FACT SHEET

Issue Overview:

Predatory payday loans are damaging the quality of life for Michigan families and preventing our local communities from thriving. These loans carry exorbitant interest rates that trap people in debt that causes them to lose out on fully participating in the local economy and prevents them from pursuing the American dreams of home ownership or starting their own small business.

The typical payday loan in Michigan carries a 370% annual interest rate. These extreme interest rates drain more than $100 million from Michigan's economy each year. By stopping this predatory lending practice, Michiganders will have more resources to take care of their families, shop at local businesses, improve their overall quality of life and build assets for the future. ***Our solution***: cap payday lending interest rates at no more than 36% APR.

The Facts on Predatory Payday Loans in Michigan:

Triple Digit Interest Rates: Currently, payday lenders in Michigan charge anywhere between 175.2% APR and 402.8% APR. A typical payday loan in Michigan comes with an APR of 370%.

- Each year, over $103 million dollars are drained from the pockets of Michiganders who can least afford it.

Debt Cycle By Design: Payday loans are marketed as "short term," but that's not how they work in practice. The vast majority of borrowers are caught in a long-term debt cycle.

- **A revolving door of endless loans:** 70% of payday borrowers in Michigan reborrow the same day they pay off a previous loan. Research from the Consumer Financial Protection Bureau (CFPB) shows that the average payday loan borrower is stuck in 10 loans over the course of a year.
- **The debt trap is intentional:** The debt trap is the core of the payday lenders' business model. 75% of payday lenders' revenue comes from borrowers caught in 10 loans per year.
- **Payday lenders are "first paid":** Payday lenders are not required to make sure a loan is affordable to a borrower. In fact, affordability isn't relevant to them because payday lenders are always the first paid – they gain the ability to take money *directly* out of a borrower's bank account on payday, before the borrower can pay for necessities like rent and groceries.

Preying Upon the Vulnerable: Payday lenders take a tough economic situation and turn it into a catastrophe. These predatory, high interest loans often target vulnerable communities that can least afford it: veterans, seniors, rural and immigrant communities, etc.

- Payday lenders claim that they "offer access to credit" when in fact, the data shows that what they actually offer is access to debt for people who can least afford it. For example, here's a borrower story from rural Michigan.
- Borrowers routinely find that they cannot cover basic living expenses. They often lose their bank accounts as a result of multiple insufficient funds and overdraft fees, and are more likely to have to file for bankruptcy than non-borrowers with similar financial circumstances.

A 36% Cap on Payday Loans is Popular; It's Common; and It's Working:

- This is an issue that has overwhelming support across the state (across parties, geographic regions, age and income levels). In a moment where there is so much division, this is one issue that Republicans, Democrats and Independents agree on.
- 18 states plus the District of Columbia have capped payday loan rates at 36% APR or less. Voters in Nebraska, Colorado, South Dakota, and Montana all overwhelmingly enacted payday loan rate caps by ballot measure with more than 70% approval.
- The reform is working. The documented experience of consumers in states with a 36% rate cap on payday loans reveals former borrowers have numerous ways to deal with a cash flow shortfall (credit and non-credit options) and suffer fewer negative financial consequences such as bankruptcy and involuntary account closure. Follow up focus groups and polls show that there is strong, continued support for rate caps after passage.

This Initiative Mirrors Protections for Military Members:

- The 36% APR cap used by many states mirrors the Military Lending Act, which ensures active-duty service members and dependents cannot be charged rates exceeding 36% APR.
- The Military Lending Act was passed in 2006 after the military found that payday lenders were preying on communities surrounding military bases and were impacting the quality of life of military families.

Who Supports This Issue:
Michiganders for Fair Lending's current supporters include a diverse and growing coalition, including: Community Economic Development Association of Michigan (CEDAM), Project GREEN, Lake Trust Credit Union, ACLU, NAACP of Grand Rapids, Habitat for Humanity, United Way of Michigan, Michigan League for Public Policy, Center for Responsible Lending; Center for Civil Justice; and Black Impact Collaborative, among others.

Who is the opposition:
Opposition is limited to a single group: the payday lending industry itself. They are not joined by other mainstream business interests, because the payday lending industry actually drains consumer buying power, and funnels dollars out of state (two thirds of Michigan payday stores are headquartered out of state).