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Michigan ballot measure seeks to cap payday loan rates

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LANSING—A coalition of consumer and civil rights groups hoping to tighten regulations for the payday loan industry in Michigan launched signature gathering efforts Wednesday to bring the issue before voters in November.

Michiganders for Fair Lending, a Grand Rapids-based organization, is spearheading a ballot initiative that would cap the maximum fee and interest rate a payday loan lender can charge in Michigan annually at 36 percent. The measure would also allow the state attorney general to prosecute lenders who exceed that limit.

Payday loans are often short-term loans with high interest rates that become due on the borrower's next payday, according to the Consumer Financial Protection Bureau.

Michigan law allows a payday lender to charge fees and interests at a maximum of 15 percent on the first $100, 14 percent on the second $100, 13 percent on the third $100, 12 percent on the fourth $100 and 11 percent on the fifth and sixth $100.

That means someone who borrows $100 can be charged up to $15 if they pay the loan back within two weeks. In that case, the annual percentage rate — a metric measuring how much the loan would cost a borrower annually — is 391 percent, almost 10 times higher than Michiganders for Fair Lending's proposed cap of 36 percent.

Coalition members say the ballot measure would restrict predatory lending and help borrowers who are trapped in a cycle of debt due to high interest rates and lack of government oversight over lending practices.

"While the industry marks its payday loans as a quick fix, these loans take away a person's financial capability and puts them in a worse situation than when they started," said Ted Fines, executive director of Habitat for Humanity in Michigan, at a Wednesday press conference.

Legislation aiming to cap payday loan interest rates has stalled in the Michigan legislature over the past years, said Jessica AcMoody, policy director of coalition member organization Community Economic Development Association of Michigan, at the Wednesday press conference.

Senate Finance Committee Chair Jim Runestad, R-White Lake, whose committee would hear such legislation if it came to the Senate, said he believes the maximum interest rate needs to be lowered, but he is not sure by how much.

"It sure seems to be that somebody paying almost a 400-percentage rate a year is out of line," Runestad told Bridge Michigan on Wednesday. "I believe it's usury to be charging 400 percent a year. That's like a loan shark."

Opponents of similar initiatives across the nation have expressed concerns the measure would force legitimate lenders out of business and cut off the lifelines for borrowers in need of short-term cash.

"I worry that placing an interest cap on short-term credit would altogether remove access to emergency funds for the most vulnerable Americans," Diego Zualaga, a policy analyst at the CATO Institute, a libertarian think tank, said at an April 2019 congressional hearing. "Placing a cap on small-dollar loans today risks leaving vulnerable households at the mercy of either family members or unscrupulous providers, or otherwise forcing them to go without basic necessities."

In Michigan, payday loan stores are more likely to concentrate in communities of color, where residents usually take home less money than white Michiganders, according to a 2018 mapping analysis by the Center for Responsible Lending, a North Carolina-based nonprofit advocating for short-term loan borrowers and a member of the coalition championing the Michigan ballot measure.

As of June 2017, there were 5.6 payday loan stores per 100,000 people in Michigan, the analysis showed. But in census tracts where Black and Latino residents account for more than half of the population, there were 6.6 stores per 100,000.

Most payday loan borrowers tend to return to borrow more. Roughly 70 percent of borrowers in Michigan take out another loan the same day they repay the last one, according to a 2016 report by the Center for Responsible Lending.

Some borrowers drain their bank accounts to meet the loan payment, leaving no savings to cover rent or food expenses and therefore must take out another loan to make ends meet, AcMoody said.

"This cycle causes significant financial harm for families caught in the debt trap, including difficulties paying for basic living expenses and medical needs," she said.

Why lower the ceiling to 36 percent? The number is taken from the 2006 Military Lending Act that capped the annual payday loan interest rate at 36 percent for active-serving military members and their dependents, said Gabriella Barthlow, a financial coach for veterans and families in Macomb County, during the Wednesday press conference.

The military law was passed after the Department of Defense found payday loan lenders "crowded around military bases were impacting readiness and lowering the quality of life of military families," Barthlow said.

A total of 18 states and Washington, D.C., have adopted a 36-percent payday loan interest cap, according to the Center for Responsible Lending.

Addressing concerns the cap could force payday lenders out of business, AcMoody said it is not the coalition's hope to shut down the lending industry, but rather to curb predatory lending.

"Any lender who's willing to loan at 36-percent APR can continue lending," she said.

The coalition includes:

- ACLU-Michigan
- Black Impact Collaborative
- Center for Civil Justice
- Center for Responsible Lending
- Community Economic Development Association of Michigan (CEDAM)
- Habitat for Humanity
- Lake Trust Credit Union
- Michigan League for Public Policy
- NAACP of Grand Rapids
- Project GREEN
- United Way of Michigan

Michiganders for Fair Lending's ballot committee has so far raised $25,056, according to campaign finance filings submitted in January. Of that, $25,000 came from the Sixteen Thirty Fund, a D.C.-based liberal dark money group not required to disclose its donors.

Josh Hovey, spokesperson for the Michigan coalition, said Wednesday that funds from Sixteen Thirty Fund helped kick start the campaign, and the ballot initiative committee will follow the state's campaign finance law "to the letter."

The ballot committee must collect 340,047 signatures to place the ballot proposal on the November ballot and will become law if a simple majority of the voters approve.