SB2679

Measure Title:	RELATING TO CHECK CASHING.
Report Title:	Check Cashing; Deferred Deposit Agreements; Fees; Annual Percentage Rate; Right to Rescind; Installment Loan Plan; Collection Practices
Description:	Specifies a customer has the right to rescind a deferred deposit by returning the principal amount used to fund the deferred deposit within a specified time frame. Permits customers to convert a deferred deposit into an installment loan plan in certain circumstances and specifies requirements for the installment loan plan. Protects against harmful collection practices. Defines annual percentage rate. Requires a check casher to provide a written agreement to a customer that clearly discloses specific information relating to the cost and fees associated with the deferred deposit, among other things. Caps the annual percentage rate at no more than thirty-six per cent for deferred deposit of a personal check. Permits prepayment of deferred deposit agreements with no additional fees.
Companion:	
Package:	None
Current Referral:	CPH
Introducer(s):	BAKER, INOUYE, KEITH-AGARAN, KIDANI, TOKUDA, Taniguchi

DAVID Y. IGE
GOVERNOR

SHAN S. TSUTSUI
LT. GOVERNOR

STATE OF HAWAII
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DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
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CATHERINE P. AWAKUNI COLÓN
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

PRESENTATION OF THE
OFFICE OF CONSUMER PROTECTION

TO THE SENATE COMMITTEE ON COMMERCE,
CONSUMER PROTECTION & HEALTH

THE TWENTY-EIGHTH LEGISLATURE
REGULAR SESSION OF 2016

FEBRUARY 19, 2016
9:00 A.M.

TESTIMONY ON SENATE BILL 2679, RELATING TO CHECK CASHING

TO THE HONORABLE ROSALYN H. BAKER, CHAIR,
AND TO THE HONORABLE MICHELLE N. KIDANI, VICE CHAIR,
AND MEMBERS OF THE COMMITTEE:

The Department of Commerce and Consumer Affairs ("DCCA"), Office of Consumer Protection ("OCP") supports Senate Bill No. 2679, Relating to Check Cashing. My name is Stephen Levins and I am the Executive Director of the OCP.

Senate Bill No. 2679 offers several consumer protections for borrowers who take out payday loans. These include:

A right to rescind;

A right to convert a payday loan to an installment loan;

Protections against harmful collection practices;

Improved loan disclosures;

Prohibitions on prepayment penalties; and

Capping the annual percentage rate of payday loans at no more than 36%.

OCP believes that this proposal is necessary and meritorious.

In particular, the OCP is in strong support of setting the APR cap at 36% per annum, as it would reduce the cost of credit for consumers who should not be paying interest on a loan that a relatively short time ago would have been considered exorbitantly usurious. Currently, the fees charged on payday loans in Hawaii are 15% of the face value of the check for each transaction. What this means is that an individual who receives a payday loan of $100 will pay a fee of $17.65. Making the APR for a 14-day loan at that amount equivalent to an APR of 459%!

Adopting a 36% cap would not be an aberration. On the contrary, limiting deferred deposit transactions for Hawaii consumers to 36% APR would be consistent with the growing trend around the country of providing more consumer protections for these loans. In the past few years alone, 16 jurisdictions have either banned payday loans outright or subjected them to a 36% APR or lower. These jurisdictions include: Arkansas; Arizona; Connecticut; the District of Columbia; Georgia; Maryland; Massachusetts; Montana; New Hampshire; New Jersey; New York; North Carolina; Ohio; Pennsylvania; Vermont; and West Virginia.

According to an April 2013 report issued by the National Consumer Law Center, the 36% rate cap also works on a practical level for small loans. For a loan of the typical size and duration of a payday loan, a 36% rate results in payments that payday borrowers are more likely to be able to make while actually paying off the loan. A 36%

rate also forces lenders to offer longer term loans with a more affordable structure and to more carefully consider ability to pay to avoid write offs.

Thank you for the opportunity to testify in support of S.B. 2679. I am available for any questions that you may have regarding this Bill.

DAVID Y. IGE
GOVERNOR

SHAN S. TSUTSUI
LT. GOVERNOR

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PRESENTATION OF THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

TO THE SENATE COMMITTEE ON
COMMERCE, CONSUMER PROTECTION, AND HEALTH

THE TWENTY-EIGHTH LEGISLATURE
REGULAR SESSION OF 2016

FRIDAY, FEBRUARY 19, 2016
9:00 a.m.

TESTIMONY ON S.B. NO. 2679 RELATING TO CHECK CASHING

TO THE HONORABLE ROSALYN H. BAKER, CHAIR,
AND MEMBERS OF THE COMMITTEE:

My name is Iris Ikeda, Commissioner of Financial Institutions ("Commissioner"), testifying on behalf of the Department of Commerce and Consumer Affairs, with comments on Senate Bill No. 2679, relating to Check Cashing.

The Division of Financial Institutions ("DFI") supports the intent of this measure, which would amend Chapter 480F, Hawaii Revised Statutes ("H.R.S"), Hawaii's Check Cashing law, to increase certain consumer protection aspects of deferred deposit loans. DFI defers to the Office of Consumer Protection ("OCP") on the mechanics of this measure, as Chapter 480F, H.R.S., is under OCP's purview. DFI provides the following observations and suggestions that may help clarify the measure:

- Page 5, lines 21-22. "[P]rovided that payments for the loan installment plan shall not exceed five percent of a customer's gross monthly income . . ."
    - Comment: Clarify when "gross monthly income" is determined. If it's at the time the customer requests the installment loan conversion, the customer may have lost his or her job and have $0 income. In that case, the period of the loan may be indefinite.
    - Comment: Clarify how "gross monthly income" is calculated. Does the customer need to show proof of income, and if so, what documentation is required? What happens if the customer refuses to provide proof?
- Page 6, lines 1-3. "[A]ll costs associated with the [installment] loan, including any fees charged and the annual percentage rate, shall be earned evenly over the life of the loan."
    - Comment: Consider deleting "and the annual percentage rate,". APR represents the cost of borrowing money expressed as a percentage, rather than a sum that is "earned".
- Page 6, lines 7-12. "If the customer prepays the loan installment prior to the maturity of the loan installment term, the check casher shall refund to the customer a prorated portion of the annual percentage rate, based upon the ratio of time left before maturity to the loan installment term."
    - Comment: APR represents the cost of borrowing money expressed as a percentage, rather than a sum that can be prorated. The intent may be to prorate fees and prepaid interest, if any. Please also consider whether

this calculation can be easily calculated by the check casher's staff, and understood by the customer.

- Comment: It does not appear that the 36% APR cap for a deferred deposit (p. 11, lines 4-6) applies to an installment loan.

- Page 6, line 19 through page 8, line 19. This section addresses the federal Consumer Financial Protection Bureau ("Bureau") enforcement order language against ACE Cash Express[1] ("ACE") in 2014.

