Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 632 (as reported without amendment)
Sponsor: Senator Sarah Anthony
Committee: Finance, Insurance, and Consumer Protection

CONTENT

The bill would amend the Deferred Presentment Service Transactions Act to allow a deferred presentment service transaction (payday loan) provider to charge as part of a service fee an annual percentage rate of 36% instead of the current graduated rate.

Currently, a service fee is earned by the licensee on the date of the transaction and is not interest. A licensee may charge as part of the service fee an amount that does not exceed the aggregate of the following, as applicable:

-- Fifteen percent of the first $100 of the deferred presentment service transaction.
-- Fourteen percent of the second $100 of the deferred presentment service transaction.
-- Thirteen percent of the third $100 of the deferred presentment service transaction.
-- Twelve percent of the fourth $100 of the deferred presentment service transaction.
-- Eleven percent of the fifth $100 of the deferred presentment service transaction.
-- Eleven percent of the sixth $100 of the deferred presentment service transaction.

The bill would delete the specific language governing service fees described above and instead would allow a licensee to charge an annual percentage rate of 36%. ("Annual percentage rate" would mean a rate calculated for a military annual percentage under 32 CFR 232.4, which generally caps an annual percentage rate at 36% and specifies that the rate includes any credit insurance premium or fee, any finance charge, and any add-on products sold in connection with the credit.)

The bill would take effect 90 days after its enactment.

BRIEF RATIONALE

According to testimony, the current structure of fees levied against payday loan borrowers creates a cycle of perpetual debt that is difficult for borrowers to get out of. Some believe more should be done to protect vulnerable, low-income residents from high interest rates. Capping the interest rate at 36% would put Michigan more in line with 27 other states that have similar regulations while allowing lenders to remain in business.

MCL 487.2153 Legislative Analyst: Nathan Leaman

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Date Completed: 3-11-24 Fiscal Analyst: Nathan Leaman
Michael Siracuse