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CEDAM
COMMUNITY ECONOMIC DEVELOPMENT ASSOCIATION OF MICHIGAN
1118 S. Washington Ave
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October 2, 2019

The Honorable Diana Farrington, Chair
House Financial Services Committee
Michigan House
State Capitol
Lansing, MI 48909

Dear Chairman Farrington and members of the House Financial Services Committee:

I am writing to you on behalf of the Community Economic Development Association of Michigan (CEDAM) in support of the substitute for House Bill 4251. 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, free tax preparation, alternative lending programs, small business assistance, financial counseling, and more.

We believe that the best way to protect consumers is to institute a 36% rate cap on loans made under the Deferred Presentment Service Transactions Act. This would align with the federal Military Lending Act which institutes a cap of 36% for most consumer loan products for active-duty military members and their families. The 36% cap includes finance charges and many types of fees including application fees. This law was enacted at the request of the Department of Defense, which saw the negative impact of predatory lenders on their active-duty military personnel, with some military members losing security clearance due to financial problems caused by predatory lending.

Although we strongly believe the best option is to protect all consumers with a 36% rate cap, not just active-duty military, we support the substitute for HB 4251 which removes the 36% cap but includes many important consumer protections. Data from the Consumer Financial Protection Bureau (CFPB) shows that 70% of Michigan borrowers take out a new payday loan on the same day they pay one off, and 86% reborrow within two weeks. By instituting the 30-day cooling off period between loans, as well as the one loan limit, we can begin to stop this vicious cycle of debt in which many payday lending borrowers find themselves trapped. Payday loans are marketed as a quick financial fix, but are instead a long-term debt trap for borrowers. By putting in place a cooling off period and limiting loans to one at a time, the loans are more likely to be used in the manner in which they are marketed by the lenders.

Another important provision in the substitute bill is the ability to repay requirement. Currently, lenders have access to the borrower's bank account but have no regard for the borrower's ability to repay. In fact, they stand to make more from their customers if they cannot afford to pay off the loan and walk away, creating a perverse incentive to lend to people who can't afford their terms. Payday loans require no credit check, and lenders do not generally ask about monthly expenses or debts. The only thing required to obtain a loan is personal identification, a checking account, and proof of anticipated income from a job or government benefits. By making sure the borrower has the ability to repay the loan given their existing obligations, we will protect consumers from getting caught in a cycle of debt they cannot escape.

According to the attached report, 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.

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. In the sixteen states (and Washington DC) that do not allow loans over 36% APR, borrowers 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. Both payday and auto title loans put current assets at risk, and erect barriers to building assets for the future. Rather than helping them through a crisis, they make borrowers worse off.

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 high-interest loans, we urge you to support HB 4251, which would put protections in place for Michigan's most vulnerable consumers.

Respectfully,

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