

Honolulu, Hawaii

FEB 14 2019

RE: S.B. No. 537
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirtieth State Legislature
Regular Session of 2019
State of Hawaii

Sir:

Your Committee on Commerce, Consumer Protection, and Health,
to which was referred S.B. No. 537 entitled:

"A BILL FOR AN ACT RELATING TO CONSUMER PROTECTION,"

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Transition from lump sum deferred deposit transactions to installment-based small dollar loan transactions;
- (2) Specify various consumer protection requirements for small dollar loans;
- (3) Beginning January 1, 2020, require licensure for small dollar lenders that offer small dollar loans to consumers;
- (4) Specify licensing requirements for small dollar lenders; and
- (5) Appropriate funds out of the compliance resolution fund for the hiring of staff necessary to implement the program.

Your Committee received testimony in support of this measure from the Department of Commerce and Consumer Affairs, Hawaiian



Community Assets, Mental Health America of Hawai'i, Catholic Charities Hawai'i, Hawaii Applesseed Center for Law and Economic Justice, and one individual. Your Committee received testimony in opposition to this measure from Money Service Centers of Hawaii, Inc. and Hawaii Bankers Association. Your Committee received comments on this measure from the Office of Information Practices.

Your Committee finds that deferred deposit agreements, commonly referred to as payday loans, are small, short term, unsecured loans that borrowers commit to repay from their next paycheck or a regular income payment. The majority of borrowers use deferred deposit agreements for recurring expenses, rather than unexpected expenses or emergencies, because they live paycheck to paycheck. The majority of short-term loans are borrowed by consumers who take out at least ten loans in a row, with the borrower paying far more in fees and predatory interest than they received in credit.

According to testimony received by your Committee, current laws allow payday lenders to prey on economically vulnerable workers in the State and trap them in cycles of unaffordable debt. Your Committee notes that without strong consumer protections in the payday loan industry, payday loan borrowers may find such debt overwhelming and may be unable to pay rent and basic living expenses, thus further contributing to the State's homelessness crisis. This measure therefore establishes a regulatory structure for small dollar loans to encourage transparency and increase consumer protection in the payday lending industry in the State.

Your Committee has amended this measure by:

- (1) Clarifying that any maintenance fees on each small dollar loan transaction and renewal shall be applied in arrears on a monthly basis;
- (2) Clarifying that a lender may renew up to \$1,000 of the remaining unpaid principal balance, rather than of the remaining unpaid balance;
- (3) Clarifying that all financial institutions and nondepository financial service loan companies, rather than only those authorized by the Division of Financial

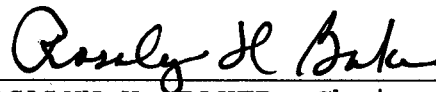


Institutions, are exempt from the small dollar loan regulatory requirements;

- (4) Clarifying that the confidentiality provisions established by this measure shall control in the event of a conflict with any other section of law;
- (5) Inserting an appropriation amount of \$220,941 from the compliance resolution fund for the two permanent examiner positions; and
- (6) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Commerce, Consumer Protection, and Health that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 537, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 537, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Commerce, Consumer
Protection, and Health,



ROSALYN H. BAKER, Chair



