

Testimony to Cuyahoga Falls City Council on payday lending resolution

Kalitha Williams

Good evening, Council President Mary Ellen Pyke and other members of Cuyahoga Falls City Council. My name is Kalitha Williams and I am the policy liaison for asset building at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more vibrant, equitable, sustainable and inclusive Ohio. My work centers on household financial stability and consumer protection issues. I also convene Ohio CASH, a statewide coalition of organizations focused on improving the financial and economic conditions for low- and moderate-income families and communities.

Thank you for the opportunity to testify today in support of Resolution A-49, which urges the Ohio Department of Commerce and the Ohio Attorney General to enforce the provisions of the Ohio Short-term Loan Act. The resolution also recommends that the Ohio General Assembly repeal previous legislation that prevents local communities from protecting their residents from the payday lending industry.

Since 2008, Policy Matters Ohio has conducted research on payday lending and advocated for stronger regulation of lenders. Our research has documented the spread of payday lending in Ohio and its negative impact on the financial stability of Ohioans. Payday loans are offered to vulnerable individuals with no regard to their ability to pay them back. These loans carry triple-digit interest rates (nearly 400 percent) and what consumers expect to be a one-time transaction is typically renewed several times, leaving individuals spiraling further and further into debt.

Auto-title lending is an extension of traditional payday lending that allows consumers to use their vehicles as collateral for high-interest loans. Auto-title loans can be as disastrous for vulnerable families as payday loans, if not worse. These loans are riskier, because lenders can repossess their customers' vehicles if their loans go into default. Repossession can jeopardize a family's financial stability by depriving them of a way to get to and from work. The proliferation of auto-title lending in Ohio has been covered by news outlets including the *Cincinnati Enquirer*, the *Cleveland Plain Dealer* and the *Dayton Daily News*.

In 2010, the Ohio General Assembly and Ohioans, through legislation and a statewide ballot initiative, decided to limit payday-lending practices. Limitations passed into law included capping interest rates at 28 percent, imposing a 31-day loan limit and a maximum of four loans per year, and limiting loans to \$500. Unfortunately, payday lenders have done an end-run around the law, registering their businesses under other Ohio statutes. One industry approach has been to use Ohio's Credit Service Organization laws, designed to protect consumers from unscrupulous credit repair companies. CSOs are defined as organizations that charge a fee to: 1) improve a

client's credit score or rating; 2) obtain an extension of credit by others for a buyer; 3) provide advice or assistance to a client for one of the aforementioned services; 4) remove adverse credit information from a client's credit report; or 5) alter a client's identification to prevent the display of their credit record, history or rating.¹

Unfortunately, payday lenders evade the Short Term Loan Act and charge higher interest rates and fees. In its application to Cuyahoga Falls, LoanMax has said that it is a third party broker that connects consumers to lending services, not a lender. Under CSO law, lenders and the CSO licensee (in this case LoanMax) must be completely separate entities. However, our research has found that LoanMax's lender is an out-of-state firm with no infrastructure in Ohio.² LoanMax owns the only storefronts in Ohio where LoanMax clients can get service on their loans. There is no indication that LoanMax is working as a broker for the consumer to find the best loan; instead it appears to offer only a fixed product from one lender. Also, LoanMax does not appear to offer its customers any services to improve their credit ratings. These factors raise questions about how LoanMax was able to register as a CSO. This is just one example of how payday lenders have skirted the Short Term Loan Act.

I applaud Councilman Victor Pallotta for his leadership in raising this issue locally and at the state level. Other local government officials around the country have been fighting to protect their citizens from payday lenders. The industry's businesses practices jeopardize the financial stability of vulnerable families and our communities.

Council President Pyke, thank you for the opportunity to share our support of Resolution A-49. I am happy to answer any questions that you or any of the other council members may have.

*Policy Matters Ohio is a nonprofit, non-partisan research institute
with offices in Cleveland and Columbus.*

¹ Ohio Revised Code 4712.1

² Rothstein, David, "Keys for Collateral: How auto-title loans have become another vehicle for payday lending in Ohio," December 2012, Policy Matters Ohio. See attached report.