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Creating security, expanding prosperity

Reforming payday lending in Ohio

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Introduction

Everyone deserves the chance to pursue a better future for themselves and their loved ones, no matter how much they're paid. But certain financial corporations have rigged the rules against Ohioans, and the families who pay the price are often the ones who can least afford it. For over 20 years, Ohioans have been harmed by some of the most expensive payday loans in the country. These fee-laden products keep many borrowers in an inescapable cycle of debt and cause additional problems such as overdrafting and bankruptcy.[1,2] The Center for Responsible Lending found that as of 2019, Ohio borrowers had paid over $500 million in fees each year to payday lenders.[3] To no one's surprise, the payday loan industry has left a bad taste in Ohioans' mouths. A 2020 poll found that 66% of Ohio voters have an unfavorable opinion of payday lenders.[4] Despite several efforts to regulate the industry and ensure Ohio consumers have access to credit, policymakers continue to allow payday lenders to subject borrowers to short-term, triple-digit-interest loans that keep them in a cycle of debt.

Even in the best of times, payday lenders prey on those who can afford it least by ladening their loans with high interest rates, adding exorbitant fees and ensnaring borrowers in a "debt trap." Six of the 10 most common jobs in Ohio pay wages so low that a family of three qualifies for public assistance.[5] Low wages drive families to predatory lenders to pay their bills. The pandemic and subsequent economic crisis have made more Ohioans financially insecure and susceptible to payday lending. Over 1.6 million Ohioans have filed for unemployment since March 2020 and many of them are struggling to take care of their basic needs like housing and food. Ohio identified payday lenders as essential businesses and made it possible for them to peddle their exploitative loans during the state shutdown.[6] Online payday lenders continue to market themselves as "here to help during the crisis," while maintaining high interest rates.[7] Despite charging financially distressed families exploitatively high interest rates, payday lenders were also able to claim billions in taxpayer funded, zero interest, forgivable loans from the Paycheck Protection Program meant to help businesses remain viable during the pandemic.[8]

After the 2008 Short-Term Lending Act failed to rein in the staggering costs of payday lending for borrowers, advocacy, policy and faith leaders came together to advance consumer safeguards. House Bill 123 passed with highly publicized, bipartisan support, to protect Ohio borrowers from financial exploitation. Data shows that House Bill 123 has scaled down payday lending in Ohio, but it continues to be expensive and exploitative. The bill reduced storefront payday and auto-title lending and decreased loan fees. But, interest rates, including the full costs of the loans, remain above the publicly supported 28% rate cap initially set forth in 2008. Instead, lenders added fees to payday and auto-title loans, like origination fees and check cashing fees, driving up the cost and interest rates. According to a report

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[1] "Online Payday Loan Payments," Consumer Financial Protection Bureau, April 2016, https://bit.ly/39BohaX.
[2] Skiba, Paige and Jeremy Tobacman, "Do Payday Loans Cause Bankruptcy," Yale Law School, October 20, 2010, https://bit.ly/33CKodw.
[3] Standaert, Diane & Delvin Davis, "The Buckeye Burden: An Analysis of Payday and Car title Lending in Ohio," Center for Responsible Lending, November 2015, https://bit.ly/36YpkPx.
[4] "Ohio Voters Overwhelmingly Support 36% Rate Cap." Center For Responsible Lending. https://bit.ly/3fPg1pe.
[5] Shields, Michael, "Working for less 2020," Policy Matters, Ohio, May 1, 2020, https://bit.ly/33wQJqK.
[6] Ohio Department of Health, Director's Stay At Home Order. March 22,2020, https://bit.ly/3kXaKgg.
[7] Examples of this framing can be found at Net Credit https://www.netcredit.com and Rise, https://www.risecredit.com.
[8] Brodey, Sam, "Government Propped Up Payday Lenders With PPP Loans," The Daily Beast. July 16,2020, https://bit.ly/3m3dJoo.

from the Ohio Department of Commerce, the weighted contracted annual interest rate is 148%, much higher than the 28% annual interest rate, which was overwhelmingly supported by Ohio voters in a statewide vote in 2008.[9]

After HB 123 went into effect, the use of consumer installment loans in Ohio increased. Compared to payday loans, installment loans are typically larger and have longer and more structured repayment period and terms. Installment lender licenses, fees and the total number of loans also increased dramatically. These loans can be as dangerous as payday loans and should also be subject to strong regulations. Installment loans should include protections from excessive fees and unfair debt collection practices.

