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New era of affordable lending begins as Ohio's landmark payday reform law takes effect

COLUMBUS – This week begins a new era in safe, affordable lending as Ohio's Fairness in Lending Act goes into effect on Saturday, April 27, 2019. The measure is expected to save Ohio payday loan borrowers an estimated $75 million a year in lower fees and interest costs while maintaining their access to credit.

"A new era for safer lending is underway. Lenders are already getting licenses to operate under the new law, meaning Ohioans who previously became caught in debt traps will instead have access to loans they can afford," said Carl Ruby, pastor of Central Christian Church in Springfield and a founding member of Ohioans for Payday Loan Reform – the grassroots coalition of more than 100 business, veterans, faith, civil rights, and other community groups and leaders – that was a key proponent of the new law.

"As we anticipated, the market is adjusting to a balanced set of reforms that ease the debt burden on struggling Ohio families, while preserving access to credit," added Michal Marcus, executive director of the Hebrew Free Loan Association of Northeast Ohio and another coalition leader.

The Fairness in Lending Act (H.B. 123), introduced by Rep. Kyle Koehler (R-Springfield) and Rep. Michael Ashford (D-Toledo), passed the state's legislature last summer with solid bipartisan support and was signed into law by Governor John Kasich on July 30, 2018, with an effective date of April 27, 2019.

The legislation reforms a marketplace that previously permitted lenders to charge unlimited fees, resulting in annual percentage rates totaling 400, 500, or even 600 percent. The excessive borrowing costs and balloon payments often trapped the state's borrowers – many of whom live paycheck to paycheck – in a long-running cycle of debt. Lenders have access to borrowers' checking accounts on payday, so lenders had the ability to collect even if borrowers did not have the ability to repay.

Ohio previously attempted to reform payday lending in 2008, but because of loopholes, no companies obtained lending licenses, and instead they registered as brokers. The new law closed those loopholes, so lenders are becoming licensed as intended under the Short-Term Loan Act.

"By moderating the costs, borrowers will save millions annually that can instead be spent on basic family expenses such as food, shelter, and transportation, in turn helping local economies throughout Ohio," noted coalition member Danielle Sydnor, president of the Cleveland branch of the NAACP.

Key tenets of the Fairness in Lending Act include:

- Caps interest rates at 28 percent and allows a monthly maintenance fee of 10 percent of the loan amount, capped at $30.
- Borrowers get at least 90 days to repay unless the loans have installment payments limited to 7 percent of a borrower's net income or 6 percent of their gross income.
- The cost of a loan (all fees and interest) cannot exceed 60 percent of the loan's original principal, meaning a $500 loan can cost no more than $300.
- Loans are repayable in equal installments, creating a clear path out of debt.
- Loans up to $1,000 and 12 months are permitted.

“We are pleased to see the law take effect this week,” Carl Ruby said. “The coalition again expresses our deep appreciation to past and current supporters in the statehouse who really stepped up on behalf of Ohio’s consumers by putting in place a fair, thoughtfully constructed payday loan reform measure. We’ve gone from having one of the most harmful laws in the country to one of the very best, a model for others.”

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