Deferred Presentment Service Industry Overview

Michigan - 2021

Deferred Presentment Industry Overview

Payday lending has been a national story pitting consumer advocates against industry lobbyists in a fight over credit access and government over-regulation.

Fortunately for Michigan in 2005, then Democrat Gov. Granholm and the Republican led legislature got it right and reached a bi-partisan compromise that balanced the needs of industry and its workers with common sense consumer protections for borrowers. Since then, commerce continues without incident. But that doesn't mean the industry isn't changing.

Consumer demand is changing. As potential borrowers look for credit greater than $600 and with more flexible repayment terms, fintech and online lending has emerged as go-to places for borrowers instead of banks or credit unions. Alternative financial service providers have evolved as technology, innovation and data-driven decisions, particularly borrowers with non-prime credit as consumption of deferred presentment services is on the decline, year over year.

And federal regulation is changing. Last year, portions of the Small-Dollar Loan Rule took effect. These federal regulations, on top of the state regulatory framework, further incentivize alternative lenders to take into account the ability of the borrower to repay their loan on time and attempts to move the industry to longer repayment periods that work better for the financial needs of the consumer.

And the industry is changing, but in Michigan, the industry can only change if the legislature allows it to do so. We need the help of the Legislative and Executive branches to join us in that journey.

Industry believes:

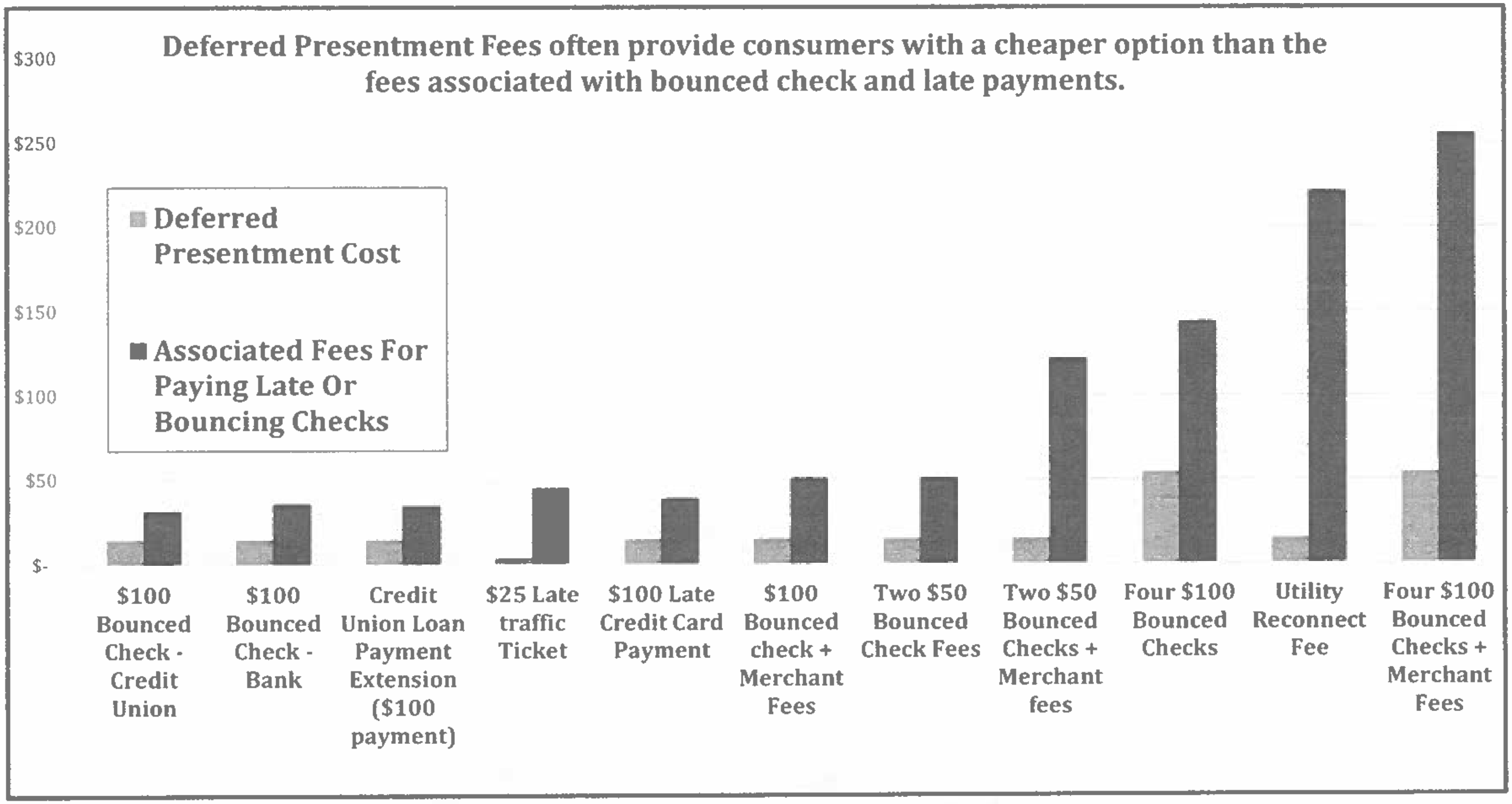
- A state regulatory environment is best suited to provide regulation and oversight of the marketplace;
- Consumers, particularly those with less-than-stellar credit, deserve fairly-priced and affordable credit;
- Workers need to know that their elected officials are representing them as well as the wages, income and health care benefits are important to their families and their communities;
- The competing forces from unregulated entities are impacting the state, and the state is not as competitive as it can be, which harms consumers and employees;

