



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
House Committee on Consumer Protection & Commerce
Thursday, February 11, 2021
2:00 p.m.
Via Videoconference**

**On the following measure:
H.B. 304, RELATING TO DEFERRED DEPOSITS**

Chair Johanson 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 this bill and offers comments.

The purpose of this bill is to reduce the maximum fee a check casher may charge under a payday loan agreement for deferring the deposit of a check from 15% to 7% of the face value of the check.

The Department appreciates the bill's intent to reduce the exorbitant fees charged to consumers of payday loan, or deferred deposit agreements to a more reasonable amount. However, the Department has concerns with continuing to make these loans available to consumers, as these loans do not alleviate the unsustainable cycle of debt that borrowers incur.

A deferred deposit transaction occurs when a consumer presents a check written in her/his own account or electronic debit, in exchange for money and the promise from the business to refrain from cashing the check until a later date. The deferred deposit

lender provides the consumer with the amount of money that is equal to the face value of the check, less any fee or interest charged for the transaction. Typically, the lender agrees to deposit the check or debit a consumer account at the next payday.

Consumers who need these short-term loans are unable to obtain small loans from banks or credit unions to cover their unexpected bills. Because they need money immediately, consumers cannot wait for banks to underwrite and process a loan, and they eventually obtain a deferred deposit loan that they are unable to repay at the next payday. The deferred deposit loan is then rolled over, and a larger deferred deposit loan is made to cover the first deferred deposit loan, plus fees and interest. Through this activity, consumers are trapped in a vicious cycle of debt.

For the Committee's information, a number of states¹ have already moved, or are moving toward, replacing payday lending laws with small dollar lending laws. The Department thus supports stronger regulation in the area of small dollar lending and urges the Committee to consider the more comprehensive regulations set forth in part II of H.B. 1192, proposed H.D. 1, and to repeal certain sections of Hawaii Revised Statutes chapter 480F, relating to deferred deposits.

Thank you for the opportunity to testify on this bill.

¹ As of July 2020, 32 states have enacted small dollar lending laws.

Maui Loan Inc

February 9th, 2021

Representative Aaron Ling Johanson, Chair
Representative Lisa Kitagawa, Vice-Chair
And Members of House Committee on
Consumer Protection & Commerce
Hawaii State Legislature
Honolulu, HI 96813

SUBJECT: **HB 304 - RELATING TO DEFERRED DEPOSITS.**

FROM: Kamaaina Loan

Dear Chair Johanson, Vice Chair Kitagawa and members of the House Committee on Consumer Protection & Commerce

I oppose HB 304 - RELATING TO DEFERRED DEPOSITS.

Aloha,

Maui Loan Inc. is a family-owned, community-based local business and over the past four decades.

I write in opposition to HB 304.

To begin with, it makes no sense to calculate an annual percentage rate on a two-week loan, because the lender is not getting an annual return. He gets a 2-week return. His processing costs are the same as if he were planning to get an annual return, but that return is not there.

Think of it this way: If your pipe breaks and you call a plumber on Saturday, he may well charge you \$75 an hour and probably as much as \$150 just to show up for emergency service.

Pretty sweet for him if he could charge you those rates for a staff plumbing job, but if you were hiring a plumber for continuing work, you would not pay and he would not expect \$75 an hour or \$150 just for showing up.

HB 304 - RELATING TO DEFERRED DEPOSITS.

Page 2

My typical payday transaction is \$185, and 15% of that is about \$27.75, which is less than the \$30 bank fee that my customer might be avoiding by borrowing to pay a monthly bill on time.

Yet the Legislature is not complaining that bank late fees are too much based on some national APR.

I ask you to leave the rate where it is. Right now, many payday lenders in the islands are closing up shop: the businesses were based on customers having paydays, and as we know, so many of the people in our community are no longer getting a paycheck.

For those so fortunate as to still be working, ask yourself, where will you suggest they go for small, short-term loans if the Legislature manages to shut down the rest of the lenders, which is what a 7% rate will do.

If I can be of assistance in crafting more equitable, accountable and safe legislation as it relates to the matter of small short-term loans and/or payday lending, please contact me at Tel: (808) 244-6666.

Sincerely,

Maui loan Inc

Richard Dan President

HB-304

Submitted on: 2/10/2021 3:12:14 PM

Testimony for CPC on 2/11/2021 2:00:00 PM

| Submitted By | Organization | Testifier Position | Present at Hearing |
|---------------------|---------------------|---------------------------|---------------------------|
| Scott Garris | Individual | Support | No |

Comments:

15% is too much.