MCUL & Affiliates Government Affairs

State Issue Brief

2015

Background

Payday lenders are predominantly regulated by individual state law despite their multi-state operations.

Under the state Deferred Presentment Act, payday lenders are able to offer short term loans, not exceeding $600, with a tiered interest rate. Included in the interest rate are all fees associated with the loan.

The payday loan industry is now looking for ways to expand their product lines in Michigan, to offer installment loans outside of the current Deferred Presentment Act. They first attempted to expand their authority by working through the Department of Insurance and Financial Services, but were not successful. They are now attempting to do so through legislative channels.

Installment Loans by Payday Lenders

Effect

House Bill 5594 would have amended the Regulatory Loan Act to functionally permit payday lenders to expand their product offerings, and do so outside of the Deferred Presentment Act.

As written, HB 5594 would have allowed these entities to charge a new monthly service fee (not including interest) of 9.75% per month on closed end loans, calculated using the **original** principal amount of the loan. This would have enabled an effective rate of more than 200% when fees and interest are calculated.

Over any length of time these transactions are not good for consumers, but over a short period of time they are absolutely devastating. The CFPB estimates that roughly 80% of payday borrowers get trapped into “loan series” rather than paying them off. Further, when one looks at questionable intentions with regard to assessing borrowers’ ATR, as well as recent actions against national payday lenders on collection practices, it demonstrates a need to protect consumers from the potentially predatory practices that have evolved in the payday industry.

Other states have enabled payday lenders to provide installment loans, but are now beginning to see the detrimental effects of so- called “loophole loans” that go beyond traditional payday authority, in particular on vulnerable or underserved populations.

Status

HB 5594 was introduced prior to the 2014 summer recess and was referred to the House Financial Services Committee, where it sat for the remainder of the legislative session.

The MCUL and other industry and consumer interests were actively opposed to this legislation and will be monitoring the introduction of bills to see if any version of HB 5594 is reintroduced.