There is support for common-sense reforms that lowers prices, makes loans more affordable, and more manageable to repay with credit-building features.

Current Deferred Presentment Regulations in Michigan

Permissible Maximum Fee:	15% on first $100; 14% on second $100; 13% of third $100; 12% on fourth $100; 11% on fifth and sixth $100
Example of a Fee on $100 Advance:	$15.00
Maximum Number of Rollovers Allowed:	None Allowed
Maximum Advance Amount:	$600
Maximum Term:	31 days
Extended Payment Plan:	Customer eligible if unable to pay 8th deferred presentment service transaction with any licensee in any 12-month period; licensee must advise customer of repayment option at the time it is available.
Database:	Statewide, common database
Additional Regulations:	Right to rescind; No criminal prosecution

Comparing the costs of consumer choices



NOTE – Most of the items in red would also come with a hit to the consumers credit score as well.

*Lake Trust Credit Union, PNC Bank, Ann Arbor Parking Department, Chase, and Consumers Energy were used as examples

Overview of ACT 244, 2005 (ENR HB 4834)

Michigan's 93rd Legislature enacted Act No. 244 in 2005 following bi-partisan passage of Enrolled House Bill No. 4834. The Michigan House of Representatives voted 96-4 and the Michigan Senate voted 34-4 following legislative hearings initiated in October of 1999. The reform significantly overhauled an unregulated industry.

This Act provides for comprehensive regulatory oversight by the Department of Labor and Economic Growth's Office of Financial and Insurance Regulation (OFIR), enacts a series of meaningful consumer protections and requires specific industry responsibilities for deferred presentment service transactions.

CONSUMER PROTECTIONS

- Interest prohibited.
- Fees capped on a sliding scale from 15% to 11% for any transaction with any licensee up to $600.
- Extended payment plan available at the consumer's option under certain conditions
- Statewide, common database with real-time access accessible at all times to licensees and the commissioner designed to administer and enforce the act

LICENSING & OVERSIGHT

- Annual licensure and renewal required (exempts banks, savings and loan associations, savings bank and credit unions)
- Expense of regulatory oversight borne by licensees
- Commissioner maintains broad authority to promulgate rules and orders to implement the act
- Commissioner maintains broad authority to investigate applicants and licensees
- Significant net worth requirements & surety bonding requirements set forth in Act

CORPORATE RESPONSIBILITY

- No cost, next day right to rescind the transaction
- Pre-payment penalties prohibited
- Prominent consumer disclosures and warnings
- Pro-consumer arbitration requirements
- Rollovers prohibited
- Criminal prosecutions for collections prohibited
- Returned check charges limited

ENFORCEMENT

- Two-tiered consumer complaint resolution procedure, incentivizing self-policing and correction of mistakes
- Commissioner maintains broad authority to address violations of the act, including:
    - Fines of $1,000 to $50,000 per violation
    - Suspension of a licensees' activities
    - Issuance of Cease and Desist orders

Addressing the Cycle of Debt

Throughout the legislative debate, it was universally accepted that all interested persons were concerned about a consumer's potential misuse and extended use of deferred presentment services. As a result, the legislature tackled the problem with a multiple common sense policy solutions.