The Bureau found that ACE used unfair, deceptive, and abusive practices to collect consumer debts, both when collecting its own debt and when using third-party debt collectors to collect its debts. The Bureau found that ACE used these illegal debt collection tactics to create a false sense of urgency to lure overdue borrowers into payday debt traps.

ACE would encourage overdue borrowers to temporarily pay off their loans and then quickly re-borrow from ACE. Even after consumers explained to ACE that they could not afford to repay the loan, ACE would continue to pressure them into taking on more debt. Borrowers would pay new fees each time they took out another payday loan from ACE. The Bureau found that ACE's creation of the false sense of urgency to get delinquent borrowers to take out more payday loans, is abusive.

[1] The company offered payday loans, check-cashing services, title loans, installment loans, and other consumer financial products and services. ACE offered the loans online and at many of its 1,500 retail storefronts. The storefronts were located in 36 states and the District of Columbia.

- Page 8, lines 17-19. “This section shall apply to any third party assignee of a check casher, for purposes of the third party collection of the dishonored check."
    - Comment: Also consider applying this provision to any third- party acting on behalf of the check casher.
- Page 9, lines 8-10. “The annual percentage rate shall be determined in accordance with the federal Truth in Lending Act."
    - Comment: Clarify whether the TILA reference is to 12 CFR Part 1026, Subpart C – Closed-End Credit, http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&tpl=/ecfrbrowse/Title12/12cfr1026_main_02.tpl, or another TILA provision.
    - Comment: TILA definition of APR is the total cost of credit as a yearly rate as determined by Regulation Z and explained in appendix J to the regulation.
- Page 10, lines 20-21. “The written [deferred deposit] agreement shall not permit the check casher to accept collateral.”
    - Comment: Consider rewording this to avoid conflict with the rescission right provision which refers to the postdated check as “security” (p. 4, line 16).
- Page 11, lines 4-6. “A check casher may charge [~~a fee for~~] an annual percentage rate of no more than thirty-six per cent for deferred deposit of a personal check …”
    - Comment: Clarify whether this cap also applies to an installment loan agreement under this chapter.

DFI supports the intent of this measure, to increase consumer protection aspects of deferred deposit loans.

Thank you for this opportunity to provide comments on this measure. I would be pleased to respond to any questions that you may have.

STATE OF HAWAIʻI
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JAN K. YAMANE
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**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON SENATE BILL NO. 2679
RELATING TO CHECK CASHING**

Senate Committee on Commerce, Consumer Protection, and Health

February 19, 2016

Chair Baker and Members of the Committee:

Thank you for the opportunity to testify in support of SB 2679. This purpose of this bill is to increase certain consumer protection aspects of the deferred deposit loan industry.

As you know, our Report No. 05-11, *Sunrise Analysis: Check Cashing and Deferred Deposit Agreements (Payday Loans)* (December 2005) recommended, among other things, that Chapter 480F, HRS, be amended to require check cashers or payday lenders who enter into deferred deposit agreements (payday loans) to conspicuously post all the fees they charge for such an agreement, including the annual percentage rate for the loan. We also recommended that the maximum allowable fee for a deferred deposit agreement be reduced. This bill would implement both those recommendations.

We also recommended that payday lenders be required to register with the Department of Commerce and Consumer Affairs, including proof of business registration with the department, the names of all owners of the company, the names and addresses of all principals of the business, and the names and locations of all stores.

Thank you for the opportunity to testify in support of SB 2679.

OFFICE OF HAWAIIAN AFFAIRS
Legislative Testimony

SB2679
RELATING TO CHECK CASHING
Senate Committee on Commerce, Consumer Protection, and Health

February 19, 2016 9:00 a.m. Room 229

The Office of Hawaiian Affairs (OHA) **SUPPORTS** SB2679. This bill protects low-income families, by setting a cap on the interest rate for payday loans, and ensuring that borrowers are adequately informed of loan terms and conditions. This bill aligns with OHA's strategic priority of improving the economic self-sufficiency of Native Hawaiians.

According to the Corporation for Enterprise Development (CFED) Assets and Opportunity Scorecard, while Hawaiʻi may rank high in some areas of household financial security, our state still lacks important regulations that would assist low-income individuals in achieving economic self-sufficiency. For example, recent Federal Deposit Insurance Corporation (FDIC) data indicate that 23.5% of island residents, including 34% of Native Hawaiians and Pacific Islanders in Hawaiʻi, are unbanked or underbanked, and must therefore use alternative and often costly financial services such as payday lending for their basic transaction and credit needs. While alternative financial services (AFS) such as payday lending can be important venues for providing credit to low-income and underbanked households, National Consumer Law Center research has shown that, absent regulation, AFS businesses have the potential to trap such consumers in cycles of debt and poverty. However, Hawaiʻi is in the minority of states that currently does not cap payday loan interest rates, a critical component of meaningful AFS regulation.

The current measure accordingly provides some consumer protection for payday lending AFS. First, the measure allows borrowers to avoid accruing unnecessary interest, by requiring lenders to accept advance payments without penalty. Moreover, this bill provides borrowers with the opportunity to revisit loan decisions potentially made in times of crisis, by allowing them a limited time to rescind loan agreements. Additionally, it caps the annual interest rate for payday loans at a moderate rate more consistent with the federal Truth in Lending Act as well as FDIC Small Dollar Loan Guidelines, which recommend setting maximum lending rates at less than 36%, with low or no fees. Finally, this bill promotes informed decisionmaking by potential borrowers, requiring lenders to provide clear information on the fee schedule and annual percentage rate for their loans. Such regulations should allow families to more safely access credit through payday lending AFS, while still allowing lenders to remain profitable.

Accordingly, OHA urges the Committee to **PASS** SB2679. Mahalo nui for the opportunity to testify on this important measure.

CATHOLIC CHARITIES HAWAIʻI

TESTIMONY IN SUPPORT OF SB 2679: RELATING TO CHECK CASHING

TO: Senator Rosalyn H. Baker, Chair, Senator Michelle N. Kidani, Vice Chair, and Members, Committee on Commerce, Consumer Protection and Health

FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawaiʻi

HEARING: **Friday, 2/19/16; 9:00 am; CR 229**

Chair Baker, Vice Chair Kidani, and Members, Commerce, Consumer Protection and Health:

Thank you for the opportunity to **strongly support SB 2679**, which would provide meaningful and long needed protections for consumers of payday loans. I am Betty Lou Larson, the Legislative Liaison at Catholic Charities Hawaiʻi.

Catholic Charities Hawai`i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai`i for over 60 years. CCH has programs serving individuals, elders, children, developmentally disabled, homeless and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai`i. CCH's advocacy priority is reducing poverty in Hawaiʻi. Payday loans often put severe financial hardship on lower income people driving them deeper into poverty.

