



STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Wednesday, April 4, 2018
Time: 10:30 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

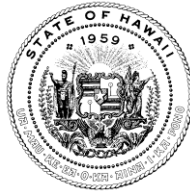
Re: H.B. 2471, H.D. 1, S.D. 1, Relating to Consumer Protection

The Department of Taxation (Department) offers the following comments regarding H.B. 2471, H.D. 1, S.D. 1, for your consideration.

Among other things, H.B. 2471, H.D. 1, S.D. 1, provides that beginning on January 1, 2019, a person engaging in the business of a small dollar lender must be licensed by the Commissioner of Financial Institutions (Commissioner). Prior to approving licensure, the Commissioner must find that the person is “financially responsible”. Among the factors that the Commissioner may consider is whether or not the person has any current outstanding tax liens. The measure is effective on July 1, 2018, with licensing being required beginning January 1, 2019.

The Department appreciates that the Senate Committee on Commerce, Consumer Protection, and Health clarified that the tax liens which the Commissioner may consider are notice liens, which are in the public domain, and typically picked up and reported by credit reporting agencies. As such, this measure will not have an administrative effect on the Department.

Thank you for the opportunity to provide comments.



DAVID Y. IGE
GOVERNOR

DOUGLAS S. CHIN
LIEUTENANT GOVERNOR

**STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

335 MERCHANT STREET, ROOM 310
P.O. BOX 541
HONOLULU, HAWAII 96809
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CATHERINE P. AWAKUNI COLÓN
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

**TO THE SENATE COMMITTEE ON
WAYS AND MEANS**

**TWENTY-NINTH LEGISLATURE
Regular Session of 2018**

Wednesday, April 4, 2018
10:30 a.m.

**TESTIMONY ON HOUSE BILL NO. 2471, H.D. 1, S.D. 1, RELATING TO CONSUMER
PROTECTION.**

TO THE HONORABLE DONOVAN M. DELA CRUZ, CHAIR, AND MEMBERS OF THE
COMMITTEE:

The Department of Commerce and Consumer Affairs (“Department”) appreciates the opportunity to testify on H.B. 2471, H.D. 1, S.D. 1, Relating to Consumer Protection. My name is Iris Ikeda, and I am the Commissioner of Financial Institutions (“Commissioner”) for the Department’s Division of Financial Institutions (“DFI”). The Department supports this bill and suggests an amendment.

The purpose of this bill is to encourage transparency and increase consumer protection in the payday lending industry by: (1) transitioning from lump sum deferred deposit transactions to installment-based small dollar loan transactions; (2) specifying various consumer protection requirements for small dollar loans; (3) beginning January 1, 2019, requiring licensure for small dollar lenders that offer small dollar loans to consumers (“small dollar lenders”); (4) specifying licensing requirements for small dollar lenders; and (5) authorizing DFI to establish and hire one full-time equivalent permanent examiner to carry out the purposes of the small dollar installment loan program, funded via an increase to the ceiling of the compliance resolution fund. The

bill would enact a new chapter of the Hawaii Revised Statutes (“HRS”), entitled “Small Dollar Installment Loans” (“new chapter”), for DFI to administer.

Requested Staffing Amendment

To carry out the purposes of this program, DFI requests two permanent full-time examiner positions appointed without regard to HRS chapter 76. DFI requests that section 11 of the bill be amended to appropriate \$214,542 from the compliance resolution fund to establish these two positions, including employee benefits. The bill currently provides half this amount.

Each DFI program is staffed with examiners who are trained to review the program parameters and to respond to questions from the industry and consumers. For this new program, one examiner position would be required to establish the program for the industry, and one examiner position would be required to conduct examinations and investigations.

DFI is self-funded from fees paid by the licensees of its various programs. Each applicant and licensee pays for its respective programs through fees. Those funds are designed to pay for staffing in the program. Application and renewal fees are set without knowing how many applicants or licensees may apply for licensure and later renewal. To maintain this new program, it would need to generate revenues sufficient to cover the additional staff members.

