



Senate Finance Committee Hearing

H.B. 123 Testimony

Ted Saunders, president, Ohio Consumer Lenders Association (OCLA)

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Greetings Chairman Oelslager, Vice Chair Manning and Ranking Member Skindell and members serving the citizens of Ohio on the Finance Committee. It is a privilege to address you today on a subject matter on which I have studied for more years than I care to admit – small dollar lending.

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.

For the last 18 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; all of which were positive for Ohio consumers and evidence OCLA member-companies' considerable willingness to compromise to improve the consumer experience with small dollar loan products.

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.

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. Recently, 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.

You may be quite surprised to learn that many of the reforms being advocated by the OCLA are in line with what is being proposed by the Pew Charitable Trusts, including the statement that **strong rules protect consumers, and if the rules are clear and simple, they also keep costs down and promote a vibrant and competitive marketplace.**

There are other statements and points Pew has made in its testimony before this committee and elsewhere that the OCLA agrees with including:

- ***A database would add cost and reduce privacy***

Do we really need another public/private database of customers' Social Security Numbers and personal data? The answer from both the OCLA and Pew is "no." There is no proof that a database has any impact on consumer outcomes, particularly since it would not include other forms of consumer credit, such as rent-to-own, banks and credit unions. A database will not prevent unregulated and expensive offshore lending and it will impose yet another tax on consumers when the operational cost of the database inevitably makes its way into the price the consumer pays for the service.

- ***Verbal disclosures don't help decisioning***

We agree; it's an unnecessary and ineffective burden that is more "feel good" than practical.

- ***Modifying the marketplace to encourage competition***

OCLA's member-companies support modifying the CSO model to add direct lending to consumers with an option available to consumers that allows CSOs to guarantee loans made by third-party lenders. We need capital partners. Pew has testified that direct lending will expand the market by bringing new players and competition to the marketplace. I encourage involvement from banks and credit unions, though I can guarantee they will experience high loan losses. We also support ending traditional single-payment payday loans by requiring amortization of the amount financed based on a customer's individual financial situation and ending the up-front fee as customers establish a track record with their lender.

Ultimately, being against progress is no way to ensure a bright future for Ohio consumers. We support guardrails on the edges, but we can't just design a product that actually solves any real or perceived problems. We, both Ohio's businesses and the legislature, have to protect the marketplace to serve consumers.

- ***What OCLA supports***

- Capping the high rates being charged by the outliers in our industry.
- Ending the so-called "cycle of debt" by creating an exit-ramp through payment plans for those who need them. Putting this in the law and requiring its clear disclosure to customers will be a powerful step toward enhanced consumer protections.
- Providing financial education, as part of the long game, so consumers better understand how to use the variety of financial products available to them and manage their finances.
- And finally, we kill payday lending. Let me say that again; we support eliminating the short-term, two-week loans that give payday lending its name. We support an installment payment loan that comes with a straight-forward, easy to understand fee.

- ***What OCLA opposes***

The overall plan being promoted by Pew has never successfully sold this plan anywhere. It just failed in the California statehouse. Pew is promoting an untested approach; this from an organization that has never held a license nor made a loan. Again, Pew is trying to design a product without taking into account or understanding the market. A \$500.00 loan with a six-month term at 28% interest plus a 5% monthly fee might sound good in a sound-bite, but it is neither a sustainable business model nor will the average consumer understand it in the same way that they understand a simple fee-based financial product.

Our industry is against the proposed rate cap. Currently there are CSO-based loan products in Ohio that charge as much as 677% APR. HB 123 proposes a 124% rate cap. Why not look at a

reasonable compromise position? One that would still put Ohio in the middle of all regulated markets in the country.

The database, as both the OCLA and Pew have said, is an invasion of privacy and provides no meaningful solution or outcome. It is important that this Committee not be fooled into thinking that illegal lending is not a major threat. And, of course, those illegal loans will never make their way into the database. If you take away the licensed and regulated products from the public and make no mistake that is what HB 123 will do, consumers will have to turn somewhere when they need short term access to credit and cash. If the House version of HB 123 is enacted, illegal, unregulated, and expensive lending will flourish.

- ***So, what is the path forward?***

Let's deal in the facts, not in a dream world or ideology. Let's work together to solve the real problems: Cap the high rates charged by outliers; end the cycle of debt with payment plans for those who need it; provide financial education programs; and end payday lending, which is what Ohioans voted for in 2008.

Together we can create a safe, vibrant credit market for the 1 million of your constituents who need access to short term credit. Don't open Ohio to unregulated lenders. And let's keep it simple: We are talking about small, unsecured loans that the consumers of Ohio want, need, use and understand. Let's stop the sensationalism and focus on solutions. Thank you for your time today.