MEMORANDUM

TO: Members of the House Insurance and Financial Services Committee

FROM: Monique Stanton, President & CEO, Michigan League for Public Policy

DATE: April 18, 2024

RE: Support for Senate Bill 632 and House Bill 5290 – Amendment to the Deferred Presentment Service Transactions Act

---

The Michigan League for Public Policy is pleased to express its support for Senate Bill 632 and House Bill 5290. We would like to extend our gratitude to Senator Sarah Anthony and Representative Abraham Aiyash for sponsoring these bills to help protect consumers from predatory loans that leave them worse off than before.

For those of you who are not yet familiar with the Michigan League for Public Policy, we are a nonpartisan research and advocacy organization that promotes economic opportunity for all and analyzes the impact of public policy and budget decisions on the lives of Michiganders who have been historically and systemically left out of prosperity. The League is also the state's Kids Count organization, working as a part of a national effort to measure the well-being of children at the state and local levels and to shape efforts that improve the lives of Michigan children.

Michigan families are seeing the cost of living skyrocket and are looking for any relief. Too many are one medical emergency, car repair or home repair away from being in financial trouble. Payday loans can often appear to be a life raft for families that are facing an unexpected expense or just need a bit of cash to make ends meet before their next payday. However, all too often, borrowers soon discover these loans are a trap, with an average annual interest rate of 370%.

To put this into perspective, the average annual percentage rate (APR) for a credit card in the fourth quarter of 2023 was 21.47%, and the average APR for a used car loan for a person within the lowest credit range is currently 24.17%. If this is the highest average rate for a car loan for someone with the lowest credit, it should not be acceptable for short-term payday loans to carry a 370% interest rate. Additionally, since 2006, the Military Lending Act has limited the annual interest rate lenders can charge military service members to 36%. Payday loans, with interest rates exceeding what is deemed acceptable for all other lending opportunities, are dangerous.

On top of the high interest rate of payday loans, repayment is expected in just two weeks. This is often an impossible timeline for individuals with low incomes, leading to a vicious cycle where a borrower will take out a second payday loan to cover expenses after paying the first. In fact, payday borrowers take out an average of 10 loans per year and 70% reborrow the same day they pay off their first loan. This type of borrowing only kicks the can further down the road and keeps borrowers drowning in debt.

1223 TURNER STREET • SUITE G1 • LANSING, MICHIGAN 48906
P: 517.487.5436 • **F**: 517.371.4546 • WWW.MLPP.ORG
A UNITED WAY AGENCY

Let us be clear, this type of lending is predatory in nature. While these loans are dangerous in general to borrowers with low incomes, they also target communities of color. 77% of payday lending advertisements target communities of color and these lenders are disproportionately located in rural, low-income areas as well as Black and Latino communities. These are communities that have been historically denied credit, have faced increased barriers to prosperity and are now at greater risk of these predatory lending practices.

Many have questioned what happens to borrowers with low incomes if this legislation passes, and some worry borrowers might lose access to short-term loans to cover emergency expenses. In January 2021, Illinois passed the Predatory Loan Prevention Act (PLPA), which capped the interest rates at 36% much like SB 632 and HB 5290 would. In the first year since its passage, one non-profit lender saw a 70% increase in applications for their low-interest short-term loan program and another for-profit lender saw a 23% increase in loans under $2,000. Moreover, in the year after the PLPA was passed, Illinois saw bankruptcy rates decline faster than another state in the region. During this same time period, almost 250 new licenses were issued for new lenders. This means that not only did consumers flock to low-interest alternatives since the bill's passage but fewer also declared bankruptcy and new low-interest lenders moved into the market.

The Michigan League for Public Policy supports SB 632 and HB 5290. This legislation would help protect Michigan borrowers by limiting the annual interest rate for payday loans at 36%, bringing it in line with protections extended to our military service members. This lower rate will help make loan repayment more manageable, limiting this vicious cycle of debt and protecting individuals and families with low incomes. This legislation comes at a time when Michigan families are facing increased costs and are looking for relief. SB 632 and HB 5290 ensures struggling families are not taken advantage of by predatory lending practices.

1223 TURNER STREET • SUITE G1 • LANSING, MICHIGAN 48906
P: 517.487.5436 • **F**: 517.371.4546 • WWW.MLPP.ORG
A UNITED WAY AGENCY