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Full and Clear Disclosures

Consumer Warnings

Limit the Exposure to Debt

Limit the maximum deferral amount to $600
Limit the fees to a sliding scale from 15% to 11%
Prohibit the charging or accrual of interest
Prohibit "rollovers"
24 hour right to rescind

Provide Additional Time without Penalty

Provide consumers with an extended payment plan whereby the customer may retire the debt over a three-pay period time table

Provide Consumers with Ample Recourse for Violations
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CFSA, the industry's national trade association, is the most progressive force of change within the industry. The 1999 adoption of CFSA's Best Practices helped consumers with fair and responsible access to credit while providing industry with reasonable requirements to meet the demand.

CFSA's Best Practices include:

Full and clear cost disclosure, compliant with federal Truth In Lending Act and Regulation Z
Truthful advertising
Encourage consumer responsibility
Collection practices consistent with federal fair debt collections practices act
Prohibition of criminal prosecution
Internet lending compliant with state licensing requirements

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Non-Prime Americans are the Middle Class

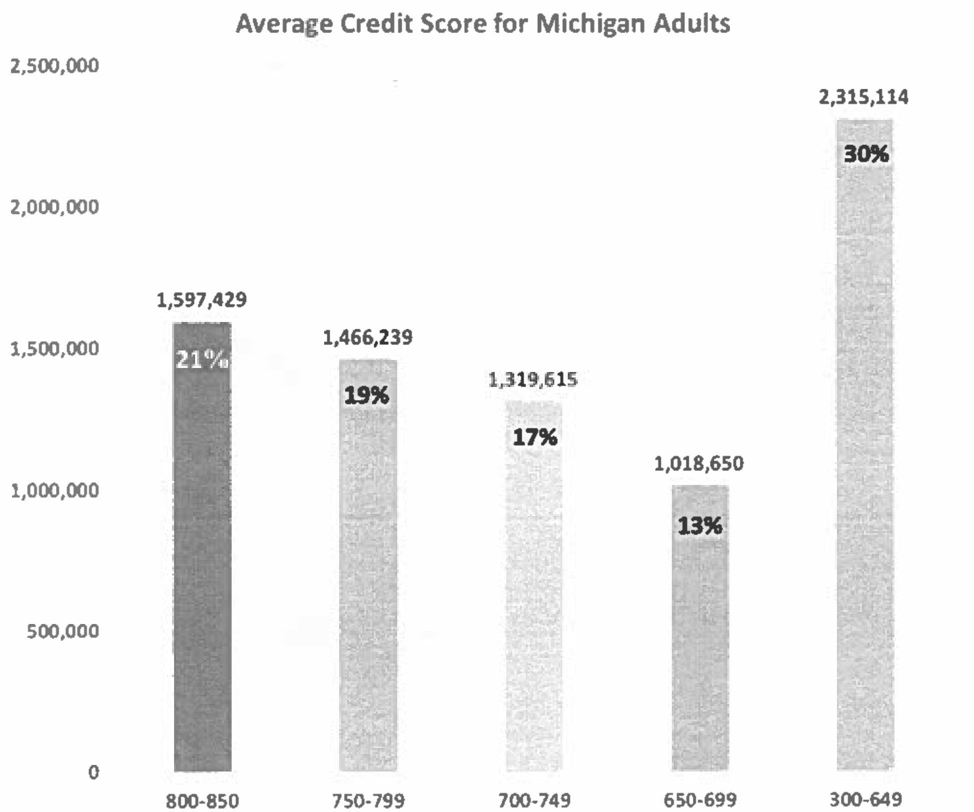
17% more likely than prime consumers to hold more than one job

56% have annual household incomes ***greater than $50,000***

Have responsibility for larger households - 20% more likely to have ***3+ people in their households*** and almost 2x as likely to have elderly parents in their households

Watch their credit reports closely and look for opportunities to improve, ***checking their credit scores 40% more often*** than prime

Michigan Consumer Economic Profile



Data Source: Fair Isaac Corporation. Distribution is representative of the FICO Score 8 version of the FICO scoring model.

