Policy Matters Ohio

Consumer Protection
and Asset Building

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Testimony to the Senate Financial Institutions Committee on Senate Bill 355

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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 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 low- and moderate-income families and communities in the state. I am writing the members of the Committee, to express our opposition to Senate Bill 355.

Ohio has an unfortunate history with payday lending. Payday lending was authorized in Ohio by 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 creating the Ohio Short-Term Loan Act. Despite the best efforts of legislators, consumer advocates and Ohio voters, payday lending had grown and become more profitable to the detriment of vulnerable families. Not only do Ohio payday lenders continue to charge some of the highest interest rates in the country, typically at 677%[2] , but each year over $500 million in payday lending fees is drained from family budgets and the Ohio economy.[3]

Installment loans are the newest iteration of payday lending. The loans have been designed to appear less harmful, but they are still exploitative to financially vulnerable families. Installment loans have longer loan periods many stretching longer than a month, larger loan amounts ranging from a few hundred dollars to several thousand dollars, and many still have high costs , compromised of a combination of interest and a slew of fees – credit investigation fees, origination fees, and fees for junk add-on products. These make the loans more expensive to the borrower, increase the borrower's debt load, and make it more difficult for the loan to be repaid without reborrowing. In fact, industry and state regulator data show that, like payday loans, repeat lending is pervasive in the installment loan market as well.[4]

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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] National Consumer Law Center, Installment Loans: Will States Protect Against Borrowers from a New Wave of Predatory Lending?, http://www.nclc.org/images/pdf/pr-reports/report-installment-loans.pdf, July 2015

The Ohio Second Mortgage Loan Act already has regulations in place to allow installment lending in Ohio. This new bill is therefore unnecessary and puts Ohio's financially vulnerable families at risk by doing the following:

- **Removing important provisions that protect Ohio consumers from abusive debt collection practices.** The federal Fair Debt Collection Practices Act provides important protection for Ohioans. However this law is not enforceable when creditors collects on their own debt. The Ohio Second Mortgage Loan Act goes further than federal law and has important safeguards to prevent exploitative debt collection practices. This is especially important, because many of these loans are secured with a borrower's personal property. Unscrupulous lenders could use this legislation to coerce borrowers into making payments or refinancing loans they cannot afford.

- **Allowing lenders to increase fees for consumer credit.** The legislation would allow lenders to more than double the cost for a credit investigation fee from $10 to $25. These fees are in addition to high origination fees and fees for add-on products that can be added to and financed in to the loan. It also increases the total APR from 25% to up to 70% APR, when all of the loan fees are included. This is well above the 2008 voter-affirmed 28% annual rate.

- **Allowing a Wall Street Hedge Fund to exploit Ohioans.** Since 2014, The New York Times has covered how Fortress Investment Group is engaged in a nationwide effort to influence state policy makers.[5] Their efforts have allowed them to maximize their fees at the expense of consumers. Consumer advocates have raised their voices to warn state legislators of the harm these legislative actions can cause families. Fortress Investment Group makes loans to Ohio consumers as OneMain Financial.

We ask that you protect Ohio consumers and oppose Senate Bill 355. Passing this legislation will hurt the financial stability of Ohio's working families.

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 614.221.4505.

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

[5] New York Times, Subprime Lender, Busy at State Level, Avoids Federal Scrutiny http://www.nytimes.com/2016/09/07/business/dealbook/subprime-lender-busy-at-state-level-avoids-federal-scrutiny.html, September 2016
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