Pope Francis has denounced payday lending and abusive loan sharks that exploit the vulnerable situation of families and individuals sliding into poverty: "When a family has nothing to eat, because it has to make payments to usurers, this is not Christian, it is not human! This dramatic scourge in our society harms the inviolable dignity of the human person" (1/29/14).

In 2006 the U.S. Department of Defense made it illegal to make loans with interest rates greater than 36% APR to active-duty service members and their families. Currently, 17 other states have adopted this policy and protected their consumers while allowing affordable small loans. At this rate of interest, borrowers are more likely to be able to pay back their loans without rolling them over into another loan and accruing more debt.

Clearly it is the poor who are using this type of financial product and in Hawaiʻi many people are struggling with the high cost of living. People living below the poverty line are especially hard hit in Hawaii, with the highest cost of shelter in the country. A family of four in Hawaii pays 68% more for food than families on the mainland. This bill provides very important protections to people from unreasonable rates and fees that force families deeper into poverty. Clearly stating the annual percentage rate is a normal business practice for bank loans and other contracts. This allows borrowers to be fully informed regarding their loans. Putting it in writing protects both the buyer and seller. If a rate cap of 36% APR is fair to our military citizens, is it not also fair for ordinary people who are struggling to live in Hawaii?

We urge your support for this bill to address one of the challenges faced by people living with low-incomes. It is an important step forward to helping people regain financial stability.

COMMUNITY ALLIANCE ON PRISONS

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COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND HEALTH
Senator Rosalyn Baker, Chair
Senator Michelle Kidani, Vice Chair
Friday, February 19, 2016
9:00 a.m.
Room 229

STRONG SUPPORT FOR SB 2679 – PREDATORY LENDING

Aloha Chair Baker, Vice Chair Kidani and Members of the Committee!

My name is Kat Brady and I am the Coordinator of Community Alliance on Prisons, a community initiative promoting smart justice policies in Hawai`i for almost two decades. This testimony is respectfully offered on behalf of the 6,000 Hawai`i individuals living behind bars or under the "care and custody" of the Department of Public Safety. We are always mindful that approximately 1,400 of Hawai`i's imprisoned people are serving their sentences abroad thousands of miles away from their loved ones, their homes and, for the disproportionate number of incarcerated Native Hawaiians, far from their ancestral lands.

SB 2679 specifies a customer has the right to rescind a deferred deposit by returning the principal amount used to fund the deferred deposit within a specified time frame; permits customers to convert a deferred deposit into an installment loan plan in certain circumstances and specifies requirements for the installment loan plan; protects against harmful collection practices; defines annual percentage rate; requires a check casher to provide a written agreement to a customer that clearly discloses specific information relating to the cost and fees associated with the deferred deposit, among other things and **most importantly, caps the annual percentage rate at no more than thirty-six per cent for deferred deposit of a personal check** and permits prepayment of deferred deposit agreements with no additional fees.

Community Alliance on Prisons supports this bill and thanks the introducers of this bill and the committee for hearing it. This bill addresses many of the problems cited in the last year's hearings.

The clientele of these payday loan businesses are generally the most vulnerable people in our community – the economically-challenged, the elderly, those exiting incarceration, etc. And as we all know, many families in Hawai`i are living hand-to-mouth with little or nothing to spare. And to add salt to the wound, payday lenders are now using the criminal justice system to go after borrowers.

The Hawai`i Appleseed Center for Law and Economic Justice has found that, "*The current fee cap of 15% amounts to a 459% annual percentage rate (APR) that can trap desperate borrowers in a cycle of high interest loans. Hawai'i has the opportunity to end this exploitative interest rate by imposing a reasonable cap of 36% APR as proposed in this bill. A 36% APR cap is the only proven, meaningful way to protect borrowers from high-cost lending. Seventeen states have already taken action and implemented a 36% cap while still allowing affordable small loans. The federal government has also recognized the dangers of payday loans and imposed a 36% APR cap for loans made to active duty military members and their families."*

The high fees associated with payday loans make it difficult for individuals to repay the loan on time. According to the Center for Responsible Lending, only 2% of payday loans go to borrowers who can afford to pay off the loan the first time. Furthermore, four out of five payday borrowers either default or renew a payday loan over the course of a year. According to research conducted by the Pew Charitable Trusts, a typical payday loan borrower takes out eight loans of $375 each per year, and spends $520 in interest. In addition, payday lenders are disproportionately concentrated among communities of color – one study found that payday lending in California cost low-income African American and Latino communities $247 million in fees over the course of a year.

Community Alliance on Prisons urges the committee to pass this measure to help the struggling members of our community.

Mahalo for this opportunity to testify.

Community Health Outreach Work

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TESTIMONY IN SUPPORT OF SB 2679 – Relating to Check Cashing

TO: Senate Committee on Commerce, Consumer Protection and Health

FROM: Heather Lusk, Executive Director, CHOW Project

HEARING: February 19, 2016, 9:00 a.m., Conference Room 229

Dear Chair Baker, Vice-Chair Kidani, and Members of the Committee:

Thank you for the opportunity to testify in strong support of SB 2679 relating to check cashing.

1) Allowing the consumer the right to change their mind about the transaction provides the consumer some protection from the high-pressure sales tactics generally engaged in by predatory lenders. It allows a “cooling off” period for borrowers who may be highly stressed and not fully competent to judge the merits of a particular transaction. It also allows borrowers with limited language skills, education or financial experience the time to seek outside assistance in determining if the transaction will actually be beneficial to the borrower;
2) Allowing the conversion of the advance to a formal loan agreement is merely acknowledging that this is a credit product. Requiring it to be treated like any other loan product offered by other lenders will enable a more competitive market and discourage the predatory pricing model that is currently the Payday Industry standard;
3) Hawaii consumers are protected under both the Federal and state statues regarding Fair Debt Collection Practices. This section makes explicit the requirement that payday lenders must comply with the regulations currently in place;
4) Clearly defining the annual percentage rate, i.e, the amount a consumer will pay for a good or service, is the foundation of a free market. A valid contract requires a fully informed buyer as well as a fully informed seller. Failure to disclose the actual cost of the service in terms that allow a consumer to compare prices is akin to my going to the grocery store and not knowing how much my basket of groceries will be until after I’ve already signed a blank check with no recourse as to what amount the clerk fills in the blank with;
5) A valid contract requires a fully informed buyer and a fully informed seller. Putting the agreement in writing protects both the borrower and the lender;
6) Active duty service persons are somewhat protected from predatory pricing, but borrowers with limited options are charged usurious rates. This is akin to raising prices 400% on water and other necessities after a natural disaster:

   1) *For example*: A Payday Lender charging a $15 fee for every $100 borrowed (15%) is equivalent to a **simple interest** rate of 15 % per $100. However, if you have to repay the loan in *two weeks*, that 15 percent equates to an ***Annualized Percentage Rate*** of almost 400 percent. In real terms the cost of $600 (the average loan size) for two weeks (the average term) is equal to a daily interest cost of $6.43/day, ($90 divided by 14 days). On an **annualized basis** borrowing $600 would cost you $2,346 for one year. The Annual Percentage Rate is therefore 391% percent of the borrowed amount. Or nearly 4 times the amount borrowed;

   2) *For comparison*: The cost of borrowing the same $600 on a credit card with a 15 percent APR is $90 for one year, or about $0.25/day or $3.45 for the same two week period. Although the predatory lenders claim a higher default rate to justify the usurious costs of their products, a review of SEC filings showed that the default rate was actually lower than similar size loans made by banks over the same time period.

