

12-10



**Michigan  
Coalition for  
Responsible  
Lending**

December 5, 2019

PO Box 30014  
Lansing, MI 48909-7514

Dear Representative,

The undersigned organizations write in strong opposition to HB 5097. Michigan families are already subject to short-term high-cost loans—they do not need another product to trap them in debt. This legislation would make Michigan’s payday lending problem even worse by allowing predatory lenders to offer longer-term products that still have triple-digit interest rates and access to the borrower’s bank account, which creates a cycle of repeat loans. Payday lenders depend on this debt trap business model to maximize their profit. Michigan should not expose consumers to another form of financial abuse.

**High-Cost Payday Loans Hurt Michigan Consumers**

The harms of payday lending have been well documented. Payday loans increase people’s dependency on supports like food stamps, cause delayed payments on medical care and rent, cause an increase in delinquency on child support payments, and increase the likelihood of bankruptcy and closed bank accounts.<sup>1</sup> Payday lenders operating in Michigan already drain more than \$103 million in fees each year from Michigan families, money that could be spent on the local economy or necessary living expenses.<sup>2</sup> These fees are drained because payday lenders trap Michiganders in a cycle of debt—70% of the state’s payday loan borrowers reborrow on the same day a previous loan is repaid, while 86% of borrowers reborrow within two weeks.<sup>3</sup> On the other hand, families in states where payday lending has been outlawed

<sup>1</sup>See, e.g., Brian Melzer, “The Real Costs Of Credit Access: Evidence From the Payday Lending Market,” *Quarterly Journal of Economics* (2011), <http://qje.oxfordjournals.org/content/126/1/517.full.pdf>, and Brian Melzer, “Spillovers from Costly Credit,” [http://www.kellogg.northwestern.edu/faculty/melzer/Papers/Spillovers%20from%20Costly%20Credit\\_08\\_13\\_14.pdf](http://www.kellogg.northwestern.edu/faculty/melzer/Papers/Spillovers%20from%20Costly%20Credit_08_13_14.pdf).

<sup>2</sup>Diane Standaert and Delvin Davis, “Payday and Car Title Lenders Drain \$8 Billion in Fees Every Year,” Center for Responsible Lending (Updated January 2017), <http://www.responsiblelending.org/research-publication/payday-and-car-title-lenders-drain-8-billion-fees-every-year>

<sup>3</sup>Supplemental findings on payday, payday installment, and vehicle title loans, and deposit advance products”, Consumer Financial Protection Bureau (June 2016), [http://files.consumerfinance.gov/f/documents/Supplemental\\_Report\\_060116.pdf](http://files.consumerfinance.gov/f/documents/Supplemental_Report_060116.pdf)

report relief and support for maintaining the rate caps that disrupt the predatory payday lending business model.<sup>4</sup>

### **HB 5097 Attempts to Fix a Nonexistent Problem**

This legislation is not necessary. Since the enactment of the Deferred Presentment Services Transaction Act (DPSTA) in 2005, payday lending in Michigan has experienced exponential growth and record profits at the expense of Michigan residents. While this has been the environment in Michigan, 16 states plus the District of Columbia cap interest rates at 36% or less, effectively stopping the payday loan debt trap. In 34 states, a \$2,500, installment loan at an APR exceeding 36% would be illegal. Now, rather than relieving Michigan's working families of the payday lending burden, the state is considering adding another avenue of access for predatory lenders, which would allow for larger and longer-term loans.

### **Long-Term High-Cost Loans Are No Solution**

HB 5097 would allow predatory lenders to make loans up to \$2,500, with usurious annual interest rates in the triple-digits. You can see how a family already struggling financially could easily get in trouble as they work to come up with such a large payment amount each month. These are clearly not affordable loans, which is what predatory lenders depend on to drive their business. They want the borrower to be forced to continue borrowing. In states that allow longer-term payday loans with APRs between 120% and 200%, data shows persistent re-borrowing. Almost 50% of high-cost payday installment loans of about \$500 are taken out the same day that the previous loan is repaid.<sup>5</sup>

While consumers should have the power to make their own choices, Michigan lawmakers should not authorize the sale of clearly predatory products. In an effort to make lawmakers more comfortable with these bills, the payday lobby will likely be seeking to insert provisions to create a perception that they are looking out for the best interest of consumers. We strongly believe that the interest rates and loan terms proposed in these bills would be extremely harmful to Michigan consumers.

Michigan's working families need access to safe, affordable options for overcoming a cash shortage, which former borrowers have found in states that outlaw the practice. The last thing these families need is to be trapped in high-cost loans that are nearly impossible to escape. This legislation will siphon millions of dollars from the pockets of Michiganders and from our local economy, and further strain existing charitable or government services.

Considering the very real dangers of these longer-term high interest loans, we urge you to oppose HB 5097 which would prey on the hard working families in our state.

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<sup>4</sup>Robin Howarth, Delvin Davis and Sarah Wolf, "Shark-Free Waters: States are Better Off without Payday Lending," Center for Responsible Lending (August 2016) <http://www.responsiblelending.org/research-publication/shark-free-waters-states-are-better-without-payday-lending>

<sup>5</sup> Staff of the Administrator of the Colorado Consumer Credit Unit, Colorado Payday Lending – Demographic and Statistical Information: July 2000 through December 2015 (August 2016) [https://coag.gov/sites/default/files/contentuploads/cp/ConsumerCreditUnit/UCCC/AnnualReportComposites/2015\\_ddl\\_composite.pdf](https://coag.gov/sites/default/files/contentuploads/cp/ConsumerCreditUnit/UCCC/AnnualReportComposites/2015_ddl_composite.pdf).

