/uploads/2011/09/ContinuedGrowthOfPaydayLendingInOhio2008_0319.pdf

[2] Center for Responsible Lending, Map of U.S. Payday Loan Interest Rates, 2016, http://www.responsiblelending.org/research-publication/map-us-payday-interest-rates

[3] Center for Responsible Lending, "The Buckeye Burden", 2015, http://www.responsiblelending.org/payday-lending/research-analysis/crl_ohio_analysis_nov2015.pdf

been shifting their business model to offer installment loans.[4] Installment loans are designed to appear less harmful but are still exploitative to financially vulnerable families. Like payday loans, they are high interest rate loans with no underwriting to determine if the borrower can repay, but they tend to be larger loans ranging from hundreds to thousands of dollars and have longer loan periods, many stretching several months. Industry and state regulator data show that like payday loans, repeat lending is pervasive in the installment loan market.[5]

The proposed amendment would allow installment lenders to add unnecessary fees to their loans. Nationally, installment loans often include a slew of excessive fees such as credit investigation fees, origination fees, and fees for "junk" add-on products. While the fees and products are unnecessary and have nothing to do with the loan, lenders add them to their loans and do not inform consumers that they can opt-out of them.[6] This unscrupulous practice saddles the borrower with more debt and makes it harder to pay back the loan.

Ohio policymakers have already stripped critical safeguards from installments loans. State lawmakers passed legislation in 2017 which allowed installment lenders to increase their fees and excluded them from provisions of the Fair Debt Collection Practices Act, which protects consumers from "abusive, deceptive, and unfair practices" in debt collection .[7] This is especially important because many of these loans are secured with a borrower's personal property.

Protect Ohio consumers by rejecting amendment g_133_0602. Many Ohioans are already struggling to take care of their basic needs due to the pandemic and the global economic crisis. They need strong regulations to ensure that unscrupulous lenders do not take advantage of their financial distress.

Mr. Chairman, thank you for allowing me to testify on this legislation. I am happy to answer any questions that you or any of the other members of the committee may have at kwilliams@policymatteresohio.org or 614.653.8847.

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[4] From Payday to Small Installment Loans Risks, opportunities, and policy proposals for successful markets. Pew Charitable Trusts. August 2016. https://www.pewtrusts.org/~/media/assets/2016/08/from_payday_to_small_installment_loans.pdf

[5] National Consumer Law Center, Installment Loans: Will States Protect Against Borrowers from a New Wave of Predatory Lending? July 2015. http://www.nclc.org/images/pdf/pr-reports/report-installment-loans.pdf,

[6] State Laws Put Installment Loan Borrowers at Risk How Outdated Policies Discourage Safer Lending, Pew Charitable Trusts. October 2018 https://www.pewtrusts.org/-/media/assets/2018/10/installment-loans_report.pdf

[7] https://www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/fair-debt-collection-practices-act-text