7) A prepayment penalty punishes a borrower for acting responsibly. And, the net present value of cash today that I can loan out again will always be more that the future value, thus effectively doubling the return on the same base funds.

Sincerely,

Heather Lusk
Executive Director
CHOW Project

To: Senator Rosalyn H. Baker, Chair
Senator Michelle N. Kidani, Vice Chair
Committee on Commerce and Consumer Protection

From: R. Craig Schafer, President,
Money Service Centers of Hawaii, Inc.

February 16, 2016

In opposition to SB2679

Last August the Hawaii Business magazine published an article titled *Payday Lenders*. In the article our company was incorrectly identified as the source of illegal loans. The article was later corrected and an apology issued to us. It told the story of an individual in Waianae and the illegal payday loans she obtained from a check casher. The company that provided the loans, illegal under Hawaii's check cashing law, has since closed its stores when it ran afoul of the Consumer Financial Protection Bureau which cited the company for illegal collection practices.

Money Service Centers of Hawaii, Inc. is a locally owned and operated money service business (MSB) headquartered in Kapaa, Kauai. We operate fee-based money service centers throughout the State under the trade name PayDayHawaii. Next month is our 16th anniversary in business. Local MSBs like us, who have operated legally in Hawaii for years, are just as appalled by the illegal transactions reported in the article and by faith-based organizations at last year's hearings.

We have built a reputation for strict adherence to all consumer financial laws. We have served over 39,000 individual clients under Hawaii's check cashing law with only a single complaint to the DCCA, later dismissed. We provide many financial services to Hawaii's working families including bill payment, tax preparation and filing, payroll check cashing, postal services, Western Union and Micro-Credit Advance short-term loans.

Our customers are regular people who are unwilling or unable to utilize traditional banking services, or find it more convenient to take care of their financial needs in one place, with the same person. Many live paycheck to paycheck, and don't have the luxury of a 401-k, an understanding employer, or family members with money to loan.

We neither practice nor condone the illegal "payday loan" transactions described in the Hawaii Business magazine article. PayDayHawaii does not charge upfront fees or additional excessive fees if a client has insufficient funds to pay the transaction in full by their due date. Nor will we extend credit to anyone that we determine has an existing payday loan, or similar 32-day-or-less credit transaction, from any storefront check casher, online lender, bank or credit union. As well, PayDayHawaii will never allow multiple open transactions or transactions on behalf of another individual.

Hawaii law does not allow any client to rollover the transaction principle by paying the fee. And only one short-term credit transaction is allowed per consumer from any source at one time, in the opinion of the DCCA. The most a delinquent client would ever owe under the law is the original transaction amount plus a $20 insufficient funds charge. In the instance reported in the article, the maximum owed under the law should have been only principle amount plus the NSF charge.

PayDayHawaii voluntarily provides a payment plan to any individual after four consecutive transactions to discourage repeat borrowing. We encourage the Hawaii Legislature to make this a mandatory part of the check cashing law. Using short-term credit to solve a financial shortfall is not advised. Long-term amortized loans, plus financial counseling, best address such a need.

Our company recognizes the need for financial literacy to help improve our client's financial well-being. On the PayDayHawaii website (www.paydayhawaii.com), we offer a section on responsible borrowing, as well as a monthly blogs and email newsletters on financial topics. We also promote savings as a partner with AmericaSaves.org during America Saves Week each year. We would be happy to make available to nonprofit services, such as Hawaiian Community Assets mentioned in the Hawaii Business article, the extensive financial literacy library we have developed.

We encourage credit counselors, charitable and faith-based organizations to urge their clients who have been victims of illegal transactions under Hawaii's check cashing law to report violations to the DCCA. All residents of Hawaii are protected by this law regardless of whether they obtain a "payday loan" online or through a locally based check cashing business. Online lenders based out of state are some of the worst offenders.

While there is a clear need for better enforcement of Hawaii's check cashing law, HRS480F, we do not support SB2679 because the current fee structure is a fair price to consumers while allowing for a reasonable profit for check cashers. We need to strike a balance between access to credit and protection against predatory lenders. By introducing a 36% rate cap, SB2679 would put responsible check cashers out of business and reduce access to short-term credit for the people Hawaii who need it the most and who need it from reputable lenders.

We recommend that the committee assign this issue to a task force composed of stakeholders, including consumer activists, local check cashing businesses and the DCCA, to create a workable bill designed to drive illegal lenders and check cashers out of the Hawaii market and provide access to responsible small dollar credit to Hawaii consumers.

Thank you,

R. Craig Schafer

President

Money Service Centers of Hawaii, Inc.
DBA PayDayHawaii
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Phone: 808.822.5115

February 16, 2016

Senator Rosalyn H. Baker
Senate Committee on Commerce and Consumer Protection, and Health
Hawaii State Legislature
Honolulu, HI 96813

FROM: Richard Dan, Operations Manager, Maui Loan Inc.

Dear Chair Baker and Members of the
Senate Committee on Commerce and Consumer Protection and Health,

SUBJECT: **SB 2679 – RELATING TO DEFERRED DEPOSITS**

My name is Richard Dan and for many years I have provided loans to Hawaii's working families. This is not a high-pressure, boiler room operation. People come to us because they need small loans for a short time. In years past, they would have asked their employer for an advance, but in the big corporate world of today, that sort of accommodation doesn't happen. Banks don't want to make small loans; and credit cards – when customers can qualify for one – are extremely risky for borrowers because fees and late charges can be piled onto principal.

Deferred deposit or payday loans, as regulated in Hawaii, have a maximum term of 32 days and a fixed fee. If the borrower cannot repay, his maximum exposure is the amount of the loan plus the fee plus a $20 NSF check collection fee.

In SB 2679, there are extensive proposals to outlaw abusive collection practices. There is absolutely no evidence that locally regulated, brick-and-mortar payday lenders are the source of, or commit these abuses. If the Legislature shuts down the local lenders, I guarantee that you will see the proliferation of those abusive practices, because that is what is happening in the 18 states that have attempted to cap deferred deposit loans at 36% APR.

