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EXHIBIT No. _____

PUCO

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

| | |
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| In the Matter of the Application of Ohio) | |
| Edison Company, The Cleveland Electric) | |
| Illuminating Company and The Toledo) | Case No. 07-551-EL-AIR |
| Edison Company for Authority to) | Case No. 07-552-EL-ATA |
| Increase Rates for Distribution Service,) | Case No. 07-553-EL-AAM |
| Modify Certain Accounting Practices) | Case No. 07-554-EL-UNC |
| And for Tariff Approvals) | |

**DIRECT TESTIMONY OF BILL FAITH
ON BEHALF OF
OHIO PARTNERS FOR AFFORDABLE ENERGY**

Filed: January 10, 2008

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BILL FAITH
PUCO CASE NO. 07-551-EL-AIR, et seq.

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PUCO CASE NO. 07-551-EL-AIR, et.seq.

Personal Data

Q. Please state your name and business address.

A. My name is Bill Faith and my business address is, 175 South Third Street,
Suite 250, Columbus, OH 43215.

Q. Please indicate your educational background, and by whom you are employed and in what capacity.

A. I have a Bachelor of Arts in Social Work from The Ohio State University and have taken additional coursework at The Ohio State University as well. I am employed as the executive director of the Coalition for Housing and Homelessness in Ohio (COHHIO). The organization works on homelessness and affordable housing issues, providing advocacy, public education, training and technical assistance on behalf of our statewide network of members. I also serve as the legislative chairman for the Ohio Coalition for Responsible Lending, a coalition seeking to end predatory and payday lending in Ohio. I also serve on the Governor's Foreclosure Prevention Task Force, the Ohio Housing Trust Fund Advisory Board, and serve on the boards of the National Low Income Housing Coalition, the Columbus/Franklin County Housing Trust Corporation.

1 Q. Please briefly describe your business experience.

2 A. I have served as the Director of St. John's Food Pantry/Community
3 Kitchen, was co-founder and administrator of The Ark House, both in
4 Columbus. I was co-founder and executive director of the Friends of the
5 Homeless and executive director of the Ohio Coalition for the Homeless. I
6 have served in my present positions as executive director of COHHIO
7 since 1994.

8 Q. Have you previously submitted testimony in any regulatory proceedings?

9 A. No.

10

11 **Purpose of Testimony**

12 Q. What is the purpose of your testimony in this proceeding?

13 A. The purpose of my testimony is to explain the negative impact that payday
14 lending has on families in Ohio and urge that FirstEnergy Corporation and
15 other utilities cease using payday lenders as authorized payment stations.

16

17 **Impacts of Payday Lenders**

18 Q. Can you describe the basic nature of the payday lending industry?

19 A. Payday lenders provide short-term loans, generally two weeks, at
20 extremely high interest rates. Ohio law permits payday lenders to charge
21 391% APR (annual percentage rate) on the loans they provide. The
22 principle plus interest must be paid within the terms of the loan. Though
23 marketed as a remedy for households facing a short term financial crisis,

1 the product is actually designed to trap the occasional customer into a
2 cycle of repeated loans over a long period.

3

4 Q. How many Ohioans are using these loans and how much do the loans
5 cost?

6 A. Approximately 450,000 people use payday loans annually. Roughly two-
7 thirds, or 300,000 payday borrowers become trapped, taking out multiple
8 loans each year. These households will pay approximately \$318 million in
9 interest and fees.

10

11 Q. Can you describe what you mean by borrowers becoming trapped in
12 payday loans?

13 A. The average Ohio borrower takes out 12.6 loans per year from multiple
14 payday lenders. Promotions such as a 'first loan free' and punch cards
15 that give the 9th loan free to frequent borrowers aggressively lure
16 customers into the debt trap.

17

18 Q. What are the financial impacts of these loans on customers?

19 A. The average payday loan in Ohio is \$328. If the borrower uses payday
20 loans the average number of times, 12.6 loans per year, the borrower will
21 pay \$637 in fees and interest to borrow the same \$328.

22

23

1 Q. Is the problem growing?

2 A. The state legalized payday lending in 1995. In 1996 there were 106
3 stores. Today there are 1,603 payday lenders, more than the number of
4 McDonalds, Wendy's and Burger King restaurants combined.

