



**Testimony of Lorry S.C. Brown
On Behalf of the Michigan Poverty Law Program (MPLP)**

**House Committee on Regulatory Reform
House Bill 4004**

Good morning. Chairman Hauck and members of the House Committee on Regulatory Reform, thank you for the opportunity to provide testimony regarding House Bill 4004. I am Lorry Brown, the statewide consumer law attorney at Michigan Poverty Law Program. Michigan Poverty Law Program (MPLP) is the statewide support office for legal services programs. MPLP advocates on behalf of the state's low-income residents on issues in the areas of low-income housing, elder, public benefits, family law, consumer protections, and foreclosure prevention.

The Michigan Poverty Law Program opposes HB 4004. HB 4004 proposes to expand the Deferred Presentment Act to include small loan transactions up to \$2,500. In doing so, payday lenders will be allowed to make small loans in the amount of \$2,500 and charge triple digit interest rate on these loans. Pursuant to HB 4004, lenders would be able to charge a service fee of 11% monthly on \$2,500 – which is equivalent to approximately 132% APR.

It is my understanding that the concern is that Michigan consumers don't have access to small loans, however, Michigan already has laws that govern small loans. There are existing laws in Michigan that allow lenders to make small loans such as \$2,500. The Michigan's Regulatory Loan Act (MCL 493.1 et seq) and the Credit Reform Act (MCL 445.1851 et seq.) allow persons engaged in the business of making loans to be licensed and make small loans. However, these lenders are prohibited from charging more than 25% interest per year. By proposing to include small loan transactions in the Deferred Presentment Act instead of the Michigan Regulatory Loan Act and the Credit Reform Act, is an attempt to evade the rate cap in the Credit Reform Act. It is clear that under current Michigan law, the payday lenders can make small loans in the amount of \$2,500. There is no reason why the payday lending industry should be treated differently from other lenders who make small loans in Michigan and are regulated under the Regulatory Loan Act and the Credit Reform Act. They just need to comply with the 25% interest rate.

If the small loans are allowed under the Deferred Presentment Act as set out in HB 4004, then the most effective way to protect consumers is to put a rate cap on small dollar loans as in the Michigan Regulatory Loan Act and the Credit Reform Act. Or this

Committee can follow the Federal Military Act and a number of states, such as Nebraska, Illinois and South Dakota and impose a rate cap of 36%.

The bill further purports to address the concern of ability to repay by providing that a payday lender “must take into consideration the customer’s reasonable financial ability to repay the loan.” In doing so the lender relies on the customer’s representation of estimated living expenses. But nowhere, does the bill require the lender to do a credit check and collect documentation to make an accurate assessment of the borrower’s ability to repay. Essentially, this bill is allowing “no docs” loans. If there is one lesson to learn from the foreclosure crisis in 2008, it is that “no docs” loans are often predatory and are false assessments of a borrower’s ability to repay. Stronger protections are needed to ensure that borrowers do have the ability to repay the loan.

In addition to the triple digit interest rate, HB 4004 allows the lender to roll over a smaller payday loan into the longer-term loan. It is well documented and recognized that rollovers in payday loans is a significant contributing factor in placing a borrower in the debt trap. Protections should be added to prohibit rollovers.

Finally, we should consider how payday lending impacts vulnerable communities. A 2018 Center for Responsible Lending study found that in Michigan “Payday lenders target borrowers of color, in part by concentrating their locations in communities of color.” Delvin Davis and Lisa Stifler, *Power Steering: Payday Lenders Targeting Vulnerable Michigan Communities*, Center for Responsible Lending (Aug. 2018), <https://www.responsiblelending.org/research-publication/power-steering-payday-lenders-targeting-vulnerable-michigan-communities>. As a result, a disproportionate share of payday lending borrowers come from communities of color. Without imposing a rate cap such as 25% or 36% and limiting the expansion of the payday lending statute, we will continue to perpetuate the racial wealth gap. A racial wealth gap that became very apparent over the last 2 years.

Therefore, the Michigan Poverty Law Program, on behalf of Michigan’s low-income residents, requests that HB 4004 should not be passed. The Michigan Poverty Law Program opposes HB 4004.

Thank you.

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