Thank you for the opportunity to testify in support of this measure.

OFFICE OF INFORMATION PRACTICES

STATE OF HAWAII
NO. 1 CAPITOL DISTRICT BUILDING
250 SOUTH HOTEL STREET, SUITE 107
HONOLULU, HAWAII 96813
TELEPHONE: 808-586-1400 FAX: 808-586-1412
EMAIL: oip@hawaii.gov

To: Senate Committee on Ways and Means

From: Cheryl Kakazu Park, Director

Date: April 4, 2018, 10:30 a.m.
State Capitol, Conference Room 211

Re: Testimony on H.B. No. 2471, H.D. 1, S.D. 1
Relating to Consumer Protection

Thank you for the opportunity to submit testimony on this bill, which would set out a regulatory scheme for payday lenders. The Office of Information Practices (“OIP”) takes **no position on the substance of this bill**. Because OIP testified regarding a confusing provision in S.B. 3008, the provisions of which were inserted into this bill, OIP is now testifying to confirm that **the provision it had previously testified about has been clarified in the current bill draft and OIP has no further concerns regarding this bill**.

Thank you for making the amendments suggested by OIP.

To: Senator Donovan M. Dela Cruz, Chair
 Senator Gilbert S.C. Keith-Agaran, Vice Chair
 Senate Committee on Ways and Means

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

April 2, 2018 In opposition to HB2471 HD1 SD1

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. Over the past 18 years we have provided check cashing services to over 44,000 Hawaii residents.

HB2471 attempts to replace deferred deposit transactions authorized under the check cashing law, HRS480F, with an unproven installment loan scheme that is expensive for the State to administer and enforce.

DFI states “Consequently, in the first year of the small dollar loan program, DFI would need funds of \$214,542 to hire two positions to set up the program and to appropriately supervise, regulate, and examine licensees. These figures include employee benefits. To maintain this new program, the program would need to generate revenues sufficient to cover the additional staff members.”

The 38 storefront small dollar lenders operating in Hawaii will only generate an estimated \$27,000 in licensing fees:

Initial License Fees	Locations	License	Branch	Control Person	Total
Check into Cash	2	\$900.00	\$600.00	\$35.00	\$1,535.00
Colortyme	5	\$900.00	\$2,400.00	\$35.00	\$3,335.00
DFG (MoneyMart)	8	\$900.00	\$4,200.00	\$35.00	\$5,135.00
Hawaii Check Cashing	1	\$900.00	\$0.00	\$35.00	\$935.00
Maui Loans	1	\$900.00	\$0.00	\$35.00	\$935.00
MSCH, Inc. (PayDayHawaii)	6	\$900.00	\$3,000.00	\$35.00	\$3,935.00
Payday Loans	9	\$900.00	\$4,800.00	\$35.00	\$5,735.00
Royal Cash	1	\$900.00	\$0.00	\$35.00	\$935.00
Others	5	\$4,500.00	\$0.00	\$175.00	\$4,675.00
	38	\$11,700.00	\$15,000.00	\$455.00	\$27,155.00

Does DFI expect to make up this shortfall with out-of-state Internet lenders currently operate in Hawaii with impunity, ignoring current Hawaii law and in most cases don't pay GET taxes? We find it is difficult to believe that most will bother to apply for a license.

R. Craig Schafer, President, Money Service Centers of Hawaii, Inc., 808.822.5115



CATHOLIC CHARITIES HAWAII

TESTIMONY IN SUPPORT OF HB 2471, HD1, SD1: RELATING TO CONSUMER PROTECTION

TO: Senator Donovan Dela Cruz, Chair, Senator Gilbert Keith-Agaran, Vice Chair, and Members, Committee on Ways and Means
FROM: Terrence L. Walsh, Jr., President and Chief Executive Officer
HEARING: **Wednesday, April 4, 2018; 10:30 AM; CR 211**

Thank you for the opportunity to provide **testimony in strong support of HB 2471, SD1, HD1** which provides various consumer protection requirements for small dollar loans. I am Terry Walsh, with Catholic Charities Hawai'i.

