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Senate Committee on Commerce, Consumer Protection, and Health
Monday, February 27, 2017
Conference Room 229

SUPPORT: SB286 – Relating to Check Cashing

Aloha Chair and Committee Members:

I am submitting testimony in **SUPPORT with suggested amendments** for Senate Bill 286 – Relating to Check Cashing, legislation that will help regulate payday loans in Hawaii and cap the interest rate on deferred deposit loans at 36% APR.

I am presenting my testimony in my capacity as Executive Director of Hawaiian Community Assets (HCA), the state's largest 501c3 HUD-certified housing counseling agency and financial education provider, and Hawaii Community Lending (HCL), HCA's nonprofit lending subsidiary. HCA's mission is to build the capacity of low- and moderate-income communities to achieve and sustain economic self-sufficiency through the provisions of place-based youth and family financial education, housing counseling, and match savings and micro-lending programs. Founded in 2000, our organization has served serves 1,500 children and families annually through our statewide offices and since our inception we have assisted 5,807 Hawaii children and families secure or sustain affordable housing.

Payday loans are predatory and keeps our very-low and low-income Hawaii families from reaching their economic goals. In our 16-year history of providing HUD-certified financial education and housing counseling services, HCA has identified payday lending as an unnecessary and predatory barrier for our very-low and low-income Hawaii families from reaching their economic goals. According to the Center for Responsible Lending, only 2 percent 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. The Pew Charitable Trusts cites that a typical payday loan borrower takes out eight loans of \$375 each per year, and spends \$520 in interest.

Payday loans disproportionately impact Native Hawaiians and Pacific Islanders. Payday loans have also proven to disproportionately impact Native Hawaiians and Pacific Islanders – two significant populations in our state. According the Federal Deposit Insurance Corporation's

(FDIC) 2011 National Unbanked and Underbanked Survey, 30.2 percent of Native Hawaiians and Pacific Islanders in the United States are underbanked, meaning they have a bank account but rely on access to alternative financial services such as payday loans for their day-to-day financial needs. Our Native Hawaiians and Pacific Islanders are second in the nation only to African Americans in terms of their underbanked rate. For more information, the national survey results can be viewed at: https://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf.

Need for short-term, small dollar loans in a regulated environment and based on proven models. With stagnant wages and increasing costs of living, the Community Financial Services Association of America (CFSAA) - the primary lobbying entity representing payday lenders across the nation - will no doubt advocate that our very-low and low-income Hawaii families need access to the alternative financial services, such as payday loans, they provide.

HCA agrees with the CFSAA.

Our very-low and low-income Hawaii families do need access to short-term, small dollar loans to whether financial and economic storms. This is clear.

However, it is predatory to provide such products at 459 percent Annual Percentage Rate. Especially when such a 459 APR could result in a Hawaii family paying \$5,590 on a \$1,000 payday loan if gone unpaid for 12 months. The predatory nature of payday loans has resulted in 23 of 50 states in the country passing state law to make payday lending as an illegal activity.

If payday lending remains a legal activity in the State of Hawaii, we owe it to our families to ensure there are rules of the road that police payday lending activities and prevent predatory lending.

Hawaii pilot shows lender's earning potential with payday loans at 36% APR. Beginning January 2015, Hawaii Community Lending (HCL) piloted an installment loan product in the State of Hawaii that local residents could use to pay off high-interest financial products and derogatory debt including payday loans, OneMain Financial loans, collections, judgments, liens, and credit cards. Fixed at 8% APR and at 24-month terms, 24 loans were originated totaling \$53,211 in principal. All borrowers were required to receive government-certified counseling from HCA prior to loan closing. The operational cost of underwriting, originating, and servicing the loans was at \$6,909 and paid for with grant funds. A total net profit of \$2,513 has been realized through 2016 with no defaults, while borrowers saved a total of \$63,435 in interest and fees as a result of paying off high-interest debt.

While HCL chose to provide this loan product at 8% APR, projections have been made to demonstrate the earning potential for a lender if they were to charge 36% APR. For example, if HCL had underwritten, originated, and serviced 24 loans totaling \$53,211 in principal at 36% APR instead of 8% APR, we would have realized \$11,903 in profit. This profit would not only cover the costs associated with lending (\$6,909), but would also result in \$4,994 in net profit. This amounts to \$208.08 per loan. See more information in the enclosed one page overview.

These results demonstrate that capping the APR at 36% on payday loans can be both good for the community and good for business.

Other pilots have been implemented recently demonstrating similar impacts, including the FDIC's small dollar loan pilot.

https://www.fdic.gov/bank/analytical/quarterly/2010_vol4_2/FDIC_Quarterly_Vol4No2_SmallDollar.pdf.

Require government-certified counseling prior to issuance of a payday loan. HCA and HCL also encourage the committee to consider an amendment to the legislation that would require deferred deposit borrowers to receive government-certified counseling prior to issuance of a payday loan. Government-certified counseling agencies are located throughout the state and can be found on the US Department of Housing and Urban Development's website at www.HUD.gov/hawaii. Government-certified counseling agencies work one-on-one with Hawaii residents to develop household budgets, review credit reports, and create action plans to achieve their financial and housing goals. By requiring this education upfront, before a payday loan, we can ensure that our residents will understand their personal financial situation and the costs and benefits related to not only payday loans, but all other products for which they qualify for, so they are best able to make an informed decision.

A similar requirement was put in place during the height of the mortgage foreclosure crisis and resulted in a key component to helping our state realize a reduction in overall foreclosures and dropping our mortgage delinquency rate from 10.0% in January 2010 to just 1.57% in January 2016. Furthermore, HCL's pilot loan program attributes its success in receiving on-time loan payments to having borrowers who first were educated by HCA as a government-certified counseling agency. Educated borrowers are better able to understand the responsibilities and rights that go along with a loan agreement.

On behalf of Hawaiian Community Assets and Hawaii Community Lending, I encourage the committee to pass SB286 with an amendment to require that borrowers receive government-certified counseling services prior to issuance of a payday loan.

Mahalo for your time, leadership, and consideration in supporting SB286 – Relating to Check Cashing with suggested amendments. Please feel free to contact me directly at 808.587.7653 or at jeff@hawaiiancommunity.net should you have any questions or need clarification.

Sincerely



Jeff Gilbreath
Executive Director



**Hawaii Community Lending
Small Dollar Loan Pilot
January 2015 – December 2016**

	8% APR (Actual)	36% APR (Projected)
Number of Loans	24	24
Loan Term	24 months	24 months
Principal Amount	\$53,211	\$53,211
Operational Expenses	\$6,909	\$6,909
Grant Funds	\$6,909	\$0
Total Interest/Fees Earned	\$2,513	\$11,909
Net Profit	\$2,513	\$4,994
Borrower Savings (from high-interest products)	\$63,435	\$54,039
Net Profit per Loan	\$104.71	\$208.08

Based on these results, Hawaii Community Lending estimates that a lender would be able to pay 1 full-time staff equivalent at \$52,020 with every 250 loans originated and serviced.

In light of the fact that payday lenders do not conduct traditional underwriting, it is likely that the operational expenses could be even less for payday lenders than Hawaii Community Lending.