OHIO CDC association

May 15, 2019

To: The Bureau of Consumer Financial Protection
Electronic Submission via *2019-NPRMPaydayReconsideration@cfpb.gov*

Re: Severely Flawed Ohio Study Used in CFPB Payday Lending Retraction (RIN 3170-AA80)

Dear Director Kraninger:

As a longtime observer of Ohio's payday lending market and one of the many advocates involved in the 2018 passage of Ohio's Fairness in Lending Act (payday lending reform), I would like to raise a serious concern about the Consumer Financial Protection Bureau's Notice of Proposed Rulemaking on Payday, Vehicle Title, and Certain High-Cost Installment Loans (RIN 3170-AA80). The CFPB would rescind a 2017 final rule that places important consumer safeguards on harmful balloon-payment payday loans. As one of its justifications, the Bureau points to unfounded claims about Ohio's market following the passage of 2008 payday lending legislation. The reality – which has been widely reported on in local and national media, studied extensively by researchers, and documented by our member organizations across the state for a decade – underscores the need for the 2017 federal rule to prevent debt traps, while preserving access to credit.

On page 151 of its 2019 proposal, the Bureau summarizes a working paper finding that Ohio enacted an effective "ban" on payday loans.[1] The Bureau writes:

> Ramirez (2017) shows that when Ohio constrained interest rates on payday loans in 2008, licenses for pawn brokers, precious metal buyers, alternative small-loan, and second-mortgage lending increased. The author concludes that demand for the credit previously satisfied by payday loans persisted after the reducing in the availability of those loans, and that supply-side effects evolved in order to partially meet this demand. The author's implication is that these alternatives to payday loans are substitutes (though likely imperfect ones). The Bureau notes there may be other likely imperfect substitutes for payday loans available to consumers, such as borrowing from relatives, decreasing expenses, borrowing from an unlicensed lender, but the bureau does not have data concerning to what extent these alternatives are available and at what prices as well as the ancillary benefits and costs associated with these possible alternatives.

It is disappointing to see the CFPB's significant misunderstanding of what took place in Ohio's payday lending market for the last decade, which is very well documented. It is widely acknowledged that zero lenders were licensed under Ohio's "Short-Term Loan Act" which passed in 2008.[2] Instead, the very

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[1] Stefanie Ramirez, *Payday-Loan Bans: Evidence of Indirect Effects on Supply* (SSRN Working Paper, 2017)
[2] For an illustrated history of Ohio's payday loan experience, please see the Cleveland Plain Dealer.https://www.cleveland.com/consumeraffairs/2013/06/an_illustrated_history_of_payd.html

same payday loan companies re-licensed, primarily as credit services organizations (CSOs), brokering single-payment and installment payday loans in partnerships with affiliated Small-Loan and Second-Mortgage Loan Act licensees. Payday lenders have disclosed details of how they operated in Ohio using the state's CSO license in their filings to the SEC.[3] Glaringly, the working paper referenced by the CFPB makes no mention of this business model, and the author seems unaware that payday loans were widely available in Ohio after 2008. Contrary to the CFPB's assertions about credit availability and imperfect substitutes, as of 2016, Ohio's payday loan market consisted of more than 650 payday loan storefronts throughout the state (see Appendix 1) and high-cost payday loans were openly marketed after the 2008 law by the very same companies that operated beforehand (see Appendix 2).

Thankfully, in 2018, Ohio lawmakers passed strong bipartisan consumer protections with broad support from leaders of the faith, business, veterans, and civil rights communities, as well as local governments. Known as the Ohio Fairness in Lending Act, the law allows lenders to choose to make loans that last longer than 90 days or provide a rigorous set of affordability tests, as well as capping loan costs that are fair to both lenders and borrowers. Prices are now three to four times lower than before. Lenders have registered under Ohio's robust set of consumer protections, including licensing more than 200 stores, and new competitors have entered the market.[4] As anticipated, access to credit has been maintained and there is no need for borrowers to "substitute" demand with costly alternatives because loans remain widely available from payday loan companies. Consumers are projected to save more than $75 million each year with protections against balloon-payment products that cause debt traps.

Just as Ohio appropriately found this balance at long last, the 2017 CFPB rule would protect consumers, maintain widespread access to credit, and be a strong complement to state laws like ours. It is shocking that the CFPB failed to understand very basic, well-documented market dynamics and regulatory changes which were well-studied leading up to the 2017 final rule. The Bureau's mischaracterization of Ohio's experience and reliance on a flawed study provides further evidence that the efforts to undo the final 2017 rule are arbitrary and capricious in nature. The CFPB's baseless actions would also harm consumers in other states who are trapped by balloon-payment payday loans. **If Ohio's experience is to be considered accurately and in good faith, the CFPB should rescind this latest proposal at once**.

Thank you for listening to our concerns. If you have any questions please do not hesitate to contact me at 614-461-6392 x 207 or ncoffman@ohiocdc.org.

Sincerely,

Nate Coffman
Executive Director

The fact that payday lending continued to flourish in Ohio following 2008 has been widely documented by the *Cleveland Plain Dealer*, the *Dayton Daily News*, *The Columbus Dispatch*, the *Cincinnati Enquirer*, Ohio Public Radio, and more.

[3] For example, CURO Holding Group, 10-K SEC Filing 2017, p. 22 https://last10k.com/sec-filings/curo/0001711291-18-000012.htm#fullReport

[4] https://www.daytondailynews.com/news/local/new-payday-lending-law-save-consumers-75m/YC2O8u3prYjfjgsJw8KGQJ/

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