No one can lend $600 or less at those rates, and no one does.

In Colorado, which imposed the rules that SB 2679 is modeled on, about half of local lenders closed down. Those who remain offer other financial services – not necessarily relevant to a borrower who needs $300 bucks because the transmission in their 12-year-old car broke – or a variety of hard-to-understand, dangerous and easy-to-abuse installment loans.

That's the local scene in that state. No state has been able to regulate Internet and offshore operators who pretend to offer "payday loans."

Some of these are out-and-out frauds that steal customer identities and loot their bank accounts. Others offer installment loans under various pretexts that result in APRs of upwards of 1,400% -- exactly the reverse of the result the sponsors of SB 2679 want to see.

Hawaii legislators cannot regulate the Internet and out-of-state lenders.

Arizona outlawed payday loans in 2010. If you search the Internet for "payday loans Arizona" today, you will find hundreds of sites offering them. What they really offer are auto title loans, prepaid credit cards and other dubious loans, and lots of risk and danger.

When the law took effect, the Arizona attorney general warned borrowers:

> "In other states, lenders have used middlemen (often called 'credit services organizations') to solicit customers. Although the lender itself may only charge 36% interest and allowable fees on the loan, once the middleman's charges are added into the equation, the consumer may end up paying interest and fees far in excess of consumer loan limits. Be extremely cautious before entering into this kind of arrangement, and make sure you understand exactly what services will be provided and how much they will cost."

After the ban had been in effect for a year, it was not working. The attorney general then warned that consumers might be targeted by debt collectors seeking to collect on illegal Arizona payday loans. These calls could be made even if consumers simply entered their information on a website regarding payday loans but did not accept the loan.

The ban still isn't working. The current AG's advice to Arizona consumers is:

> "Although payday loans are illegal in Arizona, many payday lenders continue to offer such loans to Arizona consumers over the internet from locations outside of Arizona. Predatory loans usually have excessive and often disguised fees, inflated rates, and other terms that frequently result in consumers being unable to make their loan payments on time, resulting in default. "

Other states have experienced similar problems.

Unfortunately, I have no advice to offer on how to police out-of-state and Internet predators. Hawaii has a good law in place for the lenders it can police.

Borrowers must pay off their loan and cannot roll over or pay only the interest. If they do default, they are not at any more disadvantage than any person who writes a NSF check.

I do have two proposals to improve the regulations in HRS 480F:

First, impose a 3-day cooling off or waiting period before a borrower who has paid off his loan can seek a new one.

Since a borrower can have only one deferred deposit loan at a time, this will encourage him to either a) think twice about whether, or how much, he needs to borrow; and/or b) if he needs longer term credit, seek out more appropriate financial arrangements than payday loans, which are meant for brief crises.

Second, establish a global database so that a) lenders can be certain that borrowers do not already have an outstanding payday loan; and b) regulators can sanction lenders who write multiple simultaneous loans to the same borrower.

I don't think you want to encourage your constituents to turn to Internet hoodlums, but every new burden you put on the local brick-and-mortar operations makes it harder for us to compete with the Internet lenders. And, everything you do to make a consumer's application with a local company less convenient makes it easier for him to turn to the Internet.

Thank you for your thoughtful consideration of all these points raised. If you have any questions, or if I can be of assistance with regard to this matter, please don't hesitate to call me at Tel: (808) 242-5555.

Sincerely,

Richard Dan

Richard Dan
Maui Loan Inc.

February 19, 2016

Senator Rosalyn H. Baker, Chair
Senator Michelle N. Kidani, Vice Chair
Committee on Commerce, Consumer Protection & Health
State Capitol, Room 229
415 South Beretania Street
Honolulu, Hawaii 96813

Re: SB 2679 Related to Check Cashing.

Dear Chair Baker, Vice Chair Kidani and Committee Members:

Thank you for the opportunity to submit testimony on behalf of Dollar Financial Group, Inc. ("DFG") in opposition to Senate Bill No. 2679, relating to Check Cashing, which is to be heard by your Committee on Commerce, Consumer Protection & Health at 9:00 a.m. on Friday, February 19, 2016.

DFG, through a subsidiary, operates 9 Money Mart stores in the State of Hawaii that offer deferred deposit transactions. We employ approximately 35 Hawaii residents who are drawn from the neighborhoods our stores serve. We are opposed to Senate Bill No. 2679 because it would impose an APR cap of 36% that, we believe, would make the industry financially unviable and deny consumers the ability to access such credit.

As an initial matter, we note that the State of Hawaii Auditor did a comprehensive review of deferred deposit transactions in Hawaii. *See* State of Hawaii Auditor's Sunrise Analysis on Check Cashing and Payday Loan Agreements, Report No. 05-11 (December 2005) ("Auditor's Report"). The Auditor's Report found "few complaints in Hawai'i and little evidence of harm." *See* Auditor's Report at Summary, 13-14.

The Auditor's Report also specifically looked at the issue of an APR cap of 36% and concluded that it was "unnecessarily restrictive":

> The lack of evidence of harm to consumers makes many provisions of Senate Bill No. 1413 unnecessarily restrictive. If enacted, Senate Bill No. 1413 would likely drive Hawai'i payday lenders out of business by capping any fees or interest charges at 36 percent APR. Payday lenders say that they cannot operate with a 36 percent APR cap. Should the payday lending industry cease to operate in Hawai'i, the alternatives for consumers are few and may be less desirable.

Auditor's Report at 17.

Money Mart offers deferred deposit transactions, which are sometimes called payday loans, in accordance with HRS chapter 480F. These loans provide a convenient, reasonably-priced, well-regulated unsecured borrowing option for meeting small, short-term financial needs of up to $600.

Borrowers must have a steady source of income and a personal checking account in order to qualify for a deferred deposit transaction. Our customers are typically middle-income, educated young families. On a national level, the customers represent 19 million American households, who choose deferred deposit loans as a cheaper alternative to bounced-check or overdraft protection fees or late bill payment penalties. These borrowers also find a deferred deposit transaction to be more desirable than asking family members for money or pledging collateral for a small-dollar loan. Deferred deposit loan customers are overwhelmingly satisfied with the service, a fact confirmed by state regulators and the Consumer Financial Protection Bureau (CFPB), which report very few complaints from their residents who use our service. Hawaii is among this group, as indicated by the Auditor's Report, which, as noted, found "few complaints in Hawai'i and little evidence of harm."

DFG is a board member company of the Community Financial Services Association of America (CFSA), which is a national trade association for deferred deposit lenders that represents more than half of storefront locations nationally. CFSA supports state legislation that preserves access to small-dollar, short term credit, while maintaining substantive consumer protections. CFSA member companies have supported responsible legislation in the 32 states that regulate deferred deposit transactions, including Hawaii.

