



[nhsleveland.org](http://nhsleveland.org)    216.458.4663 (HOME)

Senator Brown and Ranking Member Toomey,

My name is David Rothstein, director of public affairs for Neighborhood Housing Services of Greater Cleveland and research fellow in the asset building program with the New America Foundation. I appreciate the opportunity to testify before you today regarding small dollar lending, most commonly referred to as payday lending. For more than 10 years I have researched small dollar lending and financial services to low-income families.

Outlined in this testimony I hope to convey the importance of strong regulation around small dollar lending, particularly from the federal government, as local authorities wrestle to ensure consumers receive safe and affordable loan products. It is imperative that we look at the characteristics of the loan such as the APR interest rate and method of payback to assess the quality of the product.

First, the traditional payday loan model in Ohio and alive in dozens of other states does not serve families well. Research of actual borrowers continues tell this story in numerous ways – the latest [Pew Charitable Trust Research](#) and day old report by the [CFPB](#) providing the most startling research to date. I say that it doesn't serve them well because the average family takes out 8 to 12 loans per year from one lender, typically purchasing loans in back-to-back transactions. This is absolutely the typical Ohio customer. This means as soon as their loan is repaid, they immediately re-borrow to cover other expenses. This is also the prototypical debt cycle. Our housing and financial capabilities counselors indicate that most clients have loans from about four different stores. Keep in mind that many families cannot afford to pay back the principle balance of the loan in just two weeks let alone interest and principle. If payback does occur, other monthly budget items suffer such as rent, utilities, food, and car payments.

Second, payday lenders in Ohio morphed into auto title and installment lenders. This is also quite typical. And also more expensive. Ohio's battle to reform and better regulate payday lending continues marking an almost eight year conflict. In 2008, the Ohio General Assembly passed a bipartisan bill to curtail the interest rate, loan amount, and number of loans per year in Ohio. The law requires lenders to not sell more than four loans per person per year and not more than 28 percent APR interest. The reduction is significant since lenders charge 391% APR interest. The day after Governor Strickland signed the legislation, payday lenders and their trade association announced that they would go to the ballot, to the voter, and try to reverse the law. Despite spending at minimum \$10 million, they suffered a wide-margined defeat with voters. Yet, not a single payday lender in Ohio uses the law (Small Loan Act) but rather two antiquated mortgage lending laws to sell loans at essentially the same price, if not more, than before.

Most recently, lending in Ohio expanded to include selling high cost loans using automobile titles as collateral. An auto title loan is more dangerous than a payday loan in the sense that people can and do lose their car once they are too far into debt. I have included a 3-part story from the Akron Beacon Journal about a working mother of three who lost her car and nearly her home after this loan. Installment loans, the newest payday product, offered by payday lenders carry a similar triple-digit interest rate and use the Credit Service Organization law to sell loans for up to 12 months. One loan that I analyzed cost a borrower \$5,000 to borrow \$2,000 over a 12 month period.

Finally, At NHS of Greater Cleveland, we practice what we preach. Since we advocate smart homeownership, we purchased our building in the recovering area of Slavic Village. Since we are notably critical of payday lending, we are developing two alternatives. Working with the innovative start-up company Employee Loan Solutions, we will be working with large employers to provide access to safe, underwritten, low-cost loans through their paycheck. The lender is a CDFI focused on providing low-income families with affordable financial products. The other program is a small dollar loan serviced and managed by NHS of Greater Cleveland. The intent is to comply with Ohio's payday lending law, the only group in Ohio to do so.

As this Congress and the Consumer Financial Protection Bureau consider rules and regulations around small dollar lending, a floor on small dollar loans will encourage high-quality innovation.

Lenders should be required to fully assess a borrower's ability to repay a loan, in full and on time, without the use of repeatedly cashing a check or electronically debiting an account. Just like mortgages or credit cards, ability to repay requirements protect borrowers from unsustainable debt. But when lenders have the ability to collect payments using post-dated checks or electronic transfers, they know they will get paid even if it causes financial hardship or forces a borrower to take out another loan to pay off the first. Lenders should not be able to use post-dated checks and electronic payments to access a borrower's bank account if they are unable to repay a loan. The litmus test is that automatic payment should be a convenience for the borrower not a side-step to debt collection laws.

I appreciate your time and commitment to ensuring that low- and moderate-income families are best served in the financial sector. I am happy to answer any questions that you may have.

Respectfully submitted,

David Rothstein

# Akron woman works through financial situation involving lender

By Betty Lin-Fisher

Beacon Journal consumer columnist

Published: February 28, 2014 - 07:51 PM | Updated: March 2, 2014 - 08:35 PM



Jamela Lott organizes her kitchen in her new home Wednesday in Akron. (Karen Schiely/Akron )

## ● [Betty Lin-Fisher: Auto-title loans can be detrimental to consumers](#)

Three weeks ago, Jamela Lott was homeless.

But today, Lott and her three young sons are living in a rented house in West Akron, thanks to the kindness of strangers because of Lott's problems with an auto-title loan company.

Last August, the single mother of five (two children are grown), was falling behind on rent and borrowed \$900 from Loan Max in Akron. She used her 2001 Oldsmobile Alero as collateral for the loan, with a lien placed on the title. Lott made some payments, but eventually was unable to keep up. Lott said she paid \$938 on the original \$900 loan, but was told she owed more than \$1,600 or had to face repossession of her car.

She drives to work, takes children to day care and school, and drives to night school while working on an associate's degree.

In January, she and her sons became homeless and entered the program of Family Promise of Summit County, which provides temporary shelter to homeless families and offers assistance.