Ohio borrowers need additional safeguards to ensure they are not taken advantage of by high-cost payday and installment lenders. A strict 36% interest rate cap for all consumer loans was supported by 72% of Ohio voters polled in January 2020[10], adopted by the United States Department of Defense for military service members, has been implemented by 17 states and the District of Columbia, and is being considered in Congress. At the ballot box, 63.6% of Ohioans supported a 2008 bill that capped APR and fees at 28%.[11] Additional protections include stronger regulations for the growing consumer installment lending industry, regular auditing of payday lending reports, and making disaggregated payday lending data available to the public.

As we rebuild our economy, it is critical that strong consumer protections and appropriate regulations are in place to ensure Ohioans can build a financially secure future.

Payday lending in Ohio: 1996-2017

Ohio lawmakers authorized payday lending in the state in 1996 with the Check Cashing Act, passed under the guise of helping people without credit get cash for financial emergencies.[12] However, lenders make these short-term, high interest loans without any regard to a borrower's ability to repay. Payday lenders are often first in line for repayment, due to having access to a borrower's bank account or post-dated check. The loans had annual interest rates as high as 391% and many borrowers are unable to pay back the full loan amount and fees by their next pay period.[13] They can refinance the loan by paying more fees and move full repayment of the loan until their next pay period. This repeated refinancing increases the real costs of the loan and keeps borrowers in a long-term cycle of debt, often referred to as "the

[9] Small Loan Act, General Loan Act, Short-Term Loan Act Consumer Installment Loan Act, Residential Mortgage Lending Act Annual Report, December 31, 2019, Ohio Department of Commerce. The department lists different annual percentage rates in their reporting of Short-Term Loans (see Table 2). The author used the weighted contracted APR for two reasons. First, the Ohio Department of Commerce Division of Financial Institutions states that "Both 'weighted' categories were included and calculated by the Division to provide a more realistic view of a per-loan average. The idea was to compensate for any averages skewed by large volume STLA (Short-Term Loan Act)." Secondly, the difference been "contracted" and "experienced" APR was based on the interest rate listed in the contract, not the interest rate the borrower paid. Because payday loans are often refinanced, it is possible that the borrower may still be paying fees on a refinanced loan and the contracted interest rate is likely the closest to what the borrower will pay when they pay off the loan. There is only a 10% difference between the weighted experienced APR and the weighted contracted APR.
[10] See note 4.
[11] Ohio Secretary of State official amended results for 2008 State Issue 5 https://bit.ly/3lLO17U.
[12] Napolitano, Carla, "Payday Lending in Ohio," Ohio Legislative Service Commission. February 20, 2020.https://bit.ly/2ITHqtO.
[13] Rothstein, David and Jeffrey Dillman, "Trapped in Debt: The Growth of Payday Lending", Policy Matters Ohio and Housing Research & Advocacy Center, February 2007, https://bit.ly/3lQurrl.

debt trap." Research from the Consumer Financial Protection Bureau found that 80% of payday loans are refinanced within 14 days.[14]

America has a long history of financial exploitation of Black and brown communities, and payday lending is no different. Research shows that payday lenders target Black and brown people by saturating their neighborhoods with stores.[15] While most payday borrowers are white, Black people are twice as likely as other racial groups to have used a payday loan.[16] Black Ohioans are paid 76 cents for every $1 earned by white Ohio workers. Racial income inequity makes Black people less able to take care of their household expenses and more likely to turn to payday loans to make up the difference.