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 Hawai'i. This bill would help with that goal by making payday loans more manageable for consumers, thereby helping them to avoid a debt trap.

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 Hawai'i 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 mainland¹. The January 2018 "ALICE" report from the Aloha United Way found that nearly half of isle households are living on a survival budget, with barely enough to cover basic needs, much less save for an emergency. This population is frequently teetering at the brink of homelessness. Any change to their financial situation like a decrease in wages or increase in rent might tip them over into homelessness. Some may use a payday loan to get by. Yet, a 2017 analysis found that 4 out of 5 payday loans were rolled over, since the borrower was not able to repay the loan on time. It is critical that Hawaii's people be protected from unreasonable rates and fees that will accumulate to create a greater problem for them. The high interest on these loans (e.g 459% APR) threaten families' housing stability. This pathway INTO homelessness must stop.

We urge your support. We appreciate this opportunity to discuss one of the challenges faced by people living with low incomes. Please contact our Legislative Liaison, Betty Lou Larson, at 373-0356 or bettylou.larson@catholiccharitieshawaii.org, if you have any questions.

¹ Based on the U.S. Department of Agriculture's Thrifty Food Plan, which is used as the basis for Supplemental Nutrition Assistance Program benefits. See <http://www.cnpp.usda.gov/usdafoodplanscostoffood.htm>.





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www.hawaiiancommunity.net

April 2, 2018

Senate Committee on Ways and Means
Wednesday, April 4, 2018, 10:30am
Conference Room 211

HB2471, HD1, SD1 – Relating to Consumer Protection

Aloha Chair Dela Cruz, Vice-Chair Keith-Agaran, and Committee Members:

I am submitting testimony on behalf of Hawaiian Community Assets (HCA), the State's largest HUD-approved housing counseling agency and its Department of Treasury certified nonprofit Community Development Financial Institution, Hawaii Community Lending, to **SUPPORT HB2471, HD1, SD1 with amendments**. The bill would close the loophole that created unaffordable payday loans in 1999 and establishes a regulatory structure for small dollar installment loans with the goal of ensuring affordable monthly payments for our residents, keeping more money in the pockets of our workers and families for rent and mortgage payments.

Closes Payday Loan Loophole

Currently, payday loans charge borrowers 459% APR. This means that \$105 of every \$600 borrowed goes toward interest and fees that often leave our State economy as profits for off-shore payday lenders. Less money in our economy leaves less funds for our homeless services, affordable housing, and critical public programs that have been instrumental in keeping our workers and families in permanent housing. With public programs forming a safety net to prevent homelessness, a statewide Coordinated Homeless Entry System providing emergency grants, a robust credit union network offering low-interest loans, and nonprofit loan funds combining financial education with small dollar loans, it is time to close the loophole on payday loans and save our economy and our people money for affordable housing.

Makes Loans Installment Loans Affordable for Your Constituents

The bill defines a regulatory structure for installment loans in Hawaii and caps the total monthly payment of a borrower at 5% of gross monthly income or 6% of net monthly income, whichever is greater. While it is an industry standard for banks, credit unions, and community development financial institutions to factor in a borrower's debt as well as their income when calculating the affordability of a loan, our organization feels the language will achieve the bill's intended goal of ensuring installment loans are affordable for your constituents.

Affordable installment loan payments will result in your constituents saving significant money on interest that can be used to go toward their rent and mortgage, providing more capital for all of us to address our homeless and affordable housing crises.

