MICHIGAN LEAGUE FOR PUBLIC POLICY

MEMORANDUM

TO: Members of the Senate Finance, Insurance, and Consumer Protection Committee

FROM: Monique Stanton, President and CEO, Michigan League for Public Policy

DATE: February 28, 2024

RE: Support for Senate Bill 632 – Amendment to the Deferred Presentment Service Transactions Act

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The Michigan League for Public Policy is pleased to express its support for Senate Bill 632. We would like to extend our gratitude to Senator Sarah Anthony for sponsoring this legislation and helping protect consumers from predatory loans that leave them worse off than before.

For those of you who are not yet familiar with the Michigan League for Public Policy, we are a nonpartisan research and advocacy organization that promotes economic opportunity for all and analyzes the impact of public policy and budget decisions on the lives of Michiganders who have been historically and systemically left out of prosperity. The League is also the state's Kids Count organization, working as a part of a national effort to measure the well-being of children at the state and local levels and to shape efforts that improve the lives of Michigan children.

Michigan families are seeing the cost of living skyrocket and are looking for any relief. Too many are one medical emergency, car repair or home repair away from being in financial trouble. Payday loans can often appear to be a life raft for families facing an unexpected expense or just need a bit of cash to make ends meet before their next payday. However, all too often, borrowers soon discover these loans are a trap, with an annual interest rate of over 350%.

To put this into perspective, the average annual percentage rate (APR) for a credit card in the fourth quarter of 2023 was 21.47%, and the average APR for a used car loan for a person within the lowest credit range is currently 24.17%. If this is the highest average rate for a car loan for someone with the lowest credit, it should not be acceptable for short-term payday loans to carry a 350% interest rate. Additionally, since 2006, the Military Lending Act has limited the annual interest rate lenders can charge military service members to 36%. Payday loans, with interest rates exceeding what is deemed acceptable for all other lending opportunities, are dangerous.

On top of the high interest rate of payday loans, repayment is expected in just two weeks. This is often an impossible timeline for individuals with low incomes, leading to a vicious cycle where a borrower will take out a second payday loan to cover expenses after paying the first. In fact, payday borrowers take out an average of 10 loans per year and 70% reborrow the same day they pay off their first loan. This type of borrowing only kicks the can further down the road and keeps borrowers drowning in debt.

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Let us be clear, this type of lending is predatory in nature. While these loans are dangerous in general to borrowers with low incomes, they also target communities of color. 77% of payday lending advertisements target communities of color and these lenders are disproportionately located in rural, low-income areas as well as Black and Latino communities. These are communities who have been historically denied credit, have faced increased barriers to prosperity and are now at greater risk of these predatory lending practices.

The Michigan League for Public Policy supports SB 632. This legislation would help protect Michigan borrowers by limiting the annual interest rate for payday loans at 36%, bringing it in line with protections extended to our military service members. This lower rate will help make loan repayment more manageable, limiting this vicious cycle of debt and protecting individuals and families with low incomes. This legislation comes at a time when Michigan families are facing increased costs and are looking for relief. SB 632 ensures struggling families are not taken advantage of by predatory lending practices.

Using data to educate, advocate and fight for policy solutions that undo historic and systemic racial and economic inequities to lift up Michiganders who have been left out of prosperity.
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