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Fiscal Note & Local Impact Statement

Bill: H.B. 123 of the 132nd G.A. **Status:** As Enacted

Sponsor: Reps. Koehler and Ashford **Local Impact Statement Procedure Required:** No

Subject: Requires certain consumer lenders to be licensed under the Short-Term Loan Law

State Fiscal Highlights

- The bill will require lenders offering certain types of consumer loans and regulated under the Small Loan, General Loan, or Credit Service Organization laws to obtain licensure instead under the Short-Term Loan Law.
- In FY 2018, the Division of Financial Institutions within the Department of Commerce oversaw approximately 1,600 licenses and registrations under the Small Loan, General Loan, and Credit Services Organization laws. There were no licenses issued under the Short-Term Loan Law.
- The annual per-location license fee under the Short-Term Loan Law is $1,000 for a for-profit business or $500 for a nonprofit entity. The fee is deposited into the Consumer Finance Fund (Fund 5530).

Detailed Fiscal Analysis

Overview

In FY 2018, the Consumer Finance Section of the Division of Financial Institutions within the Department of Commerce (COM) oversaw approximately 1,600 licenses and registrations under the various lender laws covered by the bill. Overall, the changes in the bill will steer lenders who currently offer small-dollar, shorter term loans and wish to continue to do so in the future from licensure under the Small Loan, General Loan, or Credit Services Organization laws instead to licensure under the Short-Term Loan Law. Based on a 2016 count by the Pew Charitable Trusts, the number of storefront locations offering payday loans and thus potentially subject to licensure under the Short-Term Loan Law under the bill is approximately 650.[1]

The modifications to the Short-Term Loan Law in the bill include (1) increasing the maximum loan amount from $500 under current law to $1,000 under the bill, (2) increasing

[1] *Ohio Has the Highest Payday Loan Prices in the Nation*. The Pew Charitable Trusts. December 2016. Accessed on June 7, 2018 and viewable at http://www.pewtrusts.org/-/media/assets/2016/12/ohio_has_the_highest_payday_loan_prices_in_the_nation.pdf.

the duration of loans from at least 31 days to a maximum duration of one year, (3) establishing a monthly maintenance fee that is the lesser of 10% of the originally contracted loan amount or $30, and (4) establishing requirements for a borrower's eligibility for a loan that has a duration less than 91 days. The bill also caps the total amount of fees and charges that can be charged to 60% of the originally contracted loan amount. To differentiate between the loans that can be made under the Short-Term Loan Law, the bill requires that loans made under the Small Loan Law and General Loan Law have either a minimum duration of more than one year or a loan amount greater than $1,000. Additionally, the bill prohibits credit services organizations (loan brokering services) from brokering extensions of credit when the amount is less than $5,000 and the repayment term is under one year.

Consumer finance licenses and registrations

The bill will require payday lenders to obtain licenses under the Short-Term Loan Law because it specifies that the minimum duration for loans made under the Small Loan Law and General Loan Law is more than one year and the loan amount is more than $1,000. This will exclude most of the types of consumer loans made by payday lenders. The table below displays the number of licensees or registrants in FY 2018 under each lending law and the applicable annual fees. The proceeds from the fees are deposited into the Consumer Finance Fund (Fund 5530). The annual per-location license fee for a short-term lender is $500 or $1,000, amounts that are greater than the other license or registration fees under the Small Loan, General Loan, or Credit Services Organization laws. Consequently, if the approximately 650 lenders offering payday loans currently shift to licensure under the Short-Term Loan Law, it will lead to a net gain in license fee revenue deposited into Fund 5530. Alternatively, there might be a decline in license revenue if some lenders currently offering payday loans leave the Ohio market under the changes proposed in the bill.

Consumer Lending Laws – Licenses and Registrations Potentially Affected by H.B. 123		
Consumer Lending Law	**Licensees or Registrants (FY 2018)**	**Annual Fee Per Location**
Short-Term Loan Law	0	$500 for a nonprofit entity $1,000 for a for-profit business
Small Loan Law	79	$250
General Loan Law	1,528[2]	$300
Credit Services Organizations Law	47	$100

[2] The number of licensees or registrants under the General Loan Law may double count some locations/companies due to the transition period for both the Ohio Residential Mortgage Lending Act (H.B. 199 of the 132nd General Assembly) and the Ohio Consumer Installment Loan Act (S.B. 24 of the 132nd General Assembly).

Fines

A violation of the bill's prohibition on making loans of amounts less than $1,000 or terms of shorter than one year under the Small Loan Law or General Loan Law is a minor misdemeanor. The same is the case for violating the bill's prohibition against brokering an extension of credit for a buyer in certain situations under the Credit Services Organization Law. Under both cases, violators are subject to a fine of at least $100 but not more than $500. Fines are assessed by the local court and deposited into the county's general fund.