Amendment 1: Amend Monthly Maintenance Fee to Ensure Rates Under 400% APR

We recommend to amend the monthly maintenance fee in Subsection (a)(5) at p.9 L7 (monthly maintenance fee) as follows:

- (5) A monthly maintenance fee that does not exceed the lesser of five percent of the originally contracted loan amount or ~~of no more than \$25~~ may be charged by the lender; provided that the monthly maintenance fee shall not be added to the loan balance on which the interest is charged; provided further that a small dollar lender shall not charge, collect, or receive a monthly maintenance fee if the borrower is a person on active duty in the armed forces of the United States or a dependent of that person;

The proposed amendment keeps costs and APRs within appropriate ranges and scalable by allowing the State to prevent a monthly maintenance fee from being too large on smaller loans. Without this change, APRs on some small loans would exceed 400% and there could be incentive to make smaller loans while still charging \$25 – both actions would go against the intent of the bill and result in the small dollar loans being unaffordable for borrowers.

Amendment 2: Require Small Dollar Lenders to Offer a Variety of Loss Mitigation Options

As we witnessed during the mortgage crisis, borrowers must have a variety of loss mitigation options in the event of sudden financial hardship such as loss of a job, reduced work hours, or increased housing payments and living expenses. Loss mitigation options, including forbearance, repayment plans, interest rate reductions, loan term adjustments, and principal reduction helped save lenders, borrowers, and our entire economy billions of dollars in unnecessary foreclosures.

These same loss mitigation options should be available to our workers and families who borrow small dollar installment loans.

We recommend amending the bill to require small dollar lenders to offer a variety of loss mitigation options, including forbearance, repayment plans, interest rate reductions, loan term adjustments, and principal reduction for borrowers who are able to document a financial hardship. The bill currently allows for deferment as a loss mitigation option for borrowers, however, it is critical that we expand the options available for borrowers to maintain their repayment of their small collar loan even if in financial hardship.

HCA highlights the importance of providing borrowers with (1) affordable monthly payments and (2) a variety of loss mitigation options based on the performance of its loan fund administered by HCL over the last 3 years¹. As of September 30, 2017, the loan fund had made 184 small dollar loans totaling \$337,654 in capital across the state while maintaining a less than 0.5% default rate. Not only did our borrowers address their

¹ [Small Dollar Loan Pilot Results](#). Hawaiian Community Assets and Hawaii Community Lending. Dec 5, 2017

financial needs with our loan capital, but they went on to access an additional \$1.4 million in capital within the mainstream financial system to further assist with sustaining housing stability.

At a time when Hawaii reports the highest homeless rate per capita of any state in the nation and 57.6% of our renters pay more than 30% of their monthly income toward housing, we cannot afford any more money to go from the pockets of our workers and families to 459% APR payday loans or unaffordable long-term small dollar installment loans. Close the loophole that created unaffordable payday loans in 1999, establish a regulatory structure that ensures installment loans are affordable for our residents, and keep more money in the pockets of our workers and families for rent and mortgage payments.

Bottom-line: Payday loan reform is an affordable housing issue. Support affordable housing.

PASS HB2471, HD1, SD1 with amendments.

Mahalo for your time, leadership and consideration. Please contact me directly at 808.587.7653 or jeff@hawaiiancommunity.net should you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink that reads "Jeff Gilbreath". The signature is written in a cursive, slightly slanted style.

Jeff Gilbreath
Executive Director



Aloha United Way
200 N. Vineyard Blvd., Suite 700
Honolulu, Hawaii 96817

Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S. C. Keith-Agaran, Vice Chair
Senate Committee on Ways and Means

Re: HB 2471 HD1, SD1 Relating to Consumer Protection
April 4, 2018; 10:30 AM; Conference Room 211

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran & Members of the Committee:

Aloha United Way SUPPORTS HB2471, HD1, SD1 with amendments. The bill closes the loophole that created unaffordable payday loans in 1999, establishes a regulatory structure to ensure installment loans are affordable for our residents, and would keep more money in the pockets of our workers and families for rent and mortgage payments.

