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COMMUNITY ECONOMIC DEVELOPMENT ASSOCIATION OF MICHIGAN

May 27, 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.

CEDAM and its membership are opposed to this legislation because it would allow for longer term, triple-digit interest loans that are meant to and will trap Michigan residents in a cycle of debt. These loans are harmful even when we are not facing a global health and economic crisis.

Specifically, the proposed legislation would allow loans to be made 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 an APR equivalent to 132%. This means on a one-year, $2,500 loan, the borrower would end up paying back more than $4,000.

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 25% 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.

Adding an additional predatory product is a way for payday lenders to profit off of crisis—and this pandemic is no different. Legalizing a predatory product during a health and economic crisis will only further harm Michigan's most vulnerable communities

Instead, the Michigan legislature should follow the lead of the federal government, which passed the Military Lending Act to cap all loans made to active duty military members at an APR of 36%. This bi-partisan act was passed at the request of the Department of Defense after seeing the negative effects payday lending products were having on military members and their families.

Our communities need access to safe financial products right now, not be pushed further in debt. Lawmakers should be exploring how to ensure Michigan residents can access their economic impact payments through initiatives like BankOn, and how to best support Michigan consumers without trapping them in a cycle of debt.

Considering the very real dangers of these longer-term, high interest loans, we urge you to oppose HB 5097.

Respectfully,
Jessica AcMoody
Policy Director
CEDAM