2008 Ohio Short-Term Loan Act

In 2008, after payday lenders exploited Ohioans for over a decade, a coalition of community and faith leaders and advocacy organizations pressed their concerns to the Ohio legislature. The number of stores registered to offer loans had ballooned from 100 to more than 1,600. [17] Ohio had more payday lending stores than McDonald's, Burger King and Wendy's restaurant locations combined in the state.[18] The coalition's collective efforts resulted in passage of the Ohio Short-Term Loan Act.

The legislation:

1. Capped the annual interest rate for payday loans at 28%, inclusive of all fees.
2. Extended the loan term period to at least 31 days.
3. Limited the maximum loan amount to $500 for all loans at one time.
4. Limited borrowers to four loans per year.

At that time, it was the strongest payday lending reform law in the nation. Payday lenders fought back with a referendum ballot initiative to revoke the legislation, but Ohioans came out in support of the lending reforms, and voted to defeat it by a margin of two to one.[19]

Payday lenders skirt the law

Payday lenders not only found ways to avoid the new regulations, but also to dramatically increase their fees, which in turn increased their annual interest rates from 391% to nearly 800%.[20] Their strategy focused on not licensing their businesses under the Short-Term Loan Act, but exploiting other licenses and the Credit Services Organization statute by acting as brokers.[21] Advocates contended that payday lenders violated the law through these schemes, but state regulators did not hold lenders accountable.

In 2012, auto-title loans — short-term, high interest loans that are secured by the title of a borrower's car — became a growing part of the Ohio predatory lending landscape. State law never authorized auto-title lending in Ohio. Like payday loans, borrowers do not have to

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[14] "CFPB Data Point: Payday Lending," Consumer Financial Protection Bureau Office of Research. March 2014. https://bit.ly/331OsDC.
[15] The Center for Responsible Lending has conducted studies identifying high concentrations of payday lending stores in communities of color in California, Arizona, Florida, and Michigan. Studies can be found at www.responsiblelending.org.
[16] Bourke, Nick, Alex Horowitz and Tara Roche, "Who Borrows, Where They Borrow and Why," Center for Responsible Lending, July 2012, https://bit.ly/3pRCnem.
[17] See note 13.
[18] Ibid.
[19] Results from the Ohio Secretary of State for State Issue 5 in the 2008 General Election, https://bit.ly/3lPwbRq.
[20] MoneyKey, an online lender licensed as a Credit Services Organization in Ohio advertised their annual interest rate for loans at 788% APR in 2014.
[21] Rothstein, David, "New Law, Same Old Loans: Payday Lenders Sidestep Ohio Law," Policy Matters Ohio, September 2009, https://bit.ly/2J0RDnV.

demonstrate their ability to pay back the loans, but auto-title loans have the added risk of the borrower's car being repossessed. Losing a car to repossession has devastating consequences for families that use their car to get to work, take kids to school or child care and purchase groceries. It puts an undue burden on them to pay auto-title loan fees before addressing their basic financial needs.

Only a few years after Ohio passed the strongest payday lending reform law in the country, payday and auto-title lending expanded in every part of the state. Pew Charitable Trusts estimated that 10% of Ohioans had taken out a payday loan.[22] Interest rates jumped to nearly 800%.[23] In 2015, a report from the Center for Responsible Lending found that Ohio borrowers paid over $500 million each year in fees — $184 million in payday fees and $318 million in auto-title fees.[24]

Federal payday lending regulations

After the economic crisis of 2008 and 2009, Congress created the Consumer Financial Protection Bureau (CFPB) in 2010 to be a watchdog of the consumer finance industry. The first director, former Ohio Attorney General Richard Cordray, began examining financial services and products including payday lending. The bureau spent years compiling data, collecting and reviewing complaints, conducting field hearings across the country and engaging consumer advocates, academics and the financial services industry. On November 17, 2017, the CFPB announced a final rule to regulate payday lending nationally. One of the important provisions of the proposed rule required lenders to evaluate a borrower's ability to repay a loan, before issuing one. Over 100 Ohio organizations wrote in support of the rule.[25]

Payday lenders immediately struck back and lobbied hard against the rule, which was never implemented. Under the guidance of a new bureau director, Kathy Kraninger, the CFPB changed course and rescinded the final rule on July 7, 2020, gutting the foundational ability to repay provision.