Credit score	Their borrowing options:
800-850	These borrowers have exceptional credit and have no issues with borrowing when needed from traditional lenders at the lowest interest rates.
750 - 799	These borrowers have very good credit and normally have few issues with borrowing when needed from traditional lenders and will see better credit card offers as well.
700 - 749	These borrowers have good credit and normally have access to the credit they need but the cost of that credit is going up compared to the higher credit score groups.
650 - 699	These borrowers have more challenges getting the credit they need and many have been turned down for a loan or credit card. When they are able to secure a loan at a traditional lender or a credit card, it is often at the highest rates.
300- 649	These borrowers have fallen below the line where most traditional lenders will lend to them. They turn to the consumer lending market including state regulated deferred presentment loans. If those loans are not enough to meet their needs their final option is to turn to the less regulated online and tribal loan markets paying some of the highest rates.

Economic Impact of the Deferred Presentment Lending Industry - Michigan

Charles River Associates conducted a study in 2012 analyzing the economic impact of the deferred presentment industry in the states with storefront locations and nationally. The impacts were assessed in terms of total output (or sales volume), total value added (or gross regional product), taxes, and employment supported by the payday lending industry.

Key Findings:

- In addition to being a valuable source of credit for many consumers, the deferred presentment industry makes significant contributions to U.S. and state economies.

MICHIGAN - TOTAL ECONOMIC IMPACT			
Value Added to GDP	**Employment** (# of employees)	**Labor Income** (Employee Compensation)	**Tax**
$135.0 million	2,073	$35.4 million	$3 million

- The payday lending industry supported the production of goods or the provision of services estimated to value approximately $198.0 million, contributing $135.0 million to the U.S. Gross Domestic Product (GDP).
- The payday lending industry supported the employment of 2,073 people, of which 1,583 employed directly in 645 storefront locations (today there are 446 licensed storefront locations), and 489 through jobs required to produce the goods or services the payday lending industry or its employees purchased from other firms.
- The total compensation of the people working directly in the storefront locations was $35.4 million. In addition, the payday lending industry contributed to the compensation of other people hired by the other firms it supported.
- The payday lending industry contributed directly at least $3 million in local/state and federal taxes. In addition, the payday lending industry contributed to taxes raised on other goods/services, employment it supported.

*Study based on 2012 data

Tribal Lenders are significant players in consumer lending in Michigan

- Multiple Tribal Lenders are operating online in Michigan, including:
- Big Picture Loans www.bigpictureloans.com
- Plain Green www.plaingreenloans.com
- Cash Advance Nw www.cashadvancenow.com
- MaxLend www.maxlend.com
- Blue Trust Loan www.bluetrustloans.com
- Big Sky Loans www.bigskyfinancialloans.com
- Mobiloans www.mobiloans.com
- Tribal Lenders often operate hundreds of lending websites behind their parent brands
- Tribal lenders have significant Marketing investment in Michigan[1]
  - The combined share of voice of Direct Mail puts Tribal Lenders in the top 5 of marketplace lenders, among companies like Lending Club, OneMain Financial, Prosper, and Discover.
  - Big Picture Loans' share of voice of Direct Mail is in the top 10 of all marketplace lenders.
  - In the last six months of 2020, the top tribal lenders sent over 1 million direct mail pieces to consumers in Michigan.

The State of Michigan is not the only regulator in the state.

Michigan's Lac Vieux Desert Band of Lake Superior Chippewa Indians owns the online lender **Big Picture Loans** (www.BigPictureLoans.com). But Big Picture Loans isn't regulated by the state. It is actually regulated by the Tribe's own Financial Services Regulatory Code. Why is this a problematic for Michigan consumers? Because the code does not restrict who they lend to, how much they charge, or otherwise comply with the state's Regulatory Loan Act or Deferred Presentment Services Transactions Act. The Tribe must just remain compliant with the Federal Consumer Protection Act, including steps like fair debt collections practices, equal opportunity to credit, and truth-in-lending disclosures.
The Tribe does not hide the fact that they operate outside of the State of Michigan regulated market. Here is an excerpt from the Tribe's own disclosures.

