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GOVERNOR

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
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BILL ANALYSIS

BILL NUMBER:	**House Bill 4645 (H-1)**
TOPIC:	Refund Anticipation Loans
SPONSOR:	Rep. Tobocman
CO-SPONSORS:	Reps. Hopgood, Bauer, Warren, and Dean
COMMITTEE:	Committee on Banking and Financial Services
Analysis Done:	January 29, 2008

POSITION

The Office of Financial and Insurance Services supports this legislation.

PROBLEM/BACKGROUND

Refund anticipation loans are loans that are made to taxpayers at the time they have their tax documents prepared for submission to the Internal Revenue Service (IRS). The company that does the document preparation usually makes the loan. The amount of the loan is based on the amount of refund the taxpayer will receive. In this manner, a taxpayer can access the money owed by the IRS without having to wait for the return to be processed and a check issued.

These short-term loans are accompanied by fees and annualized interest rates well beyond rates charged for other types of loans. Consumers borrow their own money at extremely high interest rates.

Michigan does not currently have laws that provide any form of regulation for these types of loans to protect consumers from predatory lenders. Regulation is needed to protect vulnerable consumers.

DESCRIPTION OF BILL

House bill 4645 amends the Regulatory Loan Act (the Act) by amending Section 1 and adding Section 16 to the Act. It requires those providing refund anticipation loans to get a license from OFIS under the Act. The bill defines "annual percentage rate,"

"facilitator," "refund anticipation loan," "refund anticipation loan fee," and "taxpayer" in order to bring the refund anticipation loans under the Regulatory Loan Act.

Section 16 of the bill requires a facilitator of such a loan to disclose in writing the following items:

- A listing of loan fees and annual percentage rates
- The annual percentage rates is not to exceed 36% on an annual basis
- A statement that the refund anticipation loan is a loan and not the taxpayer's refund
- The taxpayer may file the return without applying for a loan
- Average time for receipt of refund
- The Internal Revenue Service does not offer any guarantees with regard to the tax refund
- That the taxpayer is responsible for repayment of the loan and all fees whether or not the tax refund is paid
- The time period in which the loan will be made
- The fees charged if the loan is not approved
- The total fees for the loan
- The availability of electronic filing
- The annual percentage rate for the loan

Each lender and facilitator must disclose the number and dollar amount of refund anticipation loans, the average refund anticipation loan, and the average time to dispense the loan proceeds.

SUMMARY OF ARGUMENTS

Pro

Refund Anticipation Loans have become a billion dollar business over the last few years. According to the National Consumer Law Center Inc., consumers made approximately 12.38 million refund anticipation loans during the 2004 tax-filing season. Consumers paid an estimated $1.24 billion in fees to get quick cash for their refunds. In the interest of protecting these consumers from unwittingly signing up for these loans without a proper understanding of the contract, a law that requires the information regarding fees, interest rates, penalties, and other details be provided at the time the loan is necessary.

Con

We do not know the size of the population that would apply, and subsequently, be licensed under this provision.

FISCAL/ECONOMIC IMPACT

OFIS has identified the following revenue or budgetary implications in the bill as follows:

(a) To the Office of Financial and Insurance Services: None

Budgetary:

Revenue: unknown

Comments: The size of the population is unknown and therefore, we are unable to estimate the fiscal impact, as well as increased agency workload.

(b) To the Department of Labor & Economic Growth: None

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State: None

Comments:

ANY OTHER PERTINENT INFORMATION

A number of states have passed laws regulation the refund anticipation loans. Most of these laws address the additional disclosures required. However, Connecticut's law restricts the annualized interest rates and is being challenged in federal District Court.

ADMINISTRATIVE RULES IMPACT

The proposed legislation would amend the Michigan Regulatory Loan Act. The OFIS does have general rulemaking authority under the Regulatory Loan Act, 1939 PA 21.

Ken Ross
Acting Commissioner

1-29-08
Date