



OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

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

Status: As Passed by the House

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 and Mortgage Loan laws to obtain licensure instead 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) 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.

In FY 2017, the Consumer Finance Section within the Department of Commerce (COM) 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 lenders who currently offer payday loans and wish to continue to do so in the future from licensure under the Small Loan, Mortgage 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

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 Mortgage Loan Law is 180 days. This will exclude most of the types of consumer loans made by payday lenders. 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 originally 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.

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). 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 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 Finance Licenses and Registrations Potentially Affected by H.B. 123		
License or registration	Licensees or registrants (FY 2017)	Annual Fee per location
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.

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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.