> **"The laws of your resident state may have interest rate limits and other protective laws that are more favorable. If you wish to have your resident state law apply, you should consider taking a loan from a licensed lender in your state. Availability of installment loans are subject to change from time to time as determined by Big Picture Loans."**

Notice that the Tribe is not offering their borrowers in-state rates or consumer protections, but rather stating that borrowers should look elsewhere if they want in-state rates and consumer protections.

Tribal loans tend to have high APR's

Big Picture Loans

ANNUAL PERCENTAGE RATE The cost of Your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost You.	Amount Financed The amount of credit provided to You or on Your behalf.	Total of Payments The amount You will have paid after You have made all payments as scheduled
765.9713% (e)	$966.31	$375.00	$1,341.31

Itemization of amount financed: Amount given to You directly: $375.00 Amount paid on loan N/A with US: N/A

Your Payment Schedule will be

Number of Payments	Amount of Payments	When Payments Are Due
1	$103.18	September 1, 2017
1	$103.18	September 15, 2017
1	$103.18	September 29, 2017
1	$103.18	October 13, 2017
1	$103.18	October 27, 2017
1	$103.18	November 9, 2017
1	$103.18	November 24, 2017
1	$103.18	December 8, 2017
1	$103.18	December 22, 2017
1	$103.18	January 5, 2018
1	$103.18	January 19, 2018
1	$103.18	February 2, 2018
1	$103.15	February 16, 2018

https://www.bigpictureloans.com/loan-rates

Example of Our Rates and Terms

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
675.88 %	$2,303.57	$500.00	$2,083.57

https://loanatlast.com/availability-and-rates/

Why APR is the wrong way to measure the true cost of short term loans.

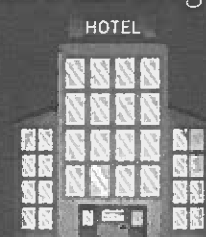
In Michigan, deferred presentment loans are limited to 14-31 days. APR is an annualized rate for longer terms loans that are paid back often times over many years, not a few weeks.

But opponents still point to the triple digit APR attached to deferred presentment loans as a reason to be ban these loans in the state.

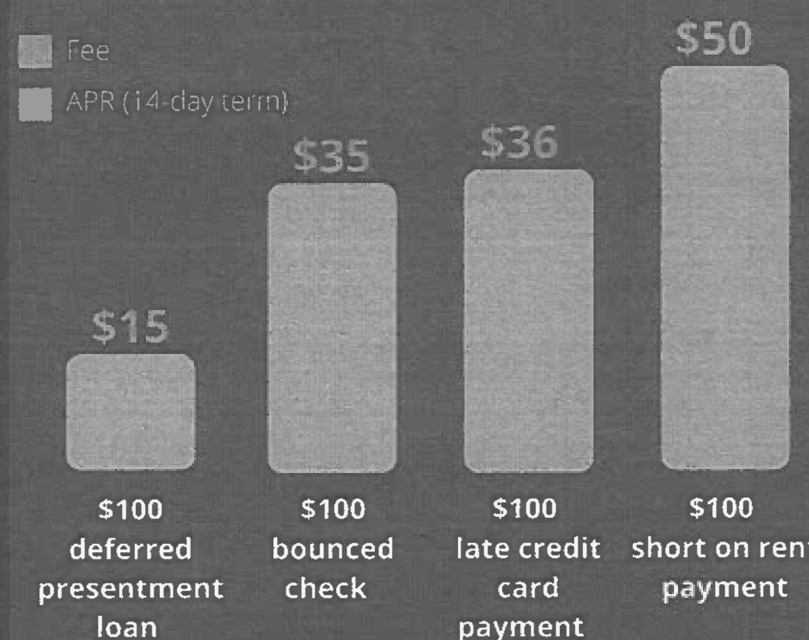
Using this same logic, it would be like requiring the travel industry to list the yearly costs of renting a car or staying in a hotel instead of their daily rates.

