

October 3, 2017

Dear Senator,

The undersigned organizations write in strong opposition to SB 430- 432. Michigan families are already subject to short-term high-cost loans – they do not need another product to trap them in debt. This legislation would make Michigan’s payday lending problem even worse by allowing predatory lenders to offer longer-term products that still have triple-digit interest rates and access to the borrower’s bank account, which creates a cycle of repeat loans. Payday lenders depend on this debt trap business model to maximize their profit. Michigan should not expose consumers to another form of financial abuse.

High-Cost Payday Loans Hurt Michigan Consumers

The harms of payday lending have been long established. Payday loans increase people’s dependency on supports like food stamps, cause delayed payments on medical care and rent, cause an increase in delinquency on child support payments and increase the likelihood of bankruptcy and closed bank accounts.¹ Payday lenders operating in Michigan already drain more than \$103 million in fees each year from Michigan families, money that could be spent on the local economy or necessary living expenses.² These fees are drained because payday lenders trap Michiganders in a cycle of debt – 70% of the state’s payday loan borrowers reborrow on the same day a previous loan is repaid, while 86% of borrowers reborrow within two weeks.³ On the other hand, families in states where payday lending has been outlawed report relief and support for maintaining the rate caps that disrupt the predatory payday lending business model.⁴

SB 430-432 Attempts to Fix a Nonexistent Problem

This legislation is not necessary. Since the enactment of the Deferred Presentment Services Transaction Act (DPSTA) in 2005, payday lending in Michigan has experienced exponential growth and record profits at the expense of Michigan residents. While this has been the environment in Michigan, 15 states plus the District of Columbia cap interest rates at 36% or less, effectively stopping the payday loan debt trap. In 34 states, a \$2,000, 2-year installment loan at an APR exceeding 36% would be illegal. Now, rather than relieving Michigan’s working families of the payday lending burden, the state is considering adding another avenue of access for predatory lenders, which would allow for larger and longer-term loans.

Long-Term High-Cost Loans Are No Solution

SB 430-432 would allow predatory lenders to make loans up to \$2,500 with terms of up to two years, with a usurious annual interest rate of up to 180%. This means that for a \$1,500 loan due in 12 months, payday lenders will collect more than double what they lend, with borrowers paying back a total of \$3,209. For a \$2,500 loan due in 24 months, payday lenders will collect almost 2.5 times as much as they lend in fees alone. The fees on this loan would amount to \$5,844, for a total payback of \$8,344.

On a \$1,500 loan the monthly payment will come to \$267. You can see how a family already struggling financially could easily get in trouble as they work to come up with such a large payment amount each month. For the \$2,500 loan, the monthly payment will come to \$348.

These are clearly not affordable loans, which is what predatory lenders depend on to drive their business. They want the borrower to be forced to continue borrowing. In states that allow longer-term payday loans with APRs between 120% and 200%, data shows persistent re-borrowing. Almost 50% of

high-cost payday installment loans of about \$500 are taken out the same day that the previous loan is repaid.⁵

While consumers should have the power to make their own choices, Michigan lawmakers should not authorize the sale of clearly predatory products. In an effort to make lawmakers more comfortable with these bills, the payday lobby will likely be seeking to insert provisions to create a perception that they are looking out for the best interest for consumers. We strongly believe that the interest rates and loan terms proposed in these bills would be extremely harmful to Michigan consumers.

Michigan's working families need access to safe, affordable options for overcoming a cash shortage, which former borrowers have found in states that outlaw the practice. The last thing these families need is to be trapped in high-cost loans that are nearly impossible to escape. This legislation will siphon millions of dollars from the pockets of Michiganders and from our local economy, and further strain existing charitable or government services.

Considering the very real dangers of these longer-term high interest loans, we urge you to oppose SB 430-432 which would prey on the hard working families in our state.

Sincerely,

Statewide Organizations

Community Economic Development Association of Michigan (CEDAM)

Michigan Credit Union League

Habitat for Humanity of Michigan, Inc.

Michigan Association of United Ways

Michigan League for Public Policy

Michigan Poverty Law Program

Michigan Community Action

Cinnaire

Michigan Coalition Against Homelessness

Michigan Historic Preservation Network

Adrian, MI

Habitat for Humanity of Lenawee County

Allegan, MI

Allegan County United Way

Alpena, MI

Habitat for Humanity Northeast Michigan

Ann Arbor, MI

Avalon Housing, Inc.