HB 123: The Ohio Fairness in Lending Act

In 2017 a new coalition of consumer advocates, community and faith leaders, and policymakers called Ohioans for Payday Loan Reform worked again to advance legislation to regulate payday loans in Ohio. The following year, House Bill 123 passed with bipartisan support, thanks in part to a political scandal that embroiled payday lenders and forced the House Speaker's resignation.[26]

This time around, lawmakers based the legislation on "the Colorado Model," a law that passed there in 2010. HB 123, also known as The Ohio Fairness in Lending Act, did the following:

- Set a loan maximum of $1,000.
- Extended loan duration to up to one year.

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[22] "State of Payday Loan Regulation and Usage Rates," The Pew Charitable Trusts, July 11, 2012, https://bit.ly/3kKzjNa.
[23] See note 3.
[24] Ibid.
[25] Over 100 Ohio organizations signed a letter to CFPB Director Richard Cordray urging the agency to develop a strong national rule to regulate payday lending.

- Capped annual interest rate at 28%, but permitted several other fees that increase the actual interest rate and the costs of each loan.[27]
- Required a disclaimer for all loans to warn borrowers of their high costs.
- Restricted borrowers to one outstanding loan from a lender at a time.
- Allowed borrowers to cancel a loan within three days.[28]

Colorado-based Bell Policy Research Center analyzed a year of data and found the law produced mixed results. The amount of payday loans financed decreased by 60%. The total number of payday loans dropped from 1,110,224 in 2010 to 444,333 by 2011.[29] While Coloradoans saved over $40 million in fees,[30] payday loans continued to carry triple-digit interest rates, averaging 120%. The average borrower paid $367.29 in fees for a $394.77 loan and was stuck in a cycle of debt 299 days of the year.

Results of HB 123

Among provisions mentioned earlier, passage of HB 123 required payday lenders to submit specific information about their business and loans to the Ohio Department of Commerce. The department compiles this information into an annual report about the industry that is available to the public. Before HB 123, it was difficult to determine the scope of payday lending in Ohio. The bill required lenders to report their activity each year. The Ohio Department of Commerce released the first report in the summer of 2020 for loans made in 2019, the first year lenders were required to comply with HB 123.[31] In 2019, 141,264 borrowers took out 216,560 loans from payday lenders licensed under the Ohio Short-Term Loan Act.[32] The average loan amount was $393 with an average loan fee of $143.

Auto-title lending ended in Ohio

Although policymakers never authorized auto-title lending in Ohio, the industry grew rapidly. Research estimated auto-title lenders charged Ohioans over $184 million each year in fees.[33] Most auto-title lenders used the Credit Services Organization law to operate in Ohio. House Bill 123 closed the so-called "CSO loophole" and dismantled lenders' ability to do business in the state. None of the companies registered under the Ohio Short-term Loan Act or the Credit Services Organizations advertise offering auto-title loans.[34] Throughout Ohio, auto-title loan stores are vacant.

