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Testimony of the Department of Commerce and Consumer Affairs

Before the
House Committee on Consumer Protection and Commerce
Wednesday, March 12, 2025
2:00 p.m.
Via Videoconference

On the following measure:
S.B. 1367, S.D. 1, RELATING TO INSTALLMENT LOANS.

Chair Matayoshi and Members of the Committee:

My name is Dwight Young, and I am the Commissioner of the Division of Financial Institutions of the Department of Commerce and Consumer Affairs' (Department). The Department supports this administration bill.

The purpose of this bill is to clarify the intended scope of chapter 480J, HRS, which is to regulate installment lenders and that the law does not intend to eliminate the ability of lenders to make low interest rate loans under existing interest and usury laws. Replaces the term "consumer loan" with the defined term "installment loan" for consistency throughout the statutes. Requires loan maintenance fees to be prorated daily to prevent consumers from incurring fees once the loan is paid off. Allows lenders to charge a convenience fee of up to five dollars for debit card payments, providing consumer more options for repayment. Streamlines the loan repayment process by requiring paper receipts only for in-person or cash payments and increases consumer privacy by removing consumer names from receipts. Repeals the requirement for lenders to wait three days after a consumer fully repays a loan before issuing a new installment loan.

Currently, the installment loan law includes the term consumer loan in the definition of installment lender. This bill will update the definition of "installment lender", by inserting the defined term "installment loan" in place of the term "consumer loan", consistently throughout the law. Additionally, the law as written could result in lenders writing loan contracts to fully capture the maximum in monthly maintenance fees even if they provided service only for a fraction of a month. This bill will require lenders to prorate monthly fees daily. This bill will also increase consumer privacy and streamline the regulatory process by removing unnecessary identifying information on receipts and clarifying that only in-person/cash payments will require a paper receipt as proof of payment.

The bill also repeals the provision related to the three-day waiting period. The original intent for the three-day waiting period was so that borrowers would not be in a continuous cycle of debt by repaying the payday loan and borrowing again on the same day. Unlike payday loans, installment loans are gradually paid down through a series of payments. The repeal of the requirement will ensure that neighbor island residents, who may only have one or two lenders for the entire island, have more access to financial services.

The bill will allow the lender to charge a five dollars convenience fee to the borrower that makes a payment using a debit card. This is a more consumer friendly method than having the lender debit the borrower’s account by ACH, which if rejected could subject the borrower to an insufficient funds fee by the bank (about $35) and a return payment fee from the lender ($25). Should the debit card transaction get denied at the point of sale, the transaction will not be processed, and no fees will be assessed.

Thank you for the opportunity to testify, and we respectfully ask the Committee to pass this administration bill.