

October 1, 2019

Chairwoman Diana Farrington
House Committee on Financial Services
P.O. Box 30014
Lansing, MI 48909

RE: HB 4251 (Sowerby) – OPPOSE

Dear Chairwoman Farrington:

On behalf of Advance America, a leading provider of regulated consumer credit in Michigan, I am writing to voice strong opposition to HB 4251. This bill would deny Michiganders access to the regulated, short-term, small-dollar credit on which they occasionally rely. It would also result in the closure of Advance America's 141 storefronts in Michigan, which employ more than 320 Michiganders and serve thousands across the state.

Many hard-working families in Michigan and across the country struggle to make ends meet and live paycheck to paycheck. The Federal Reserve Board finds that nearly four in 10 American adults do not have \$400 to cover an unexpected expense without selling something or borrowing money. Non-bank consumer lenders provide access to regulated credit, including for the many Michiganders banks and credit unions do not fully serve. In a new report, the Federal Reserve Bank of New York examines unequal access to credit and credit insecurity and finds that less than 5 percent of Michigan's counties are credit insecure – findings attributable to the availability of broadly accessible, regulated credit. **HB 4251 would result in rising credit insecurity in our state, eliminating a critical credit option while doing nothing to address Michiganders' continued credit needs.**

Advance America strongly believes that a regulated small-dollar lending market is in the best interest of consumers, affording financial inclusion and consumer protections. Nearly every aspect of our business is regulated at the state and federal levels, and we operate in strict compliance with all applicable laws. Michigan's existing deferred presentment statute features a number of effective guard rails while ensuring consumers can borrow when they need to. In fact, Michigan's laws prioritize simple and transparent lending practices, including a fixed, one-time fee on a declining scale, starting at \$15 on the first \$100 borrowed. We disclose this fee as both a dollar amount and as an annual percentage rate (APR), so that borrowers can compare our services with other credit options.

HB 4251 is an effective ban through an APR cap that would prevent lenders from covering basic operating expenses, including employee salaries, rent and utilities. APR does not reflect the cost of a two-week loan, but rather the cost of borrowing that loan every two weeks for a year, whereas our loans are repaid in a matter of weeks. Under the 36 percent interest rate cap proposed in HB 4251, a lender's revenue on \$100 would be just \$1.38; no lender can afford to operate at such a low rate without subsidy. As in other states that have implemented such restrictions, this would force us to close our doors and release our employees, leaving thousands without a regulated place to borrow a couple of hundred dollars between paychecks.

We understand there has been some discussion in Lansing of alternate proposals that would similarly restrict critical access to regulated small-dollar loans for Michigan consumers, including limiting borrowers to only one outstanding loan at a time, requiring a 30-day "cooling-off period" between loans, and requiring a

• duplicative ability-to-repay standard. Any one of these measures would hurt Michiganders in need of small-dollar credit; together, they would decimate Michigan's non-bank credit market and collective credit security.

Limiting the number of loans a consumer can have at one time or through a mandatory 30-day "cooling-off period" between loans, is nothing more than an attempt to restrict the number of short-term, small-dollar loans consumers can borrow each year. No one can predict the number of financial challenges they might face at a given time or in a year, making such unparalleled restrictions on a financial service particularly arbitrary and harmful. No other form of credit faces similar usage restrictions.

Adding complex, redundant "ability-to-repay" requirements would only further complicate the small-dollar borrowing process in Michigan, doing more harm than good. Lenders already evaluate each customer's ability to repay their loan against their credit needs, income, past borrowing experience, and other measures. It works: Leading lenders find that more than 90 percent of consumers repay their loans, and the Consumer Financial Protection Bureau (CFPB) reported in 2016 that 80 to 85 percent of borrowers successfully repay. When added to existing underwriting practices, the proposed mandatory ability-to-repay policies would likely prevent many consumers from being able to borrow the amount of money they need, while also endangering the very availability of credit for those underserved by traditional providers.

• Simply put, Michiganders' need for credit does not disappear once regulated small-dollar loans are eliminated through restrictive regulations such as rate cap proposals, loan limits, mandatory cooling-off periods or ability-to-repay requirements. Without access to loans from licensed lenders, they must suffer the consequences of unmet financial obligations, or be forced to resort to more expensive or less regulated options, such as expensive overdraft programs, unregulated internet loans or even bankruptcy.

In the absence of licensed small-dollar loans, unregulated options fill the void, as they have in other states that have implemented prohibitions and excessive regulations on regulated lending. A quick Google search – even in states that prohibit small-dollar loans – results in hundreds of thousands, even millions of unlicensed lenders. Online lenders based outside of the U.S., outside the jurisdiction of state regulators, offer loans that involve higher costs than traditional short-term, small-dollar loans and none of the protections that regulated companies provide, such as full disclosure of all loan terms, fair collection practices or extended payment plans. They are not subject to state examinations, lender compliance standards or formal compliant processes. North Carolina, Georgia, Oregon and South Dakota are just a few of the states that abdicated their responsibility to maintain a regulated small-dollar lending market, and instead reported substantial increases in the number of residents borrowing illegal, unregulated loans due to effective small-dollar lending bans.

Borrowers in Michigan appreciate regulated short-term, small-dollar loans for their simplicity, cost-competitiveness and transparency. As you consider this legislation, Advance America is committed to working with you to identify ways to help meet Michiganders' financial needs and preserve their access to regulated credit options. Taking away this regulated option, as under HB 4251, will do little to address Michiganders' need for credit or ease the challenges they face.

Sincerely,

Ron Hicks
Senior Director, Government Affairs