Dramatic shift to installment lending

After the 2008 Ohio Short-Term Loan Act, payday lenders also used the Ohio Small Act to continue making high interest loans in Ohio. A provision in HB 123 ended the use of short-term consumer loans for $1,000 or less under the Ohio Small Dollar Act. After the legislation went into effect, the number of loans made under the Small Loan Act decreased by over 70% and less than half the number of licensed locations remained in operation. Origination fees decreased by over 90% from $84,990 in 2018 to $5,682.[35] The average loan amount rose

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[27] According to the final bill analysis of HB 123 of the 132nd General Assembly, lenders can charge monthly maintenance fees, a loan origination charge, a check collection charge, and a check cashing fee.
[28] Enrolled House Bill 123 of the 132nd Ohio General Assembly, https://bit.ly/3fjFAOD.
[29] "Deferred Deposit/Payday Loans Comparison Charts 2007-2016," Colorado Attorney General, https://bit.ly/3nJmODv.
[30] "Progress still needed post-payday lending reform," Bell Policy Center, September 21, 2016.
[31] See note 9.
[32] Ibid.
[33] See note 3.
[34] Checked the website of each company registered under the Short-Term Loan Act and Credit Service Organization license. None of them advertised offering auto-title loans in Ohio, but some did offer them in other states.
[35] See note 9.

from $426 to $1,009.59 (Table 1)[36] — another indicator that payday lenders were no longer making small dollar loans under this law.

Table 1

Changes in loans made using the Ohio Small Loan Act

	2018	2019	% difference (2018-2019)
Number of new loans	6,101	1,703	-72%
Dollar amount of new loans	$2,600,283	$1,719,339	-34%
Origination fees collected	$84,990	$5,682	-93%
Licensed locations	73	33	-55%

Source: Ohio Department of Commerce annual report of Small Loan Act, General Loan Act, Short-Term Loan Act, Consumer Loan Act, Residential Mortgage Lending Act (December 31, 2019)

Consumer installment loans, like payday loans, are high interest loans, often made with little to no regard of a borrower's ability to pay it back. Some require security, like the title to a car. They tend to be larger loans from a few hundred to thousands of dollars and have longer more structured payments and payment periods. According to the Ohio Department of Commerce, between 2018 and 2019, the year HB 123 took effect, there was a drastic increase in installment lending (Table 2).[37] The number of licensed locations increased by 24% from 137 locations to 170. New installment loans increased by 35% from 56,465 loans in 2018 to 76,009 in 2019. Installment lenders wrote an additional $200 million in loans and increased their loan origination fees by 180%.

Table 2

Ohio consumer installment loans increase after HB 123

	2018	2019	% difference (2018-2019)
Number of loans originated	56,465	76,009	+35%
Dollar amount of loans originated	$533,495,591	$745,140,852	+40%
Origination fees collected	$2,952,584	$8,287,767	+180%
Number of licensed locations	137	170	+24%

Source: Ohio Department of Commerce Annual Report of Small Loan Act, General Loan Act, Short-Term Loan Act, Consumer Loan Act, Residential Mortgage Lending Act (December 31, 2019)

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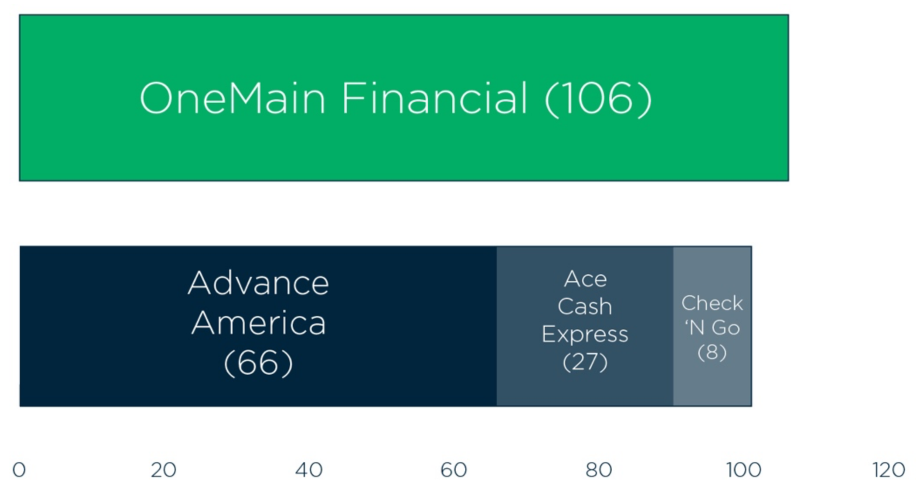
[36] Ibid.
[37] Ibid.