A rental car isn't **$14,600** per year. It's **$40** per day

A hotel room isn't **$45,625** per year. It's **$125** a night



Even when comparing the APR to other costs consumers face, it is still a better option for them in many cases.



COMPARING CONSUMER OPTIONS

Sierra Financial vs. Michigan Deferred Presentment Service Transaction Act (DPSTA)

	Sierra Financial	Michigan DPSTA	Additional protections under Michigans DPSTA
Maximum Loan Amount	$1000	$600	• No more than one outstanding loan allowed per lender • Statewide common database paid for by the industry to track all loans
Term of Loan	4 - 31 days	30 days or less	• No rollovers allowed • Regardless of term, there are no prepayment penalties
Annual Percentage Rate (APR)	389% - 1506% APR	Fee based on a declining scale – $15.00 on the first $100, $14.00 for the second $100, down to $11.00 for sixth $100	• Interest is not authorized • Full disclosure of all fees and regulations up-front before any loans are provide
State Compliance	<u>No</u> • Not licensed or regulated by the state • Operates under their own tribal laws they implement themselves	<u>Yes</u>	• Licensed by the state of Michigan prior to offering loans • Ongoing oversight by DIFS
Example of $300 loan repaid in 14 days	**Total repayment of the loan $399.00 including $99 in fees (864% APR)**	Total repayment of the loan $342 including $42 fees (364% APR) **<u>Savings to the consumer of $57 on the loan and includes Michigan consumer protection</u>**	

https://www.sierrafinancial.net

Deferred Presentment Service Transaction Act Act 244 of 2005

THE $400 PROBLEM:

Will you Let Consumers Solve It?

WHEN FACED WITH AN UNANTICIPATED EXPENSE OF $400...

- 61% of adults would meet the expense with ready cash from their savings, or by paying with a credit card they'd pay off when the next statement arrived.
- But 2.1 million Michigan adults (27%) would be forced to borrow or sell something of value to raise the funds to meet the emergency expense - -- and even then, their access to credit is questionable.
- Over 900,000 of adults (12%) would be unable to meet the expense at all under the current laws in the state.

[redacted]

A REPORT FROM THE UNITED STATE FEDERAL RESERVE BOARD ON ECONOMIC WELL-BEING IDENTIFIED A KEY PROBLEM FACING FAMILIES IN MICHIGAN:

Over 3 million Michigan adults (39%) can't meet an emergency expense of $400 out of existing sources of money, including cash and ready credit.

Roughly 2.3 million Michigan adults face unpredictable income monthly, with changing work schedules providing a source of economic stress. Fully one in ten adults have been unable to pay all of their monthly bills due to a change in hours.

IT'S NOT HARD TO SEE ALL THE WAYS A FAMILY COULD FIND THEMSELVES WITH A $400 PROBLEM TO SOLVE...

- A car repair.
- A major appliance failing.
- Out of pocket medical expenses.
- School trips and expenses.
- Unexpected travel due to a death in the family.
- Or everyday bills coming due despite a temporary layoff or cutback in hours of employment.
- There are few places for a potential borrower to turn for an installment loan they can repay over some reasonable amount of time.
- Too many borrowers end up taking their loan from a mostly unregulated Tribal or off-shore online lender... no rules, no consumer protections, questionable disclosures.
- Michigan families need a safe, well-regulated place to borrow funds in cases of financial emergency.
- It's time for Michigan to explore new ways options for consumers to meet their demands and help them with their credit needs when the unexpected occurs.

*Estimates based on Census Data for Michigan and the 2018 Report on the Economic Well Being of US Households release in May of 2019

MICHIGAN LENDING
FACTS

LEARN MORE ABOUT
LENDING IN MICHIGAN

What happens when the state regulated market for small loans is no longer an option?

This chart highlights the impact of a 2019 law that took effect in mid-2020 in California that essentially eliminated state regulated consumer installment loans. The results were clear -

Personal Loans

In California, new regulation cleared the installment market, pushing traffic to sovereign lenders and payday loans

Source: TransUnion alternative credit database

TransUnion

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Without the regulated market for installment loans the market shifted and grew the tribal lending market share in California. Without Payday, the increase in the tribal loans would have been even greater.