

STAND. COM. REP. NO. **671**

Honolulu, Hawaii

**FEB 19** , 2021

RE: H.B. No. 1192

H.D. 1

Honorable Scott K. Saiki  
Speaker, House of Representatives  
Thirty-First State Legislature  
Regular Session of 2021  
State of Hawaii

Sir:

Your Committee on Consumer Protection & Commerce, to which was referred H.B. No. 1192 entitled:

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

begs leave to report as follows:

The purpose of this measure is to:

- (1) Authorize small dollar loan transactions in the State with certain interest rate and fee requirements, and require entities that provide small dollar loans be licensed by the Division of Financial Institutions of the Department of Commerce and Consumer Affairs;
- (2) Appropriate funds for additional staff for the Division of Financial Institutions;
- (3) Implement various consumer protection measures with regard to check cashers that enter into deferred deposit transactions, including:
  - (A) Requiring check cashers to register with the Department of Commerce and Consumer Affairs;
  - (B) Requiring check cashers to offer a voluntary payment plan for deferred deposit transactions;



- (C) Requiring check cashers to take reasonable measures to ensure that consumers are limited to one deferred deposit transaction at a time; and
  - (D) Requiring check cashers that enter into deferred deposit transactions to provide additional disclosures and post notices; and
- (4) Require the Division of Financial Institutions to conduct an analysis of the implementation of the regulations on payday lenders and its impact on consumer protection in the State.

Your Committee received testimony in opposition to this measure from Maui Loan Inc.

Prior to the hearing on this measure, your Committee posted and made available for public review a proposed H.D. 1, which amends this measure by:

- (1) Renaming small dollar loans and small dollar lenders as installment loans and installment lenders;
- (2) Clarifying the disclosure requirements for installment loans;
- (3) Clarifying the duties of an installment lender to verify that a consumer does not have any outstanding installment loans before entering into an installment loan with the consumer;
- (4) Clarifying an installment lender's authority to pledge, negotiate, sell, or assign an installment loan;
- (5) Amending the fee amounts in the check cashers law; and
- (6) Clarifying the verification of a customer's gross monthly income for purposes of determining the amount a personal check may be written pursuant to a deferred deposit transaction.

Your Committee received testimony in support of the proposed H.D. 1 from Dollar Financial Group. Your Committee received



comments on the proposed H.D. 1 from the Department of Commerce and Consumer Affairs and Office of Information Practices.

Your Committee finds that twenty-one percent of all households in Hawaii use an alternative financial service product, such as a check cashing or payday loan service, at least once during the year. Alternative financial service products provide essential financial assistance to unbanked and underbanked persons who do not have access to traditional financial service products. Your Committee further finds, however, that because of the State's existing deferred deposit laws, consumers who use payday lending can get trapped in unsustainable cycles of debt. Your Committee believes it is necessary to establish an alternative financial product that does not impose the high costs associated with payday loans.

Your Committee additionally finds that the establishment of alternative installment loans will allow unbanked and underbanked persons to transition to more traditional financial products. Your Committee further finds that the establishment of alternative installment loans ensures that viable financial products are available to serve the unbanked and underbanked population with adequate consumer protections.

It is the intent of the proposed H.D. 1 to transition the market of payday loans in the State to installment loans over a two-year period.

Your Committee has amended this measure by adopting the proposed H.D. 1 and further amending the measure by:

- (1) Clarifying that the intent of this measure is to provide a two-year interim transition period that allows providers of deferred deposit transactions to transition to installment loan lenders;
- (2) Deleting the various provisions for check cashers relating to registration, recordkeeping, notice, and terms of the transactions;
- (3) Requiring the Division of Financial Institutions to submit a report to the Legislature on the implementation of this measure and an update on the progress of transitioning check cashers that enter into deferred



deposit transactions to installment lenders as established by this measure, rather than requiring the Division to conduct an analysis of the implementation of the regulation of payday lenders and deferred deposit agreements;

- (4) Clarifying that the appropriation in this measure may also be used for resources to implement this measure, including the procurement of an electronic system to assist in the regulation of installment loan lenders;
- (5) Repealing statutes authorizing deferred deposits on July 1, 2023;
- (6) Changing the effective date to January 1, 2050, to encourage further discussion; and
- (7) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Consumer Protection & Commerce that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1192, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1192, H.D. 1, and be referred to your Committee on Finance.

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



AARON LING JOHANSON, Chair