OneMain Financial, a national lender with over 1,500 locations in 44 states, is an Ohio licensed consumer installment lender.[38] The New York Times reported that the company has worked to advanced state legislation across the country to loosen regulations on their lending and increase fees on their loans.[39] OneMain Financial is a member of the Ohio Financial Services Association (OFSA), which successfully passed similar legislation in Ohio in 2017.[40] In the 2020 lame duck session, the OFSA is working to pass legislation to allow installment lenders in Ohio to add additional fees to their loans, increasing costs to borrowers and making the loans more unaffordable. The company was first issued licenses for installment lending stores in March 2018. In a few short years, OneMain Financial has grown to be the largest installment lender in Ohio with 106 stores, more than the top three licensed payday lenders in the state (Chart 1).

Chart 1

More OneMain Financial stores than other top three payday lenders combined



Source: Ohio Department of Commerce database of licensed consumer installment lenders and short-term lenders accessed September 30, 2020.

Fewer stores; lower interest rates and fees, but Ohioans still at risk.

Before Ohio law required payday and auto-title lenders to report on their activity, different organizations engaged in their own efforts to determine the number of stores in Ohio. In 2015, the Center for Responsible Lending identified 836 payday and auto-title loan stores.[41] Pew Charitable Trusts counted 650 payday stores in 2016.[42] Due to a provision in HB 123 that requires payday lenders licensed to offer short-term loans to register all of their Ohio stores, it is clear that the number of stores has decreased due to the reform legislation. According to data submitted by the Ohio Department of Commerce at the end of 2019, there were 246 licensed stores in the state.[43]

[38] Information from One Main Holdings, Inc. 2019 Annual Report. https://bit.ly/3q7SCUJ.
[39] Protess, , "Subprime Lender, Busy at State Level, Avoids Federal Scrutiny." New York Times. September 6, 2016. https://nyti.ms/2KR3RAF.
[40] Ohio Financial Services Association and its members offered proponent testimony in support of Senate Bill 24 on February 21, 2017.
[41] See note 3.
[42] "Ohio Has the Highest Payday Loan Prices in the Nation," The Pew Charitable Trusts, December 2016, https://bit.ly/3fqiYw3.
[43] See. note 9.

Payday and auto-title lenders circumvented the 28% interest rate cap provision in the Ohio Short-Term Loan Act by adding additional fees to their loans which increased interest rates to up to nearly 800% for some loans. HB 123 limited the types and amount of fees that could be charged for loans and has decreased the overall interest rates of payday loans. However, the legislation allows lenders to add charges like loan origination fees, monthly maintenance fees and check cashing fees, increasing the actual costs of loans to three-digit interest rates. The Ohio Department of Commerce reported annual interest rates for payday lenders are all over 100%, which is much higher than the 28% interest rate affirmed by Ohio voters (see Table 3).[44]

Table 3

2019 reported annual percentage rates for companies licensed as Ohio short-term lenders

APR Title/Type	2019 Reported APR	APR Type Definition*
Average Contracted Annual Percentage Rate	138%	An average of all the Annual Percentage Rates that appear on the loan agreements.
Average Experienced Annual Percentage Rate	103%	An average of the Annual Percentage Rates for payments made by the borrower, which may differ from the original contract.
Weighted Contracted Annual Percentage Rate	148%	Calculated by the Division of Financial Services, this provides a more realistic view of a per-loan average to compensate for averages skewed by large volume Short-Term Loan Act companies.
Weighted Experienced Annual Percentage Rate	124%	No definition provided by the Ohio Department of Commerce[45]