Currently, payday loans charge borrowers 459% APR. This means that \$105 of every \$600 borrowed goes toward interest and fees that often leave our State economy as profits for off-shore payday lenders. Less money in our economy leaves less funds for our homeless services, affordable housing, and critical public programs that have been instrumental in keeping our workers and families in permanent housing. With public programs forming a safety net to prevent homelessness, a statewide Coordinated Homeless Entry System providing emergency grants, a robust credit union network offering low-interest loans, and nonprofit loan funds combining financial education with small dollar loans, it is time to close the loophole on payday loans and save our economy and our people money for affordable housing.

The bill defines a regulatory structure for installment loans in Hawaii and caps the total monthly loan payments at 5% of gross monthly income or 6% of net income, whichever is greater. This requirement will achieve the bill's intended goal of ensuring installment loans are affordable for your constituents.

Affordable installment loan payments will result in your constituents saving significant money on interest that can be used to go toward their rent and mortgage, providing more capital for all of us to address our homeless and affordable housing crises.

Amendment 1: Amend Monthly Maintenance Fee to Ensure Rates Under 400% APR

We recommend to amend the monthly maintenance fee be the lesser of five percent of the originally contracted loan amount or \$25. The proposed amendment keeps costs and APRs affordable, especially on smaller loan amounts. Without this change, APRs on some small loans would exceed 400% making them unaffordable for borrowers.

Amendment 2: Require Small Dollar Lenders to Offer a Variety of Loss Mitigation Options

As we witnessed during the mortgage crisis, borrowers must have a variety of loss mitigation options in the event of sudden financial hardship such as loss of a job, reduced work hours, or increased housing payments and living expenses. Loss mitigation options, including forbearance, repayment plans, interest rate reductions, loan term adjustments, and principal reduction helped save lenders, borrowers, and our entire economy billions of dollars in unnecessary foreclosures.

These same loss mitigation options should be available to our workers and families who borrow small dollar installment loans.

We recommend amending the bill to require small dollar lenders to offer a variety of loss mitigation options, including forbearance, repayment plans, interest rate reductions, loan term adjustments, and principal reduction for borrowers who are able to document a financial hardship. The bill currently allows for deferment as a loss mitigation option for borrowers, however, it is critical that we expand the options available for borrowers to maintain their repayment of their small collar loan even if in financial hardship.

At a time when Hawaii reports the highest homeless rate per capita of any state in the nation and 57.6% of our renters pay more than 30% of their monthly income toward housing, we cannot afford any more money to go from the pockets of our workers and families to 459% APR payday loans or unaffordable long-term small dollar installment loans. Close the loophole that created unaffordable payday loans in 1999, establish a regulatory structure that ensures installment loans are affordable for our residents, and keep more money in the pockets of our workers and families for rent and mortgage payments.

Bottom-line: Payday loan reform is an affordable housing issue. Support affordable housing. PASS HB2471, HD1, SD1 with amendments.HB2471, HD1, Proposed SD1 – Relating to Consumer Protection. Transitions from lump sum deferred deposit transactions to installment-based small dollar loan transactions. Specifies various consumer protection requirements for small dollar loans. Beginning January 1, 2019, requires licensure for small dollar lenders that offer small dollar loans to consumers. Specifies licensing requirements for small dollar lenders.

Thank you for the opportunity to testify.



Norm Baker

COO

Helping Hawai'i Live Well

To: Senator Donovan Dela Cruz, Chair, Senator Gilbert Keith-Agaran, Vice Chair, Members, Senate Committee on Ways and Means

From: Trisha Kajimura, Executive Director

Re: TESTIMONY IN SUPPORT OF HB 2471 HD1 SD1 RELATING TO PAYDAY LENDING, with amendments

Hearing: April 4, 2018, 10:30 AM, CR 211

Thank you for hearing our testimony **in support of House Bill 2471 HD 1 (with amendments)**, which closes the loophole that created unaffordable payday loans in 1999 and establishes a regulatory structure for small dollar installment loans with the goal of ensuring affordable monthly payments for our residents, keeping more money in the pockets of our workers and families for rent and mortgage payments.

