

Pennsylvania House of Representatives

House Consumer Affairs Committee

Harrisburg, PA

HOUSE BILL 2191 -- A BILL TO REGULATE SHORT-TERM LOANS

Submitted by

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INTRODUCTION – Thank you and good morning Mr Chairman, my name is John Rabenold and I am here in support of House Bill 2191, a bill to regulate short-term loans. If I can leave you with one fact, consumers will be better off, not worse off, with a regulated form of short-term credit.

I am employed by Access Financial Services, a company based in Cincinnati, Ohio, and, among other things, we own and operate retail storefronts that go by the name of Check 'n Go. I'll be both brief and specific.

I believe that we can meet the demand for a product at a lower price with better services than currently available to Pennsylvania consumers. From my perspective, that is the essence of HB2191. The bill will force prices down and drive up the quality of service for short-term loans and their customers. We hope to invest in Pennsylvania, hire workers and serve customers in a fair and responsible way.

FEES - The short-term loan industry resulted when traditional financial institutions did two things. One, they moved away from convenient signature loans. And second and more importantly, they began to rely on the non-interest income, or Fees. Fees are at historic highs.

Merchants, utilities and government agencies soon followed suit and I think everyone knows about the \$40 cup of toffee.

We have demonstrated that bouncing a check is not as cheap as it used to be. According to a recent Time article, banks earned \$31.6 BILLION in one year in overdraft and returned check fees. When considering that credit unions do the same, and check recipients assess fees too, the \$31.6 BILLION only increases. Add treble damages, hits on credit ratings, repossessions, evictions, foreclosures, etc, the costs escalate. Given that Pennsylvanians represent 4% of the US, it is estimated that they spend roughly \$1.264 BILLION on the returned check fees.

Consumers seek alternatives

ON-LINE - I know customers go on-line. We've preseed information that shows unlicensed, unregulated lenders actively solicit Pennsylvanians, representing 6-8% of their customer base. These companies are based in Costa Rica, www.mypaydayloan.com, the Chippewa Cree Nation in Montana, www.plaingreenloans.com, and elsewhere.

"While some lenders purport to be state-licensed and to comply with state rate caps and loan terms, many online lenders claim choice of law from states with no rate caps or from foreign countries. A growing number of online lenders claim to be exempt from state law enforcement due to tribal sovereign immunity."

-Consumer Federation of America, August, 2011

BORDER CROSSING - I know customers go to Ohio and Delaware. We are regulated lenders in Ohio and Delaware, we service Pennsylvanians every day without complaint.

STAY IN PA - I know customers will come to stores we open under this statute, because regardless of the 419% hype, consumers will know that they can obtain credit at a better price and at better terms than they can otherwise obtain in the market. Its that simple.

WPR - We can talk about APR, but alone, its misleading and those clamoring 419% want you to be misled. APR needs another APR, otherwise, its just a number. When you compare the short-term loans with their alternatives, as our customers do, the APR is not as important as some would like you to think.

"Any time annual percentage rate is calculated for a term less than a year, the inclusion of a fixed fee, even a modest one, will distort and overstate the APR. The shorter the repayment period, the greater the APR will appear in instances where there is a fixed fee. This means that the sooner the consumer repays, the greater the calculated APR - a difficult concept to explain to consumers, as it appears that paying earlier actually increases the cost of credit."

- Kenneth J. Clayton, the American Bankers Association

Regardless of the APR, consumers compare the alternatives with the information available to them and will seek the option that is less expensive or more convenient or both.

CYCLE OF DEBT - HB2191 is a cure for the so-called cycle of debt. Any customer who uses a short-term loan MUST enter into and exit out of a debt-free period when they are debt-free if they want to use a short-term loan again.

HB2191 requirer customers to be debt-free of the short-term loan if they want to return to that lender.

This is the cycle of debt far a customer. Enter into an agreement. Gel out of the agreement. And stay out of another agreement for a period of rime Compared to rhe environment in which consumers operate today, I do not understand how a consumer advocate can tell you that the status quo is preferred to HB2191

CONCLUSION - HB2191 provides cheaper credit and prevents the cycle of debt from happening. HB2191 will also do the following:

- Create 2,000 to 3,000 jobs that pay competitive wages and provides for health care coverage for employees and their families.
- Generate \$150,000,000 in economic spending and another \$150,000,000 in credit for consumers to use as they best determine,
- Fund up from \$5,000,000 to \$10,000,000 in new revenue to fund government oversight, compliance verification and consumer credit counseling and financial literacy services.

HB2191 if enacted will create an economic opportunity for thousands of Pennsylvanians, save consumers money and drive time, provide the best services at *one* of the lowest prices in the country.

HB2191 is a model for fair and responsible lending policy.

I hope to be your constituent.

Thank you, Mr. Chairman, I'm certainly willing to respond to any questions, comments or concerns.