*Source: Ohio Department of Commerce Annual Report of Small Loan Act, General Loan Act, Short-Term Loan Act, Consumer Loan Act, Residential Mortgage Lending Act (December 31, 2019)*Definitions obtained from Ohio Department of Commerce, Division of Financial Institutions. (October 10, 2020)*

Recommendations & conclusion

While HB 123 changed the landscape of payday lending in the state, Ohioans continue to be plagued with excessive interest rates and fees that result in millions being paid to predatory lenders. Short-term loans like these with triple-digit interest rates have been proven to keep families in a cycle of debt. But Ohio policymakers can make reforms that will give more people a chance to achieve financial security and protect them from being driven into crippling debt by unscrupulous lenders.

Implement a 36% or lower interest rate cap on all consumer loans.

[44] Ibid.
[45] Author asked the Ohio Department of Commerce to clarify this term, but was not provided a response.

Nationally, the Department of Defense (DOD) commissioned their own study and found that excessive consumer debt among armed service members is a national security risk.[46] As a result, Congress passed the Military Lending Act to restrict the annual percentage rate of consumer loans to military service members to 36%. It was expanded to cover more financial products by the DOD in 2015.[47] Currently there is legislation in Congress which would extend the MLA interest rate cap to everyone. All Americans should be protected from financial exploitation in consumer lending products.

Currently, 17 states and the District of Columbia have an interest rate cap or ban on payday loans. The same year Ohio policy makers passed HB 123, Coloradoans overwhelmingly voted to implement a 36% rate cap on their consumer loans. After years of payday lending under the "Colorado Model," borrowers continued to be stuck in a cycle of debt. They were unsuccessful at getting stronger safeguards through the legislative process and opted to organize their own ballot initiative, which garnered the support of an overwhelming 77% of voters.[48]

Ohio voters support strong interest rate caps for consumer loans. When the Short-Term Loan Act was first passed in 2008, it called for a 28% annual interest rate cap and over 60% of Ohio voters upheld it. Ever since, payday lenders have been attaching fees to loans which drive up their profits. A strict 36% interest rate cap for payday lending, including fees, is supported by 72% of Ohio voters polled in January 2020.[49] Of the 12% of Ohioans polled that oppose a 36% interest cap, 61% believe the rate cap should be lower than 36%.[50]

Federal action also is needed to uphold the rights of states to regulate interest rates and protect consumers from excessive fees. Payday lenders are already circumventing states with interest rate loan caps using a "rent-a-bank" scheme.[51] Federally-chartered banks are not subject to state loan interest caps. There are payday lenders working with these banks to process their loans at higher interest rates to evade state fee caps. The Office of the Comptroller of the Currency approved a proposal that would legitimize this practice on October 27, 2020 despite consumer advocacy. Over 100 consumer advocates, faith and civil rights and community-based organizations shared their opposition to the decision.[52]

Annual reporting data from payday lenders should be audited.

The Ohio Department of Commerce notes in its annual report that the data presented was not audited. It states that consumer lending companies provide this information "under oath or affirmation." Given the history and recent reporting of suspected political corruption with payday and auto-title lenders in Ohio, the Department of Commerce should conduct regular audits. Payday lenders have been implicated in two FBI investigations that resulted in the

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[46] "Report On Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents." United States Department of Defense, August 9, 2006, https://bit.ly/3fjt1CZ.
[47] United State Department of Defense, "Department of Defense Issues Final Military Lending Act Rule," July 21, 2015, https://bit.ly/2USCdVr.
[48] Ferrier, Pat, "Colorado election: Proposition 111, capping interest on payday loans, passes," November 6, 2018, The Coloradoan. https://bit.ly/3m3g02U.
[49] See note 4.
[50] Ibid.
[51] "Payday Lenders Plan to Evade California's New Interest Rate Cap Law Through Rent-A-Bank Schemes." National Consumer Law Center, October 2019, https://bit.ly/392NZoH.
[52] Letter to Brian P. Brooks Acting Comptroller Office of the Comptroller of the Currency for national and local advocacy organizations, September 3, 2020, https://bit.ly/2UPLVb6.

resignation or removal of two Ohio House of Representatives Speakers.[53] This industry deserves more scrutiny than an honor code. It is imperative that the Ohio Department Commerce audit the industry for fidelity.[54]

Implement stronger regulations for growing consumer installment lending.

