



Michigan
Coalition for
Responsible
Lending

February 14, 2020

The Honorable XXXX
State Representative
PO Box 30014
Lansing, MI 48909-7514

Dear Representative XXX,

The undersigned organizations write in strong opposition to HB 5097. 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 well documented. 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

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

been outlawed report relief and support for maintaining the rate caps that disrupt the predatory payday lending business model.⁴

HB 5097 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, 16 states plus the District of Columbia cap interest rates at 36% or less, effectively stopping the payday loan debt trap. In 34 states, a \$2,500, 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

HB 5097 would allow predatory lenders to make loans up to \$2,500, with usurious annual interest rates in the triple-digits. 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. 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 of 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 HB 5097 which would prey on the hard working families in our state.

Sincerely,

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>

⁵ Staff 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.

Statewide Organizations

Community Economic Development Association of Michigan (CEDAM)
Cinnaire
Cooperative Capital
Elder Law of Michigan
The Financial Clinic
Frankenmuth Credit Union
Habitat for Humanity of Michigan
Honor Credit Union
Lake Trust Credit Union
LISC- Kalamazoo
Michigan Association of United Ways
Michigan Coalition Against Homelessness
Michigan Community Action
Michigan Disability Rights Coalition
Michigan League for Public Policy
Michigan Poverty Law Program
New Hope Community Development NPHC
Old Nation Bank
Opportunity Resource Fund
Revalue
Richard G. Ballard, LLC Affordable Housing and Community Development Solutions

Regional Organizations

Habitat for Humanity Northeast Michigan – Alpena
Alpha Advisory Group – Clawson
Fremont Area Community Foundation – Fremont
Dwelling Place of Grand Rapids – Grand Rapids
Thornapple Credit Union – Hastings
Houghton Lake Chamber of Commerce – Houghton Lake
Capital Area Community Services, Inc. – Lansing
Habitat for Humanity HiawathaLand – Manistique
Northern Initiatives – Marquette
Ingham County Treasurer - Mason
United Way of Monroe/Lenawee Counties – Monroe
Habitat for Humanity of Isabella County – Mt. Pleasant
Lakeshore Region Community Development Corporation – Muskegon Heights
Metropolitan Christian Council Detroit Windsor – Southfield

Local Organizations

Habitat for Humanity of Lenawee County – Adrian
Habitat for Humanity of Huron Valley – Ann Arbor
United Way of Washtenaw County – Ann Arbor
Harbor Habitat for Humanity – Benton Harbor
Northern Homes CDC – Boyne City
Wexford Osceola Habitat for Humanity – Cadillac
Charlevoix Main Street – Charlevoix

Building the Engine of Community Development in Detroit – Detroit
Community Development Advocates of Detroit – Detroit
Church of the Messiah Housing Corporation – Detroit
Detroit Community Solutions – Detroit
Detroit Parent Network – Detroit
Eastside Community Network – Detroit
GenesisHOPE – Detroit
Nortown Community Development Corporation – Detroit
One Detroit Credit Union - Detroit
U SNAP BAC – Detroit
West Outer Drive Civic Association - Detroit
Zahra Chevannes Consulting LLC – Detroit
North Coast Community Consultants – East Lansing
Center for Civil Justice – Flint
Genesee County Habitat for Humanity – Flint
LISC – Flint
Otsego - Antrim Habitat for Humanity - Gaylord
Home Repair Services – Grand Rapids
Kent County Essential Needs Task Force – Grand Rapids
LINC Up – Grand Rapids
New Development Corporation – Grand Rapids
Project GREEN – Grand Rapids
Barry County United Way – Hastings
Habitat for Humanity Barry County - Hastings
Community Action House – Holland
United Way of Jackson County – Jackson
Housing Resources, Inc. – Kalamazoo
Kalamazoo Eastside Neighborhood Association – Kalamazoo
Open Doors Kalamazoo – Kalamazoo
Kalamazoo Valley Habitat for Humanity - Kalamazoo
Habitat for Humanity Menominee River - Kingsford
Allen Neighborhood Center – Lansing
Astera Credit Union - Lansing
NorthWest Initiative – Lansing
United Way of Lapeer County – Lapeer
Pennies from Heaven Foundation – Ludington
Alger Marquette Community Action – Marquette
Midland County Habitat for Humanity - Midland
Hearts for Homes, Inc. – Mt. Clemens
Habitat for Humanity of Oakland County – Pontiac
OLHSA – Pontiac
Roscommon Habitat for Humanity – Prudenville
Jolt Credit Union/Catholic Federal Credit Union - Saginaw
Metropolitan Christian Council Detroit Windsor - Southfield
Friends in Deed – Ypsilanti
Delta Associates of Michigan, LLC - Ypsilanti