

April 18, 2024

The Honorable Brenda Carter
Chair, Committee on Insurance and Financial Services
Michigan State House of Representatives
Michigan State Capitol
Lansing, MI 48933

RE: SB 632 / HB 5290 Oppose

Dear Chair Carter,

On behalf of INFiN, a Financial Services Alliance (“INFiN”), we write in strong opposition to Senate Bill 632 and House Bill 5290.¹ As the leading national trade association representing the diverse and innovative consumer financial services industry, INFiN comprises more than 300 member companies operating throughout the United States – including in Michigan – providing critical access to financial services to millions of Americans, particularly middle-income, working families. Our members span large companies with national reach to small “mom and pops,” offering products and services to meet U.S. consumers’ changing financial needs.

INFiN urges the Committee to reject this bill, which would deny Michigan residents access to the regulated, short-term, small-dollar credit on which they occasionally rely, and decimate a regulated industry that currently operates more than 200 storefront locations (and online) across the state and that employs hundreds of Michiganders. We further respectfully submit that the justifications offered for the proposed legislation misrepresent the true state of the consumer lending industry.

Regulated, community-based providers such as our members play a vital role in the lives and livelihoods of the many consumers and communities underserved, overlooked, or left behind by other financial institutions. **Amid clear financial needs, SB 632/HB 5290 would mandate an arbitrary 36 percent Annual Percentage Rate (APR) cap on short-term, small-dollar “deferred presentment” loans offered by licensed consumer lenders, amounting to an effective ban of these loans.** If enacted, the bill would do nothing to address Michiganders’ continued credit needs and financial insecurity, instead leaving vulnerable borrowers with little to no regulated alternatives.

SB 632/HB 5290 is a ban on deferred presentment loans and a denial of access to credit

INFiN 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 small-dollar lending is regulated at the state and federal levels, and our members – in Michigan and beyond – 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 responsible, transparent lending practices, including a fixed, one-time fee on a declining scale, starting at \$15 on the first \$100 borrowed. This fee is disclosed as both a dollar amount and as an APR, so that borrowers can compare credit options.

Unlike other alternatives, deferred presentment loans do not have interest-accruing fees. Regardless of when the customer repays their loan, they pay the same one-time fee. As a result, APR does not accurately reflect the [cost of a](#)

¹ About INFiN. www.infinalliance.org

[short-term, small-dollar loan](#) repaid in a matter of weeks. Under a 36 percent rate cap, lenders would operate at a loss even before paying employee wages, rent, and other costs associated with running a trusted, regulated business. Under the proposed 36 percent interest rate cap, a lender's revenue on \$100 would be just \$1.38 – less than 10 cents a day on a two-week loan. No lender can afford to cover basic operating expenses at such a low rate without additional subsidy or without restricting access to borrowers with higher credit scores.

Consequences of an arbitrary rate cap

Many policymakers, think tank experts, independent researchers, and academics [agree](#) that a 36 percent rate cap is an effective ban on short-term, small-dollar credit – with detrimental consequences for consumers. In [every state](#) that has implemented an arbitrary interest rate cap like the one proposed in SB 632/HB 5290, licensed lenders offering short-term, small-dollar loans have been forced to close their doors, eliminating consumers' credit options and leaving them to face the consequences of missed or late payments or the costs of more expensive, less regulated options. Recent [Urban Institute research](#) following Illinois' adoption of a 36 percent rate cap reveals not just the consequences of the rate cap but the lack of clear benefit for consumers.

In the absence of regulated small-dollar loans, the need for regulated credit would not be filled by banks or credit unions; representations to the contrary are not supported by the evidence. While other lenders may technically offer loans for 36 percent or less, they often charge other fees not captured by the APR calculation. Although some credit union programs are touted as “alternatives” to small-dollar loans, they often involve a variety of restrictions such as membership in a credit union for a minimum period, existence of minimum account balances, and confusing fee structures, restricting these options to only a fraction of the Michiganders in need. They cannot be considered legitimate replacements for widely accessible, regulated, small-dollar loans, which would be eliminated by a rate cap.

Passage of this legislation would prohibit Michiganders from choosing the solutions that work best for them. Consumers deprived of regulated credit options would have little choice but to turn to unregulated sources, including illegal online loans offered by companies outside of the regulatory reach of state and federal agencies. As a result, the very consumers that the proposed legislation purports to protect would be exposed to unscrupulous lenders.

Borrowers appreciate regulated small-dollar loans for their simplicity, cost-competitiveness, and transparency, and consistently voice overwhelming satisfaction in customer surveys and online reviews. In research from Global Strategy Group (D) and Tarrance Group (R), 94 percent of those surveyed felt that small-dollar loans can be a sensible decision when consumers are faced with unexpected expenses, and 96 percent said they fully understood how long it would take to pay off their loan and the finance charges they would pay before taking out the loan. Regulated small-dollar loans are also the subject of very few consumer complaints. In 2023, just 0.1 percent of consumer complaints received by the Consumer Financial Protection Bureau (“CFPB”), our industry's federal regulator, were about small-dollar lenders.

Eliminating regulated credit options – as SB 632/HB 5290 would – does little to address Michiganders' need for credit or to ease the challenges they face. We urge you to reject this bill.

Thank you for your consideration of our position.



Ed D'Alessio
Executive Director
INFIN, A Financial Services Alliance