Across the country CFSA are committed to working with policymakers on state regulations that benefit consumers. We support balanced regulation that appropriately protects consumers without shutting down the industry.

In HRS chapter 480F, Hawaii already has a consumer friendly deferred deposit statute in place, with a cap on fees and on the amount that may be borrowed, as well as a prohibition on rolling over loans. While the Hawaii Auditor's Report found "few complaints in Hawai'i and little evidence of harm," DFG supports reasonable measures, such as House Bill No. 2608, that will continue to permit access to credit, but would strengthen existing consumer protections under HRS chapter 480F and to discourage any unscrupulous lenders from operating in Hawaii. We are opposed to Senate Bill No. 2679, however, because we believe that the evidence clearly demonstrates that an APR cap of 36% would cause the industry to cease to operate in Hawaii with the resultant loss of access to credit by those consumers who need it.

For the foregoing reasons, we respectfully oppose Senate Bill No. 2679, and appreciate your consideration of our testimony.

Respectfully Submitted,

Lester Wm. Firstenberger, Esq.
Senior Vice President, Global Regulatory and Government Affairs

From:	mailinglist@capitol.hawaii.gov
To:	CPH Testimony
Cc:	john.a.h.tomoso@gmail.com
Subject:	Submitted testimony for SB2679 on Feb 19, 2016 09:00AM
Date:	Tuesday, February 16, 2016 2:34:58 PM

SB2679

Submitted on: 2/16/2016
Testimony for CPH on Feb 19, 2016 09:00AM in Conference Room 229

Submitted By	Organization	Testifier Position	Present at Hearing
John A. H. Tomoso	Individual	Comments Only	No

Comments: Aloha kakou I believe that a customer, as a consumer of check-cashing services, has the right to rescind a deferred deposit by returning the principal amount used to fund the deferred deposit within a specified time frame; Allowing the costumer, the consumer of check-cashing services, the right to change their mind about the transaction provides him/ her with some protection from the high-pressure sales tactics generally engaged in by what can be called "predatory lenders". It allows a “cooling off” period for borrowers who may be highly stressed and not fully competent to judge the merits of a particular transaction. It also allows borrowers with limited language skills, education or financial experience the time to seek outside assistance in determining if the transaction will actually be beneficial to the borrower. I believe this seeking "outside assistance" is needed as I know that many of these types of transactions are entered into under duress, spur of the moment or desperate circumstances. Submitted by: John A. H. Tomoso, MSW, ACSW, LSW 51 Ku'ula Street Kahului, HI 96732-2906

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

From:	mailinglist@capitol.hawaii.gov
To:	CPH Testimony
Cc:	pluta@maui.net
Subject:	Submitted testimony for SB2679 on Feb 19, 2016 09:00AM
Date:	Wednesday, February 17, 2016 5:40:30 PM

SB2679

Submitted on: 2/17/2016

Testimony for CPH on Feb 19, 2016 09:00AM in Conference Room 229

Submitted By	Organization	Testifier Position	Present at Hearing
Joseph D Pluta	Individual	Support	No

Comments: Comments: ALOHA I Strongly support this bill to provide essential and fair practices to a predatory lending scheme that has inadequate protections which should be mandated for consumer protections from abuses. A, consumer of check-cashing should have the right to change their mind about with a right of recession within a specific time period when they can return the principal. That allows a "cooling off" period for borrowers who may be highly stressed and not fully competent to judge the merits of a particular transaction. It also allows borrowers with limited language skills, education or financial experience the time to seek outside assistance in determining if the transaction will actually be beneficial to the borrower. I believe this seeking "outside assistance" is needed as I know that many of these types of transactions are entered into under duress, spur of the moment or desperate circumstances. Submitted by: Joseph D Pluta, 1612 Ainakea Street, Lahaina, HI 96761. (808) 283-4533

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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From:	mailinglist@capitol.hawaii.gov
To:	CPH Testimony
Cc:	kalawaiag@hotmail.com
Subject:	*Submitted testimony for SB2679 on Feb 19, 2016 09:00AM*
Date:	Thursday, February 11, 2016 3:00:45 PM

SB2679

Submitted on: 2/11/2016

Testimony for CPH on Feb 19, 2016 09:00AM in Conference Room 229

Submitted By	Organization	Testifier Position	Present at Hearing
Kalawai'a Goo	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION, & HEALTH
Friday, February 19, 2016 — 9:00 a.m. — Room 229

I Strongly Support SB 2679, Relating to Check Cashing

Dear Chair Baker, Vice Chair Kidani, and Members of the Committee:

My name is Brandon Lee and **I strongly support SB 2679**, which caps the total fees charged for a payday loan to an annual percentage rate of 36% and provides additional consumer protections for customers.

Payday loans business model

At the current effective annual percentage rate of 459%, payday loans in itself are a tool to provide working capital to an individual. However, from an applicant's perspective, at such a high effective interest rate, it is one of the least cost effective financial instruments compared to other methods of procuring money.

Currently, the payday lending industry charges $17.65 per $100 loan they make. Unfortunately, these fees can add up, particularly for those who use payday lending for recurring expenses. According to Pew Charitable Trust, 69% of payday loan users use it for recurring expenses. The chart below shows the stark difference between the current fee structure with this bill's proposed fee structure. The fees can quickly add up even though the payday lending industry will argue that each individual transaction may not feel overly costly. The "not feeling overly costly" is how customers get trapped in a cycle of debt that is difficult to get out of.

Current System for Person that uses a Payday Lender every 2 weeks (69% of payday loans are used for recurring expenses)		
Week	Fee	Recurring Loan Outstanding
1	$ 17.65	$ 100.00
2		
3	$ 17.65	
4		
5	$ 17.65	
6		
7	$ 17.65	
8		
9	$ 17.65	
10		
11	$ 17.65	
12		
13	$ 17.65	
14		
15	$ 17.65	
16		
17	$ 17.65	
18		
19	$ 17.65	
20		
21	$ 17.65	
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23	$ 17.65	
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35	$ 17.65	
36		
37	$ 17.65	
38		
39	$ 17.65	
40		
41	$ 17.65	
42		
43	$ 17.65	
44		
45	$ 17.65	
46		
47	$ 17.65	
48		
49	$ 17.65	
50		
51	$ 17.65	
52		
Total Fees:	**$ 458.90**	$ 100.00
APR:	**459%**	

Current System for Person that uses a Payday Lender every 2 weeks with 36% cap		
Week	Fee	Recurring Loan Outstanding
1	$ 1.38	$ 100.00
2		
3	$ 1.38	
4		
5	$ 1.38	
6		
7	$ 1.38	
8		
9	$ 1.38	
10		
11	$ 1.38	
12		
13	$ 1.38	
14		
15	$ 1.38	
16		
17	$ 1.38	
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32		
33	$ 1.38	
34		
35	$ 1.38	
36		
37	$ 1.38	
38		
39	$ 1.38	
40		
41	$ 1.38	
42		
43	$ 1.38	
44		
45	$ 1.38	
46		
47	$ 1.38	
48		
49	$ 1.38	
50		
51	$ 1.38	
52		
Total Fees:	**$ 35.88**	$ 100.00
APR:	**36%**	

These payday loans and subsequent fees are largely targeted toward lower income to working middle class families that are living paycheck to paycheck and whom often have little financial literacy education. The end result is payday loan customers often enter into a cycle of repeated borrowing and endless budget deficits. This budget deficit results in those customers not being able to save for emergencies, afford homeownership, and effectively retire. Ultimately, this increases the barrier for asset building, wealth accumulation, and further increases wealth disparity amongst the population.

