The Growing Problem of Payday Lending in Ohio

By Kalitha Williams

For nearly two decades, Ohio has seen millions of dollars transferred from struggling families to payday lenders. In June, the Ohio Supreme Court struck a blow to financially vulnerable consumers and ruled that exploitative payday lending could continue, despite legislation and a ballot initiative that had been designed to sharply limit such lending. It is now up to the legislature to pass stronger regulations that are not open to misinterpretation.

History of Ohio payday lending

Payday lending was authorized in Ohio by the Check Cashing Loan Act in 1996, which allowed some check cashing stores to be licensed to offer short-term loans. In eleven years, the industry ballooned from 107 to 1,567 stores in Ohio: there were eventually more payday loan shops in Ohio than McDonald's, Wendy's and Burger Kings combined. Payday loans are targeted at vulnerable individuals with no regard for ability to pay them back. The loans carry triple-digit interest rates (nearly 400% annual percentage rate or APR). This means that a borrower would pay $400 to borrow just $100, if she took 12 months to fully replay. While not all loans take a year to repay, what consumers expect to be a one-time transaction is typically renewed several times, leaving borrowers spiraling further and further into debt. Policy Matters Ohio has documented the spread of payday lending and its negative impact on the financial stability of Ohioans. Along with other consumer advocacy organization, we promote reasonable regulation to protect Ohio families and the wealth they've struggled to build.

Legislative Fix

In 2008, the Ohio General Assembly and Ohio voters, through legislation and a statewide ballot initiative, decided to limit payday lending by

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creating the Ohio Short-Term Loan Act. Those limitations included 1) capping interest at 28 percent APR, 2) imposing a minimum 31-day loan term, 3) allowing a maximum of four loans per year, and 4) limiting loans to $500. The law was considered to be one of the most protective in the nation.

Loopholes

Unfortunately, lenders have evaded the law and sometimes charge higher interest rates and fees than ever. Our research on 69 payday lending establishments throughout Ohio found that: 1) all were making loans due in 14 days or less, 2) most were charging fees to cash their own checks, increasing the interest rate to over 600% APR, 3) most were making loans exceeding $500, and 4) nearly all would use unemployment, Social Security, or disability payments as collateral. Despite efforts of legislators, consumer advocates and Ohio voters, payday lending has grown and become more profitable to the detriment of vulnerable families.

Rise of Auto-title Lending

In 2012, another type of lending began to take root in Ohio: auto-title lending. This extension of traditional payday lending allows use of vehicles as collateral for high-interest loans. These loans can be equally or more disastrous than payday loans because lenders can repossess customers' vehicles upon default. Repossession jeopardizes a family's financial stability by depriving them of a way to get to work.

Ohio Supreme Court ruling

In 2012, Cashland, a large Ohio payday lender, sued a consumer for defaulting. The magistrate ruled that Cashland was not licensed to charge triple digit interest. Cashland was licensed under another statute and not the Ohio Short-Term Loan Act. The opinion was upheld by the Ohio Ninth District Court of Appeals.

Cashland appealed the decision to the Ohio Supreme Court, which, in late 2013, unanimously ruled in favor of Cashland. They found that the General Assembly in the Ohio Short-Term Loan Act did not do enough to restrict payday lending and left obvious loopholes. One justice asked, *"How can the General Assembly set out to regulate a controversial industry and achieve absolutely nothing? Were the lobbyists smarter than the legislators? Did the legislative leaders realize that the bill was smoke and mirrors and would accomplish nothing?"*

What's next?

Since the ruling, State Senator Charleta Tavares has vowed to build bi-partisan support to pass stronger legislation that protects Ohio consumers. At least seven Ohio municipalities now have zoning regulations that limit payday lending stores by population. One of these, Cuyahoga Falls, passed a resolution challenging state officials to improve regulation. The Consumer Financial Protection Bureau, directed by former Ohio Attorney General Richard Cordray, is expected to put out rules this year. The bureau is accepting comments and complaints about the industry at www.cfpb.gov or (855) 411-2372.

Avoid Payday Loans

Financial needs and emergencies can put a family at risk of taking a payday loan. Some things families can do to protect themselves include:

a. **Start an emergency savings account.**
   Consistent small amounts saved over time can add up and stave off financial crisis.

b. **Create and use a budget.**
   A budget can keep spending and saving on track. Get help from Apprisen credit consumer counseling services, at (800) 355-2227.

c. **Reduce expenses.**
   Get rid of unnecessary expenses like premium cable or cell phone services.

When emergencies do occur, alternative to payday loans should be explored. Try calling utilities, mortgage, and car loan companies to request postponed payments for financial hardship. Borrowing from family or friends may also be an option to prevent triple digit interest rates and ensure more reasonable payback terms.

Already stuck in the "Debt Trap"?

If you or someone you know is already stuck in a payday loan, contact Legal Aid by calling **1-866-LAWOHIO** (1-866-529-6446). They maybe able to provide legal assistance to consumers in need.

Get it right

Legislators who seek to build a better law have the right idea. Building savings, maintaining a budget, getting help from legal aid, and finding alternatives to payday loans are all smart moves for individual consumers. But it is essential that Ohio legislators abide by what voters overwhelmingly demanded, and pass well-crafted legislation that truly protects Ohio families from payday lenders and their wealth-stripping loans.

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