Policy Matters Ohio

EXECUTIVE SUMMARY
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Consumer Protection & Asset Building

Creating security, expanding prosperity

Reforming payday lending in Ohio

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Everyone deserves the chance at a better future, no matter how much they're paid. But certain financial corporations have rigged the rules against Ohioans. The families who pay the price often 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 a cycle of debt and cause additional problems such as overdrafting and bankruptcy. In 2015, the Center for Responsible Lending found that Ohio borrowers had paid over $500 million a year in payday lending fees. Despite several efforts to regulate the industry and ensure Ohioans have access to credit, policymakers have allowed payday lenders peddle short-term, triple-digit-interest loans that keep people in debt.

After the 2008 Short-Term Lending Act failed to rein in payday lenders, policy and faith leaders came together to advance consumer safeguards. House Bill 123 passed with bipartisan support to protect Ohio borrowers from financial exploitation. The bill scaled down payday lending, 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 voters approved 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 the Ohio Department of Commerce, the weighted contracted annual interest rate is 148%.

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

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 actually made by the borrower, which may differ from what was in the initial contract.
Weighted Contracted Annual Percentage Rate	148%	Calculated by the division, 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

*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)*

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 that limit fees and prevent unfair collection practices.

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).

Ohio borrowers need the following additional safeguards to ensure they are not taken advantage of by high-cost payday and installment lenders:

- Implement a 36% or lower interest rate cap on all consumer loans that includes the cost of all fees.
- Annual reporting data from payday lenders should be audited.
- Implement stronger regulations for growing consumer installment lending.
- Expand and disclose more data on payday and consumer installment lending.

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, 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.