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February 19, 2020

The Honorable Brandt Iden, Chair
House Ways and Means Committee
Michigan House
State Capitol
Lansing, MI 48909

Dear Chairman Iden and members of the Ways and Means Committee:

I am writing to you on behalf of the Community Economic Development Association of Michigan (CEDAM) in opposition of House bill 5097. CEDAM is a statewide, nonprofit membership organization with more than 200 members engaged in community-based economic development. This work includes affordable housing development and foreclosure mitigation, downtown and neighborhood revitalization, alternative lending programs, small business assistance, financial counseling, and more.

CEDAM and its membership are opposed to this legislation for a number of reasons. The proposed legislation would open the door to longer term, triple-digit interest loans of up to \$2,500 in the state of Michigan. The language in the bill allows the lender to charge a service fee of 11% of the amount of the loan, which would be the equivalent of 132% APR. This means on a two-year, \$2,500 loan, the borrower would end up paying back over \$7,000.

The legislation states that the "small loan" cannot be for less than 90 days, but there is no limit on the length of the loan and no language requiring that the loan principal be paid down with each installment. This leaves the door open for someone to enter into a loan and keep paying the fees but never touch the principal.

The bill explicitly allows the lender to roll over a smaller payday loan into the longer-term loan, and also allows for reborrowing on the "small dollar" loan after 30% of the payments are made. This could trap a borrower in debt for an undefined amount of time. These new loan products are nothing more than a way for lenders to evade the rate cap in the Regulatory Loan Act and to offer longer-term loans with triple-digit interest rates.

These loans are marketed as a quick financial fix, but are instead a long-term debt trap for borrowers. At its core, loans authorized under HB 5097 are loans with excessive rates that will last months or even years. Lenders will still get access to the borrower's bank account and have no regard to whether the loan is affordable or not. In addition to charging the equivalent of triple-digit interest rates via fees, these loans require no credit check, and lenders do not generally ask about monthly expenses or debts.

While these loans are said to provide access to credit for those who can't use a credit card or have no access to traditional loans, the reality is that borrowers consistently report a range of options in dealing with a financial shortfall if these high-interest loans aren't available. While working with financial counselors to get out of their debt traps, clients have reported cutting back on expenses, borrowing from friends or family, waiting for tax refunds, or waiting until payday as options they have used to cover expenses. In addition, these loans are associated with the increased likelihood of delinquency on other bills, including medical and utility bills, increased overdraft fees, involuntary bank account closures and even bankruptcy.

According to a report from the Center for Responsible Lending, payday lenders drain more than \$103 million each year in fees from Michigan families. Stores in Michigan are disproportionately located in low-income neighborhoods and communities of color. More than two-thirds of Michigan's payday loan stores are owned by out-of-state companies, so the fees drained are not just leaving the communities, but are also leaving the state.

CEDAM has witnessed a strong shift in the community development field toward a greater focus on household financial security. If our families cannot successfully manage their monthly income and expenses, save for emergencies and eventually secure assets like homeownership or small business ownership, then our efforts to improve our physical infrastructure and build local economies have far less impact. Considering the very real dangers of these longer-term, high interest loans, we urge you to oppose HB 5097, which would establish these high-cost loans in Michigan and prey on our state's hard working families.

Respectfully,
Jessica AcMoody
Policy Director
CEDAM