5

6 **Use of Payday Lenders as Authorized Utility Payment Stations**

7 Q. What is the relationship between utilities and payday lenders?

8 A. Over the past decade, utilities have closed their customer service centers
9 where customers could pay bills and arrange payment plans. The utilities
10 have substituted authorized payment centers to permit customers to pay
11 bills. Payday lenders serve as authorized utility payment stations in order
12 to increase traffic through their storefronts and enhance the volume of
13 loans.

14

15 Q. What is the problem with locating authorized utility payment stations at
16 payday lenders?

17 A. People that use payday lenders have difficulty managing their money.
18 Many also have difficulty paying their utility bills. Co-locating utility
19 payment stations with payday lenders increases the likelihood that a
20 customer will take out a loan to pay a utility bill to prevent disconnection.
21 This pulls two-thirds of borrowers into the trap that payday loans
22 represent.

23

1 A. Why should we be concerned about payday lending in this case?

2 B. Utility customers trapped in a payday lending cycle pay exorbitant fees
3 and interests. While the loan may allow them to pay this month's bill, the
4 debt trap will actually reduce their ability to pay their utility bills. Ultimately,
5 this leads to more unpaid utility bills and disconnection. The customer
6 loses service and fails to pay off his or her debt to the utility. As a result,
7 the bad debt expenses of the company increase. My understand is that all
8 ratepayers compensate utilities for bad debt, so customer rates are higher
9 because co-locating authorized utility payment stations with payday
10 lenders increases the likelihood that those customer will fall prey to the
11 391% interest rates.

12

13 Q. What action do you recommend in this case?

14 A. I recommend that FirstEnergy and ultimately all utilities either agree to
15 cease using payday lenders as authorized payment stations or that the
16 Public Utilities Commission of Ohio forbid utilities from doing the same.
17 Reducing the likelihood that Ohio's most financially vulnerable citizens use
18 payday loans is in the public interest.

19

20 Q. Does this conclude your testimony?

21 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Direct Testimony of Michael Smalz on behalf of Ohio Partners for Affordable Energy was served by electronic transmission and by First Class Mail upon the parties of record in this case on this 10th day of January, 2008.



David C. Rinebolt, Esq.
Counsel for Ohio Partners for
Affordable Energy

Kathy Kolich
FirstEnergy Service Company
76 South Main Street
Akron, OH 44308

Samuel C. Randazzo
McNees, Wallace and Nurick
21 East State Street, 17th Floor
Columbus, OH 43215-4228

Jeffrey L. Small
Ohio Consumers' Council
10 W. Broad St., 18th Floor
Columbus, OH 43215

Duane Luckey
Assistant Attorney General
Public Utilities Section
180 E. Broad St., 12th Floor
Columbus, OH 43215

David F. Boehm
Michael L. Kurtz
Boehm, Kurtz & Lowry
36 E. Seventh St., Suite 1510
Cincinnati, OH 45202

Leslie A. Kovacik
City of Toledo
420 Madison Ave., Suite 100
Toledo, OH 43604-1219

Mark A. Whitt
Jones Day
PO Box 165017
Columbus, OH 43216-5017

Lisa McAlister
McNees, Wallace and Nurick
21 East State Street, 17th Floor
Columbus, OH 43215-4228

Howard Petricolff
Vorys Sater Seymour and Pease
52 E. Gay St.
Columbus, OH 43215

Joseph Meissner
Legal Aid Society of Cleveland
1223 West Sixth St.
Cleveland, OH 44113

Sally Bloomfield
Bricker & Eckler
100 South Third St.
Columbus, OH 43215-4291

Mark S. Yurick
Chester Willcox and Saxbe
65 East State St., Suite 100
Columbus, OH 43215-4213

Garrett A. Stone
Brickfield, Burchette, Ritts & Stone
West Tower, 8th Floor
1025 Thomas Jefferson St., NW
Washington, DC 20007

Leslie Kovacik
City of Toledo
420 Madison Ave., Suite 100
Toledo, OH 43614-1219

Glenn Krassen
Bricker & Eckler
100 South Third St.
Columbus, OH 43215-4291

Bobby Singh
Integritys Energy Services
300 West Wilson Bridge Rd, #350
Worthington, OH 43085

John Bertine
Chester Willcox and Saxbe
65 East State St., Suite 100
Columbus, OH 43215-4213

Thomas Froehle
McNees, Wallace and Nurick
21 East State Street, 17th Floor
Columbus, OH 43215-4228

Cynthia A. Fonner
Constellation Energy Group
555 W. Washington St., Suite 300
Chicago, IL 60661