Family Promise reached out to me and said Lott was willing to share her story because of what officials say is a problem with auto-title loans causing hardships for people.

A previous column about Lott is online at [www.ohio.com/betty](http://www.ohio.com/betty). I wrote about consumer advocates' belief that auto-title loans are more troublesome than payday loans. If payments are missed, the car can be repossessed and cars often are the only asset some people have.

Consumer advocates say auto-title lending doesn't assess the borrower's ability to pay back the loan. They believe state law loopholes allow auto-title lending in Ohio.

Legislation passed in 2008 limited percentage rates and terms that payday lenders could offer. But auto-title lenders say they are not payday lenders and operate under two other state laws — the Small Loan Act and Mortgage Loan Act.

Consumer advocates say they have been unable to convince any legislators to change the laws.

There was outrage expressed after Lott's story was shared.

Jeff Wilhite, director of Family Promise of Summit County, said his agency has become aware of other victims of auto-title loan practices.

Wilhite said the agency wants to gather stories to share with legislators in an attempt to include auto-title lending under payday lending laws.

Letters can be sent to Family Promise, 77 W. Miller Ave., Akron, OH 44301 or by email to [info@familypromisesc.org](mailto:info@familypromisesc.org).

"I'll use some of my public service experience and connections to try to expedite that if we can," said Wilhite, who previously worked for the city of Akron and the Akron Metropolitan Housing Authority.

Lott received offers of help from strangers to get her out of the loan problem. A donor who asked to remain anonymous offered to pay the entire \$1,600 amount, plus \$50 for gas.

Lott's Family Promise case worker, Erica Ward, and I took the money to LoanMax, where workers accepted the payment and gave Ward a receipt, marking her debt as paid.

That same day, LoanMax officials said they did not want the cash.

Pat Crowley got involved as a spokesperson for the Ohio Consumer Lenders Association, an industry trade group with payday and auto-title lender members.

Crowley said LoanMax intended to write off Lott's loan, and said Lott had not discussed anything with them since she had an attorney via Legal Aid.

In the end, attorney Harry McKeen settled with the LoanMax officials to write off Lott's debt and return the donor's money.

LoanMax originally wanted Lott to sign a document stating she would not take action against them or discuss the matter.

Lott was uncomfortable signing such a request and eventually the matter was dropped. McKeen was told by LoanMax there would be no negative effect on Lott's credit (LoanMax does not report on customers to credit bureaus) and there would be no negative income tax implications for the loan payoff.

Meanwhile, Beacon Journal readers who learned of Lott's problems sent in \$1,160 in donations. They were used to help Lott accumulate a security deposit and first month's rent for her house. The original donor contributed \$325 to complete the security deposit/first month's rent and paid \$175 to get electricity turned on.

I returned the rest of the money to the donor. "I'm very excited there were so many people in the community who were willing to help her," the donor told me. "I'm glad she's on her way. Unfortunately, I can't help everyone, but hopefully someday, she can pass it on."

Glad to be home

Lott said she has been touched by the generosity of strangers.

"I've been crying all the time. I know that God sends people," said Lott of her three-bedroom house she moved into last week. She has no furniture and is working on buying items and getting donations. Her kitchen has no appliances but the landlord is looking into assistance on that. She bought a crock pot this week and said she cooked spaghetti and kept the leftovers in her cold car.

"It's beautiful to be able to come home. Thanks for helping us get our own little warm place," she said.

Unfortunately, I was not able to return phone calls to everyone who left messages about this story.

Community Legal Aid officials said they are willing to help people who cannot afford an attorney and are having problems with auto-title lending. People may call 800-998-9454. Eligible consumers will be referred to an attorney.

A Legal Aid official said the agency wants to raise the issue with legislators about the "detrimental effect of auto title loan abuses on Ohio consumers."

McKeen said he is working for Norma Poalson, 68, of Akron, who said she took out a \$600 loan in April for a now-deceased friend who needed a chair lift. When Poalson fell behind on her payments, LoanMax rolled over her loan and gave her another \$600. Poalson said she has paid about \$2,200 on the loan and owes another \$1,690 or faces repossession.

Another consumer, Rasheeda Jackson, said she took out a \$600 loan in August and fell behind and her car was repossessed in January. To get her car back, Jackson had to pay \$890, including \$600 to the repossession company, which charged her storage fees and tried to ask for money to get things out of her car if she didn't pay the full fees.

Another reader told me a story that a repossession company asked for \$45 to get his belongings out of a repossessed car. He did not have the money and lost his belongings.

LoanMax, via Crowley, said they do not allow the repossession company to charge clients to collect personal belongings. Crowley said it was the first time they had heard of such policies and they immediately addressed it with the auction company. If such charges are imposed, Crowley said they would terminate their contract with the company.

Crowley said because of privacy issues, LoanMax could not comment about other specific accounts. They issued this statement:

"Loan Max consistently goes beyond what state and federal law require by providing additional disclosures to ensure their clients fully understand the terms of their service agreement. If a customer falls behind, Loan Max is always willing to work with our customers by providing additional time to pay and alternative payment plans. Although it is uncommon, if a vehicle is repossessed it is because the customer has ignored repeated attempts by the company to contact them and make a payment arrangement. Loan Max uses reputable recovery companies (typically the same companies used by other financial institutions such as credit unions and auto finance companies) but they cannot control the pricing and policies of these companies."

Betty Lin-Fisher can be reached at 330-996-3724 or [blinfisher@thebeaconjournal.com](mailto:blinfisher@thebeaconjournal.com). Follow her on Twitter at [www.twitter.com/blinfisher](https://www.twitter.com/blinfisher).