



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

**House Ways and Means Standing Committee
House Bill 5097**

Chairman Iden and members of the House Ways and Means Standing Committee, thank you for the opportunity to provide written testimony regarding House Bill 5097. 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 5097. HB 5097 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 5097, lenders would be able to charge a service fee of 11% monthly on \$2,500 – which is equivalent to approximately 132% APR.

If the concern is that Michigan consumers don't have access to small loans, then that concern is wrong. There are existing laws in Michigan that allow the payday 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. 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. 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 5097, 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 impose a rate cap of 36%.

Finally, HB 5097 allows the lender to roll over a smaller payday loan into the longer-term loan. Protections should be added to prohibit rollovers. It is long recognized that rollovers in payday loans is a significant contributing factor in placing a borrower in the debt trap.

Given the foregoing, The Michigan Poverty Law Program, on behalf of Michigan's low-income residents, requests that HB 5097 should not be passed. The Michigan Poverty Law Program opposes HB 5097.

Thank you.

Prepared for:

House Ways and Means Standing Committee – Public Hearing – May 27, 2020.

For additional information contact:

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