



Issue 5 Payday Lending

On June 2, 2008 the Governor signed into law HB 545. H.B. 545 was a result of 12 months of legislative debate regarding how best to reform Ohio's payday lending law.

Among other things, H.B. 545 places a 28% APR (annual percentage rate) cap on small loans; reduces to \$500 the amount that can be loaned; restricts borrowers to four loans per year; limits them to one loan at a time; allows them 30 days to repay the loan and prohibits internet lending.

Section 3 of this bill eliminated the existing payday lending provisions in favor of a more regulated and limited small loan program. Payday lenders are seeking to repeal this section of the new bill in order to allow pre-HB545 practices to continue.

In pre-HB 545 practices, a payday loan borrower writes a check (up to \$800) typically dated for two weeks later. The money is advanced for a fee (\$15 per \$100 borrowed). If the borrower is unable to pay back this loan within the two weeks, interest (5% per month on the unpaid principal) and collection fees are assessed. When fees and charges are converted to the federally required annual percentage rate (APR), they amount to 391%.

Voting Clarification

Issue 5 asks whether Section 3 of HB 545 should remain part of Ohio law. Voting NO will repeal Section 3 of HB 545, thus allowing the payday industry to continue as before. Voting YES will keep the reforms enacted by HB 545 that include the elimination of previous payday lending practices.

Pro Arguments <http://www.yesonissue5.com>

Voters should vote YES on Issue 5. HB 545 passed the Ohio General Assembly with overwhelming bi-partisan support. It is considered one of the best legislative responses to "breaking the cycle of debt" caused by over zealous lending practices and under-regulated payday loan businesses. The typical payday borrower is charged 391% APR in interest.

Payday lending is a debt-trap. Borrowers are given easy access to credit that most cannot afford. Studies indicate that only 1% of payday borrowers pay off their original loan in the standard two-week cycle. Typically, borrowers will take out another loan at another payday store in order to pay off the first loan. Studies indicate that the typical payday loan borrower takes out between 10-13 loans per year.

A NO vote on Issue 5, repealing Section 3 of HB 545, will create confusion over interest rates, and lead to expensive and time-consuming legal challenges. It will return Ohio to the less-

regulated and abusive status quo. Retain Section 3 of HB 545: vote YES on Issue 5.

Con Arguments <http://www.ohioans4financialfreedom.com>

Section 3 of HB 545, which eliminates payday lending, should be repealed. Payday loans consumers should be able to decide if they want lending options for their simplicity, convenience and because it's cheaper than many alternatives. Consumers will pay more for less desirable, more costly alternatives like bounced checks and credit card late fees, and at much higher rates than a payday loan.

HB 545's replacement loan provisions are too restrictive and unsustainable as a business model. Capping APR charges at 28% will mean that a lender can charge only \$1.08 per \$100 borrowed. As a result up to 1,600 payday lending stores may close (stores are already closing). This would result in the loss of more than 6,000 good paying jobs with benefits, and a \$272.2 million total loss to Ohio's economy.

391% APR, while accurately based upon a year-long loan, is deceptive because the typical payday loan is two weeks. If the borrower pays back the loan on time, the borrower has typically paid 15 % in interest (\$15 per \$100 borrowed).

Church Teaching & Focus Questions

The teachings of our faith provide many warnings about usury and exploitation of people. Lending practices that, intentionally or unintentionally, take unfair advantage of one's desperate circumstances are unjust.

On balance, do you consider the pre-HB 545 payday lending practices to be fair, helpful and needed, or do you believe them to be exploitive, harmful and unnecessary?

Is Section 3 of HB 545, which prohibits payday loans from charging a 391% APR, a well conceived and appropriate response to the needs of consumers, especially low income consumers?



Catholic Conference of Ohio Position

On June 27, 2007 the Ohio Catholic Bishops stated their support for initiatives that protect the working poor and all Ohio consumers from the spiraling indebtedness caused by payday lending. The Catholic Conference of Ohio believes that HB 545 responsibly addresses this concern, and encourages a YES vote to maintain the significant and necessary reforms regarding payday lending.