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Testimony of the Department of Commerce and Consumer Affairs

**Before the
Senate Committee on Ways and Means
and
Senate Committee on Judiciary
Tuesday, April 6, 2021
10:00 a.m.
Via Videoconference**

**On the following measure:
H.B. 1192, H.D. 1, S.D. 1, RELATING TO CONSUMER PROTECTION**

WRITTEN TESTIMONY ONLY

Chairs Dela Cruz and Rhoads and Members of the Committees:

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 supports this bill and requests amendments.

The purpose of S.D. 1 is to: (1) establish a framework for providing an installment loan program; and (2) repeal the statutory authorization for deferred deposit transactions in the State on 1/1/2022.

The Department supports this bill and requests the below amendments to better protect consumers:

1. Add the following definition for "interest" that will be consistent with the definition used in other states that offer installment loans of this type:
"Interest" means all charges payable directly or indirectly by a borrower to a

licensee as a condition to a loan or an application for a loan, however denominated, but does not include default charges, deferment charges, insurance charges or premiums, court costs, loan origination charges, check collection charges, credit line charges, credit report charges, or other fees and charges specifically authorized by law.”

2. Amend page 42, lines 1 and 2 to clarify the annual renewal fees for each installment lender: “(3) Annual license renewal fee of the greater of \$1,000 [and] or the amount equal to \$0.15 per [loan,] installment loan originated during the previous year, plus 0.08 per cent of the [loan] dollar [volume,] volume of loans originated during the previous year; provided that for the purposes of calculating the renewal fee, all installment loans originated by the installment lender between the third quarter of the previous year and the third quarter of the current year shall be considered;”

Thank you for the opportunity to testify on this bill.

HB-1192-SD-1

Submitted on: 4/5/2021 9:33:47 AM

Testimony for WAM on 4/6/2021 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Marvin S. C. Dang	Testifying for Hawaii Financial Services Association	Comments	No

Comments:

Proposed revisions are included in the attached testimony. Mahalo.



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April 6, 2021

Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Senator Karl Rhoads, Chair
Senator Jarrett Keohokalole, Vice Chair
Members of the Senate Committees on Ways and Means & Judiciary

Re: HB1192 HD1 SD1 Relating to Consumer Protection. - OPPOSE

On behalf of Dollar Financial Group (“DFG”), we respectfully submit the following testimony relating to HB1192 HD1 SD1, which will be heard by your Committee on April 6, 2021. DFG **OPPOSES** HB1192 HD1 SD1.

While we support the broader legislative initiatives to improve Hawaii’s credit market for its unbanked and underbanked consumers, we cannot support HB1192 HD1 SD1 in its present form. We believe there needs to be a prudent and staged transition to a more effective credit market for these consumers, rather than an immediate repeal of deferred deposit transactions.

We believe immediately eliminating deferred deposit transactions, the only existing credit product specifically available to unbanked and underbanked consumers in Hawaii, in favor of an unestablished and untested installment loan product could cause significant harm to those consumers (including the risk of having no legitimate credit providers active in this market segment in Hawaii). In order to establish a new installment loan product, lenders will need to invest in extensive compliance, IT, and operational buildouts. These processes and infrastructure builds will most likely not be achievable by most of Hawaii’s incumbent deferred deposit transaction providers, and it is unclear if any “mainland” lender will be willing to make the necessary investment and come to Hawaii to offer it. This could leave the most vulnerable consumers in the State without any access to credit.

The safer and more reasonable approach, in our experience, is to:

1. amend the current regulations related to deferred deposit transactions to enhance them in line with what was proposed in the prior drafts of HB 1192, as we have seen those types of amendments create substantial improvement for consumers,
2. establish reasonable terms for a new installment loan product to work in tandem with the enhanced deferred deposit transaction product and give the market time to adjust and enable new entrants/lenders to establish a market for the new installment loan product (lenders will need a significant amount of time to build the necessary infrastructure to properly deliver this type of loan product),

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3. restore the permissible installment loan amounts to \$600-\$1,500 (as was previously proposed in HB 1192) , and allow the established and enhanced deferred deposit transaction credit product to provide for financing from \$0-\$600
4. authorize the Department of Financial Institutions (DFI) to supervise and license both deferred deposit transactions and installment loans on a timeline that DFI can accommodate.

After deferred deposit transactions are amended and the new installment loans gain some level of market acceptance (we must caution that this is not guaranteed), DFI can better advise on the best next course of action for Hawaii's unbanked and underbanked consumers. Later, if necessary and appropriate, deferred deposit transactions can be further amended and adjustments can be made to the new IL product.

We support the goals of HB1192 HD1 SD1 but believe there needs to be a more effective transition to the end state to which it aspires. If not, consumers may be left without any meaningful or appropriate sources of credit.

Thank you for your consideration of our testimony.

Very truly yours,

DOLLAR FINANCIAL GROUP

James Odell

General Counsel and Executive Vice President