



# OHIO LEGISLATIVE SERVICE COMMISSION

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## Fiscal Note & Local Impact Statement

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

**Status:** As Reported by House Government Accountability and Oversight

**Sponsor:** Reps. Koehler and Ashford

**Local Impact Statement Procedure Required:** No

**Subject:** Modifies the Short-Term Loan Law and makes other changes

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### State Fiscal Highlights

- The bill will cause lenders offering certain types of consumer loans and regulated under the Small Loan and Mortgage Loan laws to be licensed under the existing Short-Term Loan Law instead. 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) used by the Consumer Finance Section within the Department of Commerce.
- In FY 2017, the Department of Commerce oversaw approximately 1,900 licenses and registrations under the Small Loan, Mortgage Loan, and Credit Services Organization laws. There were no licenses issued under the Short-Term Loan Law.

### Detailed Fiscal Analysis

#### Overview

The bill makes several modifications to the Short-Term Loan Law, including the minimum duration of loans, maximum total monthly payments, and a borrower's eligibility for a loan. To differentiate between the loans that can be made under the Short-Term Loan Law (\$500 under current law), the bill requires that loans made under the Small Loan Law and Mortgage Loan Law have a minimum duration of 180 days. Finally, 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 180 days.

The Consumer Finance Section under the Division of Financial Institutions within the Department of Commerce (COM) regulates lenders that make these types of loans. In FY 2017, the Consumer Finance Section oversaw just over 1,900 licenses and registrations under the various lender laws covered by the bill. Overall, the changes in the bill will steer certain lenders from operating under the Small Loan, Mortgage Loan, or Credit Services Organization laws and toward the Short-Term Loan Law. The extent of any such shift in licensure is unknown.

## Consumer finance licenses and registrations

The bill could affect the type of consumer finance license or registration that lenders offering certain consumer loan products must operate under, causing some lenders to shift to licensure under the Short-Term Loan Law. This is mainly because the bill specifies that the minimum duration for loans made under the Small Loan Law and Mortgage Loan Law is 180 days, excluding many typical "pay-day" loan transactions. In contrast, the minimum duration of a loan under the Short-Term Loan Law under the bill is the number of months equal to the sum of the contracted loan amount plus fees divided by the total monthly payment. Because of the sums involved with typical short-term loans, the minimum duration of a loan in most cases will be less than 180 days.

It is unclear how many existing consumer lenders licensed under the Small Loan Law, the Credit Services Organization Law, or that are registered under the Mortgage Loan Law, offer loan products with terms of under 180 days. Consequently, it is difficult to project how many entities would be required to shift from licensure or registration under those three laws to licensure under the Short-Term Loan Law. The table below displays the number of licensees or registrants in FY 2017 under each law and the applicable annual fees. The proceeds from the fees are deposited into the Consumer Finance Fund (Fund 5530). As the table shows, 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, Mortgage Loan, or Credit Services Organization laws. Consequently, if more lenders shift to licensure under the Short-Term Loan Law, it will lead to a net gain in license fee revenue deposited into Fund 5530.

<b>Consumer Finance Licenses and Registrations Potentially Affected by H.B. 123</b>		
<b>License or registration</b>	<b>Licensees or registrants (FY 2017)</b>	<b>Annual Fee per location</b>
Short-term lenders	0	\$500 for a nonprofit entity \$1,000 for a for-profit business
Small loan licenses	163	\$250
Mortgage loan registrants	1,696	\$300
Credit services organizations	51	\$100

### Fines

A violation of the bill's prohibition on making loans with terms of less than 180 days or evading that restriction under the Small Loan Law or Mortgage 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.