The table below shows the frequency of borrowers in obtaining another payday loan, further providing evidence that payday loans are being used to cover recurring expenses and not the industry's repeated claim for covering emergencies.

Figure 2: Repeat Borrowing Continues to Fuel Payday Lending

State	Time Period	% of loans to borrowers with 5+ loans/year	% of loans to borrowers with 7+ loans/year	% of loans to borrowers with 12+ loans/year
Florida	June 2010-May 2011	92%	85%	63%
Kentucky	Jan. 2011-Dec. 2011	93%	88%	70%
Oklahoma	Nov. 2010-Oct. 2011	91%	84%	61%
South Carolina	Jan. 2011-Dec. 2011	90%	82%	53%
Average		**91%**	**85%**	**62%**
Average from "Financial Quicksand" (published in 2006)		90%	not available	62%

Source: State regulator reports of annual payday loan activity reported by state-regulated databases.

It is important to note that all of the states that report data on loan frequency – Florida, Kentucky, Oklahoma, and South Carolina – have codified industry-touted "best practices" such as extended payment plans, rollover bans, and cooling-off periods that are typically only one or two days long, which are suppose to help borrowers from getting caught in a debt trap. This likely means the statistics above are worse in other states, including Hawai'i.

According to the Center for Responsible Lending (http://www.responsiblelending.org/state-of-lending/reports/10-Payday-Loans.pdf), 37% of the payday borrowers experienced default in the first year of borrowing; within the first two years, 44% did. This finding is consistent with Skiba & Tobacman (2008b), who examined data from a large Texas-based payday lender and found a 54% default rate.

Furthermore, only 2% of payday loans go to borrowers who can afford to pay off the loan at the time of their first transaction, which means the industry whether intentionally or not is targeting those who should not be using payday lending. The high rates of default force the payday industry to charge huge fees to make up for the loans that are not able to be paid back.

The payday lending industry is effectively charging a **459.00%** annual interest rate for using their product. For comparison sake, we can compare the interest / return rates for other industries that provide risk-based capital:

- Bank of Hawaiʻi savings account rate: **0.02%** (October 2015)
- Bank of Hawaiʻi home equity line of credit loan: **4.50%** (February 2016)
- Annual return for the S&P 500 from 1871 to 2015: **9.05%** (http://www.moneychimp.com/features/market_cagr.htm)
- Average net profit for small businesses (default rate for small businesses – 50% after 5 years and about 66% after 10 years):
    - **14.56%** for wood products business
    - **26.95%** for medical equipment and suppliers
    - **53.94%** for computer and electronics products
    - **10.28%** for food processing

    http://smallbusiness.chron.com/average-profit-margin-small-business-23368.html):
- Private equity: **8% to 40% range**.

The above means payday lenders product offerings are very much out of step for what consumers should be getting charged. When payday lending institutions charge 459%, one (or some combination) of four things are occurring:

- Payday lenders are spending their high margin on capital expenditures, which means more brick and mortar storefronts. The largest brick and mortar payday lending institution in Hawaiʻi is PayDay Hawaii who built 10 stores in their 18-year history of operations. That is the equivalent of opening up a new store every 22 months. Money Mart is the second largest with 9 stores in Hawaiʻi. Money Mart is an international company with 1,500 stores and begun operations in 1979 (equivalent to opening up 3.5 stores every month worldwide).
- Payday lenders have high operational costs such as labor costs, which can include salaries or commissions. This implies payday lending institutions require a lot of employees such as salespeople to sell their financial products.
- Payday lending insitutions have extremely high profit margins such that there is a tremendous transfer of wealth from local low to medium income individuals who may or may not be financially literate to these payday lending institutions selling a product with high fees.
- Payday lenders have an extremely high default rate on payday loans, which necessitates a high 459% interest rate to cover the loans that are not able to be paid back. This also leads into a virtuous cycle whereby high fees lead to further defaults and therefore require even higher fees to make up for those increased defaults. Yet, payday loans are marketed as bank-like instruments that cover unique situations where cash is needed. This high default structure with extremely high interest rates is most appropriate for penny stocks or gambling operations, not helping local

residents pay for their utility bills.

There needs to be greater regulation and scrutiny of payday lending institutions by the Legislature to protect the public.

Payday loans should not be used for recurring expenditures

A key point with payday lending is it should be used sparingly since it is an extremely expensive method to procure money. At best, it should be used only for a one-time emergency situation from someone with the capacity to repay, who for some reason cannot also access other financial institutions or sources of funds with a lower cost structure. However, according to the Pew Charitable Trust Foundation (http://www.pewtrusts.org/en/research-and-analysis/reports/2012/07/19/who-borrows-where-they-borrow-and-why for a study summary), finds:

- Survey respondents who have used payday loans cite:
    - 69% used it to cover a recurring expense, such as utilities, credit card bills, rent or mortgage payments, or food;
    - 16% dealt with an unexpected expense, such as a car repair or emergency medical expense
    - 8% for something special
    - 2% for other

According to the Center for Responsible Lending, 82% of payday loan volume is due to borrowers who directly renew or pay back a loan but then take out another within a month.

This means the majority of payday loan users are not using this financial instrument for an emergency appropriation. Some payday lending institutions market these loans for emergency use but some indicate they can be used to cover regular expenditures like monthly bills.

Given the existing regulatory structure in Hawaiʻi, whereby payday loans are restricted to $600, fees are 15%, and a borrower is restricted to only one outstanding loan, the natural target ideal customer for payday lending institutions is someone who frequently borrows (i.e. someone that needs to use the funds for recurring expenses). Therefore, it creates a tremendous incentive for these payday lenders to target the recurring expense applicant – the very customer that payday lenders should not be targeting.

According to the Center for Responsive Lending, "most successive loans are originated shortly after a previous loan is paid back. Half of repeat loans were opened at the borrower's first opportunity, 87% within two weeks, and 94% within one month of the previous loan."