Mental Health America of Hawaii is a 501(c)3 organization founded in Hawai'i 76 years ago, that serves the community by promoting mental health through advocacy, education and service. Payday loans under our current law prey on economically vulnerable workers in our state and trap them in cycles of unaffordable debt that cause enormous stress on individuals and families. Stress at these toxic levels can harm or worsen mental health. Since we have better options for small personal loans in our community, there is no reason to allow this practice to continue.

In alignment with our advocacy partner, Hawaiian Community Assets, we request that the bill is amended to:

1. change the monthly maintenance fee structure to be the lesser of 5% of the originally contracted loan amount or \$25, and
2. require small dollar lenders to offer a variety of loss mitigation options to borrowers who find themselves in sudden financial hardship.

Thank you for considering my **testimony in support of HB 2471 HD1 SD1**. Please contact me at trisha.kajimura@mentalhealthhawaii.org or (808)521-1846 if you have any questions.



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice

Supporting HB 2471 HD1 SD1 -- Relating to Consumer Protection

Senate Committee on Ways and Means

Scheduled for decision-making on Wednesday, April 4, 2018, 10:30 AM, Conference Room 211

Dear Chair Dela Cruz, Vice Chair Ketih-Agaran, and members of the Committee:

Thank you for the opportunity to testify in SUPPORT of **HB2471 HD1 SD1**, which would transition to installment-based small dollar loan transactions and specify consumer protection requirements for small dollar loans.

We request that you amend the bill to (1) require these lenders to offer several loss mitigation options to borrowers when needed and (2) cap the monthly maintenance fee at 5 percent of the original loan amount or \$25.

Payday loans in Hawai'i were first allowed through a loophole in the law that was created in 1999. Most of the profits of from these small-dollar loans are flowing out of our state's economy to unregulated and uncertified out-of-state payday lenders.

This bill would close the payday loan loophole and establish a regulatory structure for small-dollar installment loans, ultimately giving our workers and families more money to make rent and mortgage payments as well as support the local economy.

Estimates are that payday loans in Hawai'i charge borrowers an astounding 459 percent interest rate. Research by the Consumer Financial Protection Bureau finds that "that more than four out of five payday loans are re-borrowed within a month... The majority of short-term loans are borrowed by consumers who take out a least 10 loans in a row, with the borrower paying far more in fees than they received in credit."

In other words, most people who take out paydays loans face repayment terms that set them up to fail. When they are faced with unaffordable payments, they are forced to choose between terrible options, such as taking out more unfair loans to pay off the first one, defaulting on their loan, falling behind on rent and other bills, or declaring bankruptcy. This is not good for them, nor for our overall economy.

We appreciate your consideration of this testimony.

Hawai'i Appleseed Center for Law and Economic Justice Hawaii Appleseed is committed to a more socially just Hawai'i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.



Board Members

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Jason Okuhama
Managing Partner,
Commercial & Business Lending

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Kua'āina Ulu 'Auamo

HACBED Staff

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Executive Director

Keoki Noji
Chief Operating Officer

Athena T. Esene
Bookkeeper & Office Manager

Will Simmons
Food Systems Specialist

Foley Pfalzgraf
AmeriCorps VISTA

Alex Narrajos
AmeriCorps VISTA

Date: April 3, 2018
To: Senator Donovan Dela Cruz, Chair, Senator Gilbert Keith-Agaran, Vice-Chair, and members of the Committee on Ways and Means
From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)
Re: Support for HB2471 HD1 SD1 with amendments

Aloha Chair Dela Cruz, Vice-Chair Keith-Agaran, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) supports HB2471 HD1 SD1 with amendments. HB2471 HD1 SD1 closes the payday loan loophole and establishes a regulatory structure for these loans, but needs to further be amended to ensure small dollar installment loans are affordable for everyday local families by requiring lenders to amend monthly maintenance fee structure to be the lesser of 5% or \$25 and require lenders to offer loss mitigation options in the event of financial hardship.

