Policy Matters Ohio

TESTIMONY
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Consumer Protection & Asset Building

Testimony on House Bill 133 before House Financial Institutions Committee

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Chairman Jordan, Vice Chairman Ferguson, Ranking Member Crossman, and members of the Ohio House Financial Institutions Committee, thank you for the opportunity to offer testimony on House Bill 133. My name is Kalitha Williams and I am the project director of asset building at Policy Matters Ohio, a nonpartisan research institute 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 Ohioans with low and moderate incomes. I testify today to oppose the expansion for consumer installment lending in this legislation. The provision would allow consumer installment lenders to add exploitative fees to their loans which could harm Ohio borrowers.

No matter where we live or what we look like, we all deserve the chance to get through hard times without facing crippling debt — especially in the middle of a pandemic recession that has caused hundreds of thousands of layoffs in Ohio. If it passes, HB 133 would mark another chapter in Ohio's troubled history with payday lending. State policymakers authorized payday lending in Ohio in 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 passing 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%,[2] and they raked in over $500 million each year — money drained from family budgets and the Ohio economy.[3] In 2018, state policymakers passed stronger regulations on payday lending in Ohio.

As federal and state regulations tightened on traditional payday loans, lending corporations are shifting their business model to offer installment loans.[4] Installment

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[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

[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

loans are designed to appear less harmful but are still exploitative to financially vulnerable families. Like payday loans, installment loans are high interest rate loans and many have no underwriting to determine if the borrower can repay, but unlike payday loans they tend to be much larger 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 and keep borrowers in a "debt trap".[5]

The Ohio Department Commerce reports that since 2018, lending corporations have dramatically increased the number of consumer installment loans issued in the state. 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.[6] Installment lenders wrote an additional $200 million in loans and their loan origination fees ballooned by 180%. OneMain Financial, the largest consumer installment lender in the nation, has more Ohio stores than the top three largest payday lenders combined.[7]

Table 1

2019 Reported Annual Percentage Rates from Ohio Department of Commerce Division of Financial Institutions Annual Report

	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)

This legislation would allow installment lenders to add exploitative 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.[8] This unscrupulous practice saddles the borrower with more debt and makes it harder to pay back the loan. The language in the HB 133, would clear the way for consumer installment lenders to do the same to Ohio borrowers.

Ohio policymakers have already stripped critical safeguards from consumer installments loans. State lawmakers passed legislation in 2017 which allowed installment

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[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] 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)

[7] Ohio Department of Commerce database of licensed consumer installment lenders and short-term lenders accessed September 30, 2020.

[8] 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

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.[9] This is especially important because many of these loans are secured with a borrower's personal property.

Protect Ohio consumers by rejecting this provision in the bill. 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.

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