Several other states have sought to limit payday lending's reach through policies such as limiting the number of loans a borrower may take out in a year or extending the minimum loan term to up to six months. In Delaware and Washington State, for example, borrowers are limited to five and eight payday loans per year, respectively.

In response, some national payday lenders have altered their business models to get around the new laws. This further provides evidence that long-term, repeat re-borrowing is at the core of the payday lending business model, as data from other states have consistently found.

Washington State, however, has strong underlying small loan laws that prevent similar evasion, and thus the state has been able to enforce and monitor its payday loan law. The law appears to have been successful in greatly lowering the level of payday lending borrowers and associated costs. Between 2009 (before their law went into effect) and 2011 (the most recent year of data after their law took effect), the number of payday borrowers decreased by 43%. In addition, the annual loan dollar volume decreased by 76% or over $1 billion; the number of annual loans decreased by 74% or 2.4 million; and the number of payday brick and mortar stores decreased from 603 to 256. As a result, borrowers paid $136 million or 75% less in annual payday loan fees, resulting in substantial savings for Washington State customers.

Who uses payday loans?

In the 2012 Pew study, it also identified the type of person who has higher odds of taking out a payday loan:

- Someone without a four-year college degree
- Home renters
- African Americans
- Earners below $40,000 annually
- Someone separated or divorced

The report also notes that home ownership is a greater predictor of payday lending usage than income. This should serve as a further warning sign that those without assets are using payday lending and hurting their ability to build wealth.

The people being targeted by the payday lending institutions are those with the least ability to comprehend how payday lending truly affects them. The industry has often put their storefronts in lower education and socio-economic geographies.

Financial literacy education

The payday lending industry notes that people are the ones requesting payday loans and that the industry should not be faulted for offering a product demanded by some in the public. While true, this argument is misleading.

Both proponents and the industry for this bill, discuss an undertone for a tremendous need of financial literacy education at all levels: K-12, college, and as adults. This should be a priority for the Legislature as personal finance affects almost every part of one's life. Financial education as a child can help someone to better know how to manage their money, which would reduce the usage of payday loans. Currently, the industry is required by law to provide fee information but only for that individual payday transaction. It is up to the applicant to figure out the cumulative impact of what all the fees over time for multiple loans can add up to. Most people are not equipped to be able to do this and that is how they get trapped in a cycle of debt.

To the industry's credit, they do provide personal finance advice to the applicants. This often includes different options for those in specific financial situations, often with an option of going through their services. By providing advice, they can build credibility as well as signal to a potential applicant that their company is looking to help consumers with their finances. However, it is a double-edged sword because a payday lending operation that is seen as a helpful financial resource is then able to direct prospective clients to their payday loans instead of other lower cost alternatives from more reputable financial institutions and organizations.

Fear that payday lending institutions will disappear with 36% cap

If a 36% interest rate cap is enacted, the payday lending industry claims that they will go out of business and deprive the public of the products they offer.

According to Pew, "when presented with a hypothetical situation in which payday loans were unavailable, storefront borrowers would utilize a variety of other options. 81% of those who have used a storefront payday loan would cut back on expenses such as food and clothing. Majorities also would delay paying bills, borrow from family or friends, or sell or pawn possessions. The options selected the most often are those that do not involve a financial institution. 44% report they would take a loan from a bank or credit union, and even fewer would use a credit card (37%) or borrow from an employer (17%). Furthermore, in states where there are no stores, just 5% of would-be borrowers would choose to borrow payday loans online or from alternative sources such as employers or banks, while 95 choose not to use them." The data above strongly indicates that if customers do not have payday lending options locally, they do not rush into the arms of predatory internet-based payday lending institutions.

However, the local payday lending industry claims that customers would then move to the unregulated internet payday lenders or be stuck and suffer without the ability to survive financially. Yet, the above data indicates customers will reduce their own expenses first. Then, they think they will seek other financial institutions such as a bank or credit union, which offer much lower rates. For necessities such as food and clothing, there are governmental programs and non-profit organizations fully equipped to help such families. If a family on the financial brink borrows money for necessities at payday lending high interest rates, then it is highly likely that the next time they need those necessities they cannot afford them plus have debt to take care of. For the government, this likely means that these people will become longer-term financial expenditures by requiring services for a longer period as opposed to getting help at the onset.

Not surprisingly, states without payday lending brick and mortar stores, indicated a much lower percent of people would even attempt to procure a payday loan. This means that a large reason for payday loan usage is they are conveniently visible within local communities and are advertised via different media platforms. Payday loans are a product that for the most part, people do not need but are swayed into getting while having a naïve understanding of its effects.

Lastly, PayDay Hawaii offers multiple other financial instruments (listed below) in addition to payday lending. It is doubtful that without payday loans as a widespread product, that the industry will collapse outright and jeopardize their entire operations. What is likely to occur is they will lose some clientele for a financially hazardous but profitable product that many people did not need nor fully understand.

Proven and Trusted

We offer a complete range of financial services in clean, comfortable and conveniently located offices throughout Hawaii.

Microcredit

MicroCredit is the quickest and most secure way to get fast cash.

More

Money Transfer

Send money electronically to any Western Union location in the world.

More

Tax Preparation

Let us prepare your taxes and get your refund fast!

More

Check Cashing

Cash payroll checks, government checks, money orders, and more.

More

Prepaid Service

Mobi cellphone sales and service.

More

Money Orders

Money orders are only 59 cents at PayDayHawaii.

More

Prepaid Debit

Apply for a debit card - It's like having a virtual bank account.

More

Billpay

Setup Billpay and never worry about paying bills late.

More

Just Talk

Receive calls from jail or prison on your cell phone.

More

Hele

Make any spot your wireless hotspot.

More

Rising Call

Rising Call provides pinless calling made easy.

More

Vigo

Send Money around the corner or around the world.

More

I respectfully urge this committee to pass this bill.

Respectfully,

Brandon Lee
Email: bran1322@yahoo.com

From:	mailinglist@capitol.hawaii.gov
To:	CPH Testimony
Cc:	wctanaka@gmail.com
Subject:	Submitted testimony for SB2679 on Feb 19, 2016 09:00AM
Date:	Monday, February 15, 2016 10:49:38 PM

SB2679
Submitted on: 2/15/2016
Testimony for CPH on Feb 19, 2016 09:00AM in Conference Room 229

Submitted By	Organization	Testifier Position	Present at Hearing
Wayne Tanaka	Individual	Support	No

Comments: Payday lending can provide much-needed, temporary relief in times of need; however, unregulated payday lending can also exploit the desperate and trap them in endless cycles of debt for not reading (or misunderstanding) the fine print. Reasonable regulations and an opportunity to revisit a decision made in a time of crisis can provide a bare minimum of protection for local residents, while allowing our payday lending companies to continue doing business. Mahalo nui for your support of this measure!