HACBED was established in 1992 as a nonprofit statewide intermediary to address social, economic, and environmental justice concerns through community-based economic development and asset building strategies. It advances its mission with core competencies in the areas of community and organizational capacity building, community and economic development planning, and asset policy development and advocacy. HACBED played a facilitating role in the State Asset Policy Task Force and was a key contributor to the State Asset Policy Road Map. HACBED also facilitated the Family & Individual Self-Sufficiency Program (FISSP), which administers the Internal Revenues Services' Volunteer Income Tax Assistance (VITA) program as a part of its larger asset building and financial education initiatives for needy families. As such, HACBED supports the proposed bill if amended, that would provide a number of critical consumer protections for those who take out payday or small dollar installment loans.

Through HACBED's efforts with providing VITA services, we have heard countless stories of the negative effects that payday lending has on families, in many cases acting as a debt trap from which they cannot escape. These stories are corroborated by statistical findings at both the state and national level. In fact, the Consumer Financial Protection Bureau in a 2017 analysis found that four out of five payday loans are rolled over or renewed, meaning that the borrower was not able to repay the loan by the agreed upon date and was left with no other recourse than another high interest payday loan, despite having already experienced the difficulties of repaying these loans. It is due to this revolving door of debt that the average payday loan borrower remains in debt for more than six months, which is twice the length of indebtedness recommended by the FDIC. Due to high rates and frequent rollovers, three out of five payday loans are made to borrowers whose fees exceed the amount that they have actually borrowed. HB2471 HD1 SD1 if amended would

provide a number of critical protections to make short-term loans affordable for the everyday local family:

- *Amend monthly maintenance fees to ensure rates below 400% APR* – by requiring the monthly maintenance to be the lesser of 5% of the originally contracted loan or \$25 in order to keep costs affordable and help working families to avoid cycles of debt.
- *Require lenders to offer a variety of loss mitigation options* – loss mitigation options such as forbearance, repayment plans, interest rate reductions, loan term adjustments, and principal reduction to prevent unnecessary foreclosures.

All recent statistics indicate that changes must be made to the payday lending industry in order to provide Hawai'i's families with choice and control over their financial lives. There are a number of safe, regulated, lower-cost alternatives to payday loans that can be found throughout Hawai'i and these should also be better promoted and marketed. As such, we support the passage of HB2471 HD1 SD1 with amendments.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director
Hawai'i Alliance for Community-Based Economic Development

HB-2471-SD-1

Submitted on: 4/2/2018 3:45:31 PM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Thelma Akita-Kealoha	Individual	Support	No

Comments:

I support HB2471 HD1 SD1 with amendments. Our families are caught in an endless cycle of payday loans making it close to impossible to ever get out of debt. The families that use these loans to pay for emergencies are almost always lower income families and their housing is threatened because of this loan that they believed would help them get out of a financial crisis which in fact has the opposite effect.

Amendment 1: Amend the monthly maintenance fee to ensure rates under 400%.

Amendment 2: Require small dollar lenders to offer a variety of loss mitigation options.

Both of these amendments protect the consumer making it more affordable for them to get out of debt and still maintain their housing and basic needs.

Please pass this bill wth these amendments. Mahalo!

Thelma Akita-Kealoha

HB-2471-SD-1

Submitted on: 4/2/2018 4:19:04 PM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Erin Rutherford	Individual	Support	No

Comments:

I SUPPORT HB2471, HD1, SD1 with amendments. The bill closes the loophole that created unaffordable payday loans in 1999, establishes a regulatory structure to ensure installment loans are affordable for our residents, and would keep more money in the pockets of our workers and families for rent and mortgage payments.

