



DAVID Y. IGE  
GOVERNOR

JOSH GREEN  
LT. 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  
Phone Number: 586-2850  
Fax Number: 586-2856  
cca.hawaii.gov

CATHERINE P. AWAKUNI COLÓN  
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI  
DEPUTY DIRECTOR

**Testimony of the Department of Commerce and Consumer Affairs**

**Before the  
Senate Committee on Ways and Means  
Thursday, February 20, 2020  
1:00 p.m.  
State Capitol, Conference Room 211**

**On the following measure:  
S.B. 2587, RELATING TO CONSUMER PROTECTION**

**WRITTEN TESTIMONY ONLY**

Chair Dela Cruz and Members of the Committee:

My name is Iris Ikeda, and I am the Commissioner of the Department of Commerce and Consumer Affairs' (Department) Division of Financial Institutions (DFI). The Department appreciates the intent of and offers comments on this bill.

The purposes of this bill are to: (1) transition from lump sum deferred deposit transactions to installment-based small dollar loan transactions with specific consumer protection requirements for small dollar loans; (2) beginning 1/1/2022, require licensure for small dollar lenders that offer small dollar loans to consumers and specify licensing requirements for small dollar lenders; (3) authorize the DFI to appoint 2.0 full-time equivalent examiner positions, funded via the Compliance Resolution Fund, to carry out the purposes of the small dollar installment loan program; (4) require check cashers to be registered with the Department and offer a voluntary payment plan to customers under certain circumstances; (5) establish the terms of voluntary payment plans and

clarify that a customer may only have one outstanding deferred deposit transaction from any source; (6) amend notices to customers required of check cashers; (7) remove the exemption for persons engaged in the bona fide retail sale of goods or services; and (8) require the DFI to conduct an analysis of the regulation of payday lenders and deferred deposit agreements in the State.

For the Committee's information, according to the June 30, 2019, annual report filed by banks on their financial condition, five Hawaii chartered nondepository financial service loan companies currently offer small dollar consumer loans totaling \$119,362,396.

While the Department appreciates the bill's intent to regulate small dollar loan transactions, it notes that a consumer loan statutory scheme already exists in Hawaii Revised Statutes chapter 412, article IX. Article IX offers, among other things: (1) precomputed consumer loans; (2) provisions on how to calculate the interest (not to exceed 24% a year); (3) types of fees that can be charged to consumers; (4) the circumstances under which a prepayment penalty can be charged; and (5) provisions on how refunds are calculated. Because this statutory scheme is part of the DFI's banking statutes, the DFI reviews nondepository financial service loan companies in the same manner as banks. The nondepository companies would be required to provide consumer disclosures, as required by federal law. If the Committee would like to consider this statutory scheme, the Department would work with interested parties to determine if changes are needed to article IX.

Thank you for the opportunity to testify on this bill.

## TESTIMONY IN SUPPORT OF SB2587, RELATING TO CONSUMER PROTECTION

**TO:** Senator Donovan Dela Cruz, Chair  
Senator Gil Keith-Agaran, Vice Chair  
Members of the Senate Committee on Ways and Means

**LATE**

**FR:** Mike Mohr, Ohana Holdings, LLC

**HEARING:** Thursday February 20, 2020; 1pm; Room 211

Chair Dela Cruz, Vice Chair Keith-Agaran & Members of the Ways and Means Committee:

Thank you for the opportunity to testify in **strong support of SB2587**, Relating to Consumer Protection, which provides a solid framework of consumer protection requirements for small dollar loans. My name is Mike Mohr, and I am with Ohana Holdings, LLC.

SB2587 seeks to close a loophole in our laws that have allowed payday lenders to charge excessive interest rates as high as 459%, creating a vicious cycle of dependency and debt among Hawaii's most vulnerable individuals and families.

Recent findings released in the Hawaii Financial Health Pulse found that a large majority, **69% of Hawaii residents, are struggling financially**. 54% say their spending equals or exceeds their income, and more than a third do not have enough savings to cover three months of living expenses and have volatile incomes that vary from month to month. One in five have indicated they have trouble paying their mortgage and rent.

To cope with this income volatility and Hawaii's high cost of living, about one fifth (21%) use alternative financial services such as payday loans and check-cashing services, which is significantly higher than 15% at the national level.

With excessive fees and interest rates placed on these small dollar loans, studies have shown that four out of five borrowers end up defaulting on their loan or renewing them within the first two weeks. In many cases, borrowers find themselves paying more in fees than they received in credit. To protect active duty members of the military and their families from falling victim to these kinds of lending practices, the Military Lending Act (MLA) provides consumer protection regulations including capping the APR at 36%. SB2587 would apply a similar 36% cap on APR, providing these same protections to all Hawaii residents.

In listening to the testimony presented at the CPH hearing, we are supportive of efforts to also consider other regulatory structures to manage small dollar loans.

The Hawaii State Legislature is to be applauded for its focus this session on affordability and cost of living for all our residents and families. Ensuring that there are safe, non-predatory means by which individuals can bridge the financial gap that inevitably comes up in our daily lives compliments these efforts to improve the financial health and quality of life for all Hawaii residents.

Thank you for considering my testimony in strong support of SB2587 and we stand ready and available to work with you on this important piece of legislation.