

## **Proponent Testimony on House Bill 123**

### **Senate Finance Committee**

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June 21, 2018

Chairman Oelslager, Vice-Chair Manning, Ranking Member Skindell and members of the committee, thank you for the opportunity to present proponent testimony on House Bill 123, a bipartisan bill that brings much needed reform to payday lending in Ohio.

My name is Michal Marcus, I am the Executive Director of the HFLA of Northeast Ohio. We are a 114-year-old nonprofit organization. The mission of HFLA of Northeast Ohio is to provide interest-free loans to address the financial challenges of residents of Northeast Ohio who lack access to traditional lending sources.

Over the last several years we have refinanced dozens of households out of predatory loans by providing over \$200,000 in interest-free loans. Most of the people we have helped get out of a “payday” loan situation believed that they would be able to turn around and pay off the first loan quickly, which is how these loans are advertised— as a “quick fix.” Instead borrowers are trapped in a perpetual cycle of loan after loan, often borrowing from one payday lender to pay another. This is because the loans are not required to have affordable payments and the fees are far too high.

One of our borrowers, John, is a veteran and a senior citizen. He borrowed money from a payday lender when a relative in Alabama died suddenly. It was impossible for him to repay the loan in just two-weeks, so he turned to another payday lender to pay off the first loan. By the time he came to HFLA, John was paying over \$400 in interest charges alone each month. He had been paying the interest-only fees amounting to thousands of dollars from his household budget.

Another couple, Richard and Grace, came to us as a last resort. Grace had a diabetic infection and her insurance did not cover the medications and treatment. Richard and Grace turned to payday lenders and by the time they came to us, their payday loans were taking up so much of their income that it was impossible to pay their mortgage and this brought them to the brink of foreclosure.

I want to be sure that the committee understands why I am sharing these stories on behalf of our borrowers. The majority of them work at least one job, and cannot afford to miss work to be here. When they first took out the loan, they were trying to do the right thing- responsibly pay their bills on time. Many of them are embarrassed to be in a difficult financial situation, which they thought they were handling themselves, only to find themselves in deeper distress. The downward spiral is not due to irresponsibility; it is by design. The way payday loans are structured and the payday lenders’ business model relies on borrowers being in long-term debt.

While your constituents’ financial struggles with payday loans should be enough to compel action from this committee, I hope you will also take note of a disturbing trend that we see when we intervene on behalf of borrowers. The loans that we encounter are all tracing back to a very small number of companies, a sign that there is something broken in the marketplace. When we

refinance high-cost payday loans into interest-free loans we write checks directly to the loan companies. While the borrower is under the impression that they have been borrowing from one storefront or another, the loans are all actually originated by the same lender, NCP Finance, the company that facilitates loans through Ohio's CSO loophole. The payday loan companies, which are registered as "credit services organizations" charge borrowers extremely high fees to broker and service these underlying loans. This convoluted system adds unnecessary costs and confusion. With HB123, we have the opportunity to correct this problem and create a well-regulated market that operates transparently.

Every day I see the benefits that credit can have in peoples' lives, when structured appropriately with sensible consumer protections- and every day I see the devastation that the current loophole causes for hard working families that take out a first payday loan looking for a lifeline but end up drowning in debt. Fair financial tools for people to help themselves, such as HFLA and the credit options that would be available under HB123 are critical to empowering our community.

Giving people financial options that are safe and transparent, like HB123, will allow our borrowers and people across the state the ability to move forward with their lives and help themselves to maintain jobs, purchase homes, and start businesses. Until then, with the way payday loans are structured under Ohio law today-- or if the affordability provisions in HB123 are gutted-- borrowers will keep coming to us asking for help because they have been set up for failure with unaffordable, high-cost loans.

Thank you for the opportunity to provide testimony on this important topic. I ask for your support of House Bill 123 as introduced and would be happy to answer any questions you may have.