Currently, payday loans charge borrowers 459% APR. This means that \$105 of every \$600 borrowed goes toward interest and fees that often leave our State economy as profits for off-shore payday lenders. Less money in our economy leaves less funds for our homeless services, affordable housing, and critical public programs that have been instrumental in keeping our workers and families in permanent housing. With public programs forming a safety net to prevent homelessness, a statewide Coordinated Homeless Entry System providing emergency grants, a robust credit union network offering low-interest loans, and nonprofit loan funds combining financial education with small dollar loans, it is time to close the loophole on payday loans and save our economy and our people money for affordable housing.

Makes Installment Loans Affordable for Workers and Families

The bill defines a regulatory structure for installment loans in Hawaii and caps the total monthly loan payments at 5% of gross monthly income or 6% of net income, whichever is greater. This requirement will achieve the bill's intended goal of ensuring installment loans are affordable for your constituents.

Affordable installment loan payments will result in your constituents saving significant money on interest that can be used to go toward their rent and mortgage, providing more capital for all of us to address our homeless and affordable housing crises.

Amendment 1: Amend Monthly Maintenance Fee to Ensure Rates Under 400% APR

I recommend to amend the monthly maintenance fee be the lesser of five percent of the originally contracted loan amount or \$25. The proposed amendment keeps costs and APRs affordable, especially on smaller loan amounts. Without this change, APRs on some small loans would exceed 400% making them unaffordable for borrowers.

Amendment 2: Require Small Dollar Lenders to Offer a Variety of Loss Mitigation Options

As we witnessed during the mortgage crisis, borrowers must have a variety of loss mitigation options in the event of sudden financial hardship such as loss of a job, reduced work hours, or increased housing payments and living expenses. Loss mitigation options, including forbearance, repayment plans, interest rate reductions, loan term adjustments, and principal reduction helped save lenders, borrowers, and our entire economy billions of dollars in unnecessary foreclosures.

These same loss mitigation options should be available to our workers and families who borrow small dollar installment loans.

I recommend amending the bill to require small dollar lenders to offer a variety of loss mitigation options, including forbearance, repayment plans, interest rate reductions, loan term adjustments, and principal reduction for borrowers who are able to document a financial hardship. The bill currently allows for deferment as a loss mitigation option for borrowers, however, it is critical that we expand the options available for borrowers to maintain their repayment of their small collar loan even if in financial hardship.

At a time when Hawaii reports the highest homeless rate per capita of any state in the nation and 57.6% of our renters pay more than 30% of their monthly income toward housing, we cannot afford any more money to go from the pockets of our workers and families to 459% APR payday loans or unaffordable long-term small dollar installment loans. Close the loophole that created unaffordable payday loans in 1999, establish a regulatory structure that ensures installment loans are affordable for our residents, and keep more money in the pockets of our workers and families for rent and mortgage payments.

Bottom-line: Payday loan reform is an affordable housing issue. Support affordable housing. **PASS HB2471, HD1, SD1 with amendments.**

HB-2471-SD-1

Submitted on: 4/2/2018 5:01:41 PM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Lawrence S Franco	Individual	Support	No

Comments:

We must change the current statute because it is unfairly targeting poor people. Let us at least be equal to Federal standards that no one pays more than 36% in interest.

HB-2471-SD-1

Submitted on: 4/2/2018 7:42:12 PM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Mona Bomgaars	Individual	Support	No

Comments:

Dear Chair, Vice Chair and members of Ways and Means,

That we in Hawaii continue to allow the outragest interest rates on Pay Day Loans is an embarresment and totally unfair to our poorer citizens who need such loans to pay monthly cost of living and working here. We are a beautiful state with beautiful people but this is one of the corrupting influences that has not yet been corrected. Any business working within our state should expected to be honest and fair and these so called businesses are actually rip off artists. Please do the right thing and pass this bill

Thank you for all the legislative work you do for our state.