Sincerely,

**Statewide Organizations**

Community Economic Development Association of Michigan (CEDAM)

Cinnaire

Cooperative Capital

Elder Law of Michigan

The Financial Clinic

Frankenmuth Credit Union

Habitat for Humanity of Michigan

Honor Credit Union

Lake Trust Credit Union

LISC- Kalamazoo

Michigan Association of United Ways

Michigan Coalition Against Homelessness

Michigan Community Action

Michigan Disability Rights Coalition

Michigan League for Public Policy

Michigan Poverty Law Program

New Hope Community Development NPHC

Old Nation Bank

Opportunity Resource Fund

Revalue

Richard G. Ballard, LLC Affordable Housing and Community Development Solutions

**Regional Organizations**

Habitat for Humanity Northeast Michigan – Alpena

Alpha Advisory Group – Clawson

Fremont Area Community Foundation – Fremont

Dwelling Place of Grand Rapids – Grand Rapids

Thornapple Credit Union – Hastings

Houghton Lake Chamber of Commerce – Houghton Lake

Capital Area Community Services, Inc. – Lansing

Habitat for Humanity HiawathaLand – Manistique

Northern Initiatives – Marquette

Ingham County Treasurer - Mason

United Way of Monroe/Lenawee Counties – Monroe

Habitat for Humanity of Isabella County – Mt. Pleasant

Lakeshore Region Community Development Corporation – Muskegon Heights

Metropolitan Christian Council Detroit Windsor - Southfield

## **Local Organizations**

Habitat for Humanity of Lenawee County – Adrian  
Habitat for Humanity of Huron Valley – Ann Arbor  
United Way of Washtenaw County – Ann Arbor  
Harbor Habitat for Humanity – Benton Harbor  
Northern Homes CDC – Boyne City  
Wexford Osceola Habitat for Humanity – Cadillac  
Charlevoix Main Street – Charlevoix  
Building the Engine of Community Development in Detroit – Detroit  
Community Development Advocates of Detroit – Detroit  
Church of the Messiah Housing Corporation – Detroit  
Detroit Community Solutions – Detroit  
Detroit Parent Network – Detroit  
Eastside Community Network – Detroit  
GenesisHOPE – Detroit  
Nortown Community Development Corporation – Detroit  
One Detroit Credit Union - Detroit  
U SNAP BAC – Detroit  
West Outer Drive Civic Association - Detroit  
Zahra Chevannes Consulting LLC – Detroit  
North Coast Community Consultants – East Lansing  
Center for Civil Justice – Flint  
Genesee County Habitat for Humanity – Flint  
LISC – Flint  
Otsego - Antrim Habitat for Humanity - Gaylord  
Home Repair Services – Grand Rapids  
Kent County Essential Needs Task Force – Grand Rapids  
LINC Up – Grand Rapids  
New Development Corporation – Grand Rapids  
Project GREEN – Grand Rapids  
Barry County United Way – Hastings  
Habitat for Humanity Barry County - Hastings  
Community Action House – Holland  
United Way of Jackson County – Jackson  
Housing Resources, Inc. – Kalamazoo  
Kalamazoo Eastside Neighborhood Association – Kalamazoo  
Open Doors Kalamazoo – Kalamazoo  
Kalamazoo Valley Habitat for Humanity - Kalamazoo  
Habitat for Humanity Menominee River - Kingsford  
Allen Neighborhood Center – Lansing  
Astera Credit Union - Lansing  
NorthWest Initiative – Lansing

United Way of Lapeer County – Lapeer  
Pennies from Heaven Foundation – Ludington  
Alger Marquette Community Action – Marquette  
Midland County Habitat for Humanity - Midland  
Hearts for Homes, Inc. – Mt. Clemens  
Habitat for Humanity of Oakland County – Pontiac  
OLHSA – Pontiac  
Roscommon Habitat for Humanity - Prudenville  
Friends in Deed – Ypsilanti  
Delta Associates of Michigan, LLC - Ypsilanti

June 2016

**TABLE 21: STATE REBORROWING RATES, SAME DAY OR WITHIN 7, 14, 30 AND 60 DAYS OF A PREVIOUS LOAN BEING REPAYED**

	<b>Same day</b>	<b>Within 7 days</b>	<b>Within 14 days</b>	<b>Within 30 days</b>	<b>Within 60 days</b>
Alabama	80%	84%	87%	89%	91%
California	67%	77%	82%	87%	90%
Florida	0%	73%	83%	89%	92%
Idaho	58%	72%	77%	81%	85%
Illinois	15%	27%	41%	50%	56%
Indiana	60%	68%	77%	82%	86%
Kansas	78%	83%	85%	88%	91%
Kentucky	78%	83%	85%	88%	90%
Louisiana	79%	85%	87%	90%	92%
Michigan	70%	82%	86%	89%	91%
Missouri	79%	83%	85%	88%	90%
Mississippi	79%	83%	85%	88%	90%
Nebraska	72%	81%	84%	88%	90%
Nevada	66%	78%	82%	85%	88%
Ohio	73%	79%	83%	86%	89%
Oklahoma	55%	75%	80%	85%	88%
Tennessee	84%	87%	89%	91%	92%
Texas	80%	84%	85%	87%	89%
Utah	51%	66%	72%	76%	81%
Virginia	0%	48%	54%	61%	68%
Washington state	30%	46%	54%	63%	70%
Wisconsin	36%	58%	65%	71%	76%