Habitat for Humanity of Huron Valley

Housing Bureau for Seniors

United Way of Washtenaw County

Battle Creek, MI

Battle Creek Area Habitat for Humanity

Battle Creek Area Habitat for Humanity ReStore

Bay City

Bay Area Housing, Inc.
Bay County Habitat for Humanity
Community Home Solutions

Bellaire, MI

Antrim County

Cadillac

Wexford-Osceola Habitat for Humanity

Caro

Human Development Commission

Dearborn

UAW Local 600

Detroit

Central Detroit Christian CDC
Community Development Advocates of Detroit (CDAD)
Detroit Local Initiatives Support Corporation (LISC)
Greater Mt. Tabor Missionary Baptist Church
Metro Detroit AFL-CIO
Metropolitan A.M.E. Zion Church
Michigan United
Neighborhood Legal Services Michigan
SEIU Healthcare Michigan
The Calmplex
U Snap Bac Non Profit Housing Corporation
United Way for Southeastern Michigan
Wayne Metro Community Action Agency
Urban Neighborhoods Initiatives

East Lansing

North Coast Community Consultants, LLC

Farwell

Mid Michigan Community Action Agency

Fenwick

United Way Montcalm Ionia Counties

Flint

Center for Civil Justice
Communities First, Inc.
Red Ink Flint
Metro Community Development

Gaylord

Otsego County Habitat for Humanity

Grand Haven

Neighborhood Housing Services

Grand Rapids

Genesis Non Profit Housing Corporation
Home Repair Services
Inner City Christian Federation
LINC UP
Project GREEN / The Micah Center
Michigan ERN

Grayling

Grayling Main Street

Hart

OCEANA'S HOME Partnership

Hastings

Barry Community Foundation

Highland Park

Triumphant Life Church

Holland

Ottawa County Community Action Agency

Houghton

U.P. KIDS

Jackson

Community Action Agency
Unique Clothing & Home
United Way of Jackson County, Inc.
Habitat Jackson Michigan

Kalamazoo

Housing Resources, Inc.
Pinto Products, Inc.

Lansing

Allen Neighborhood Center
City of Lansing Office of Financial Empowerment
City of Lansing, Michigan
Old Town Commercial Association

Lapeer

United Way of Lapeer County

Livonia

UAW Local 600

Mancelona

Habitat for Humanity Antrim County

Manistique
HFH HiawathaLand

Marquette
Northern Initiatives

Midland
Isabella Bank
Midland County Habitat for Humanity

Monroe
Habitat for Humanity of Monroe County

Mt Clemens
Hearts for Homes, Inc.

Muskegon
United Way of the Lakeshore

Pontiac
OLHSA

Prudenville
Roscommon Habitat for Humanity

Rochester Hills
E. Quinn Consulting, LLC

Saginaw
Saginaw-Shiawassee Habitat for Humanity

Saint Joseph
United Way of Southwest Michigan

Sault Ste Marie
Northstar Habitat for Humanity

Troy
Community Housing Network, Inc.

¹See, e.g., Brian Melzer, “The Real Costs Of Credit Access: Evidence From the Payday Lending Market,” Quarterly Journal of Economics (2011), <http://qje.oxfordjournals.org/content/126/1/517.full.pdf>, and Brian Melzer, “Spillovers from Costly Credit,” http://www.kellogg.northwestern.edu/faculty/melzer/Papers/Spillovers%20from%20Costly%20Credit_08_13_14.pdf.

²Diane Standaert and Delvin Davis, “Payday and Car Title Lenders Drain \$8 Billion in Fees Every Year,” Center for Responsible Lending (Updated January 2017), <http://www.responsiblelending.org/research-publication/payday-and-car-title-lenders-drain-8-billion-fees-every-year>

³Supplemental findings on payday, payday installment, and vehicle title loans, and deposit advance products”, Consumer Financial Protection Bureau (June 2016), http://files.consumerfinance.gov/f/documents/Supplemental_Report_060116.pdf

⁴Robin Howarth, Delvin Davis and Sarah Wolf, “Shark-Free Waters: States are Better Off without Payday Lending,” Center for Responsible Lending (August 2016) <http://www.responsiblelending.org/research-publication/shark-free-waters-states-are-better-without-payday-lending>

⁵Staff of the Administrator of the Colorado Consumer Credit Unit, Colorado Payday Lending – Demographic and Statistical Information: July 2000 through December 2015 (August 2016)

https://coag.gov/sites/default/files/contentuploads/cp/ConsumerCreditUnit/UCCC/AnnualReportComposites/2015_ddl_composite.pdf