Ohio, like other states, is seeing a shift in traditional payday lending to installment lending. These loans have been under the radar from most regulators because they draw less public scrutiny. 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.[55]This unscrupulous practice saddles the borrower with more debt and makes it harder to pay back the loan. Installment loans should also be regulated with a 36% or lower interest rate cap —including all fees, products and transactions — and be subject to the same safeguards as traditional payday lending.

In 2017, Ohio lawmakers rolled back protections on installment loans. Currently, Ohio consumer installment loans are exempt from the Fair Debt Collection Practices Act, which protects borrowers from abusive, deceptive, and unfair debt collection practices such as harassment and threats of violence.[56] The legislation also allowed lenders to charge higher loan fees.[57] The Ohio legislature should reinstate consumer protections against unscrupulous debt collectors and protect consumers from excessive fees.

Expand and disclose more data on payday and consumer installment lending.

Colorado, whose earlier law was the basis for the Ohio reform legislation, collects and discloses much more payday lending data than is available in Ohio.[58] The data helped explain how payday lending affected borrowers in Colorado. Ohio should require more data about consumer and payday loans be collected and disclosed. Ohio data from payday lenders does not clearly identify the number of loans refinanced each year. As previously noted, refinancing indicates that loans are unaffordable and keeping borrowers in a cycle of debt. It is also important to know how long it takes a borrower to completely pay off the loan. Without this information it is difficult to know how long Ohioans are indebted to payday lenders. Data on annual interest rates for installment loans should also be collected to evaluate their affordability for borrowers.

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[53] In 2018, former Ohio House of Representatives Speaker Cliff Rosenberg resigned amid FBI allegations that he took unreported gifts and trips from lobbyists, including lobbyists from the payday lending industry. To date he has not been charged, https://bit.ly/36NW6Ta. Earlier this year, former House Speaker Larry Householder was stripped of his leadership position after the FBI indicted him for allegedly using unreported political contributions to advance energy legislation. The FBI indictment includes a quoted conversation from the defendants that payday lenders made $25,000 in contributions. United States v. Larry Householder, Jeffrey Longstreth, Neil Clark, Matthew Borges, Juan Cespedes and Generation Now.

[54] Ballard, Mark, "Audit raises questions about payday lending oversight," The Advocate, July 2014, https://bit.ly/36XdHIu.

[55] "State Laws Put Installment Loan Borrowers at Risk: How Outdated Policies Discourage Safer Lending," The Pew Charitable Trusts, October 2018, https://bit.ly/3fnCJEr.

[56] Debt Collection FAQ's. Federal Trade Commission. Accessed 11/17/2020. https://bit.ly/393BIR2

[57] Williams, Kalitha, Testimony before the Senate Insurance and Financial Institutions Committee on Senate Bill 24, February 28, 2017, https://bit.ly/3fnCOYL.

[58] Colorado Payday Lending: Demographic and Statistical Information, July 2000 – December 2015, Colorado Attorney General, https://bit.ly/2Vhzm8L.

Payday and installment lenders send their information to the Ohio Department of Commerce. The department compiles it into an industry-wide annual report. Disaggregating the data by company and even licensed location would help determine which company practices are the most harmful to consumers. All this information could inform future best policies to safeguard consumers.

Conclusion

Today, thanks to the 2018 reform legislation, Ohioans have a slightly brighter financial future. Yet many Ohio borrowers still face dismal prospects in obtaining affordable access to credit. State policymakers should note national and state-level examples, and pass legislation and implement policies to protect consumers from exploitative loans. Ohioans deserve strong protections to ensure they are not lured into a cycle of debt.