



MICHIGAN ATTORNEY GENERAL

CONSUMER ALERT

PAYDAY LOANS: KNOW YOUR RIGHTS

WHAT IS A "PAYDAY LOAN?"

A payday loan is a short-term, high-cost transaction where a customer borrows money for a service fee. The customer writes a personal check to the lender for the amount borrowed plus the service fee. The lender gives the customer the loaned amount and holds the customer's check (usually until the customer's next payday) before presenting the check to the customer's bank for payment. You may see these advertised as a payday loan, cash advance, or check advance loan.

Michigan law calls this type of loan a "deferred presentment service transaction," because the customer's check is held for a period of time (deferred) before it is cashed (presented for payment).

PAYDAY LOAN DISADVANTAGES

Payday loans have high service fees and a short repayment period. For example, a customer who borrows \$100 for two weeks and is charged \$15 (the maximum for this loan amount), will pay a service fee equal to a triple-digit annual percentage rate (APR). The actual cost of the two-week loan is \$15, which equals a 391 percent APR — and that does not include any additional fees for checking your eligibility.

Even worse, payday loans can create a trap for a cash-strapped customer who cannot repay the loan and takes out a second payday loan to pay off the first. It's a slippery slope. When the customer cannot pay back the second payday loan, the customer takes out a third, and so on and so on. This rollover pattern racks up service fees and puts the customer in perpetual debt.

HOW PAYDAY LOANS WORK IN MICHIGAN

The [Deferred Presentment Service Transaction Act](#) governs Michigan payday loans and limits the number of payday loans a customer may have at one time; the amount of service fees a payday lender may charge; and a repayment date no longer than 31 days after the date of the transaction.

To process a payday loan request, the payday lender will ask for the customer's name, address, social security number, driver's license or other state-issued I.D., amount of the loan requested, the number on the check that will be used to cover the payday loan, and the date of the requested payday loan.

Customers sign a written agreement that must include:

- an itemization of the fees to be paid and the equivalent annual percentage rate;
- a clear description of the process a customer may follow to file a complaint against the payday lender;
- the process and deadline to cancel the loan and get a refund of the service fee; and
- a statement that the customer should only use this service to meet a short-term cash need.

Customers are entitled to receive the loan proceeds in cash. And payday lenders must post signs informing customers: “If you request the proceeds in a check or money order, you may be charged additional check cashing or other processing fees by others for cashing the check or money order.”

A customer can have no more than two payday loans at a time; they cannot be with the same payday lender; and each loan is limited to \$600, not including the fees. Payday lenders must verify a customer’s eligibility.

HOW DO PAYDAY LENDERS KNOW IF CUSTOMERS HAVE OUTSTANDING PAYDAY LOANS?

The State maintains an electronic database that payday lenders must check before issuing a new loan. If the customer has two outstanding payday loans, the payday lender cannot issue another one.

If the electronic database is unavailable, then a customer must sign a statement indicating that the customer does not have an outstanding payday loan with the current payday lender and that the customer does not have two outstanding payday loans with other payday lenders in the State.

HOW MUCH AM I PAYING FOR A PAYDAY LOAN?

The legal limits on service fees for payday loans are based on the loan amount. A payday lender may charge up to 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. Here are some examples*:

Payday Loan Amount	Total Service Fee Limit	Payday Loan Amount	Total Service Fee Limit
\$50	\$7.50	\$400	\$54
\$100	\$15	\$475	\$62.25
\$200	\$29	\$500	\$65
\$250	\$35.50	\$600	\$76
\$300	\$42		

*The daily interest charged (\$15/14 days) is \$1.071429. Convert the daily interest charged into an APR: $\$1.071429 \times 365 \text{ days in a year} = 391$ percent.

WHAT IF I CAN'T PAY THE LOAN OFF IN TIME?

A customer has up to the end of the contract period to repay the loan amount and any applicable fees. If the payday loan and applicable fees are not paid on time, the payday lender may deposit the customer’s check. If there are insufficient funds to cover the check, the customer will be responsible for paying the face amount of the check, fees to the customer’s financial institution associated with a non-sufficient funds check, and the payday lender’s returned check fee. The current fee is \$28.66 and will be adjusted in 2021 based on a Detroit consumer price index calculation. The payday lender may also take collection action against the customer, but it may not use any criminal process to collect on the loan.

CAN I EXTEND THE TIME I HAVE TO PAY BACK THE LOAN?

The law does not give payday loan customers the right to have their loan repayment periods extended: that is up to the payday lender and no repayment period—even an extended one—can exceed 31 days from the date of the loan. If a payday lender grants additional time to repay a payday loan, by law it may not charge a fee for the extension and it may not increase the balance owed above the original amount.

Customers who have taken out eight or more payday loans in a 12-month period and who cannot repay their current loan, may request an installment repayment plan for that loan. The customer must request the repayment plan, pay a charge for entering into the plan (currently \$17.20 and will be adjusted in 2021 based on a Detroit consumer price index calculation), and repay the loan in three equal installments. The installments will be due on each of the next three dates the customer receives regular wages. During the repayment term the customer will not be eligible for any additional payday loans.

WHAT IF I BELIEVE THE PAYDAY LENDER HAS VIOLATED THE LAW?

Any customer who believes a payday lender has violated the law should contact the payday lender in writing detailing the nature of the violation and providing all the evidence to substantiate the complaint. Within three days, the payday lender must respond and notify the customer of its decision.

If the payday lender determines that it did violate the law, it must return the check received from the customer and any service fees paid. The customer must still pay back the loan. The payday lender, however, will be required to pay the customer an amount equal to five times the amount of the fee charged in the transaction, but not less than \$15 or more than the face amount of the customer's check.

If the payday lender does not believe it has violated the law, it can cash the customer's check.

If the customer still believes that the payday lender has violated the law, the customer should file a complaint with the Commissioner of the Department of Insurance and Financial Services (DIFS) (see address below). DIFS will investigate complaints promptly.

Michigan law provides that a person injured by a payday lender who violates the Deferred Presentment Service Transactions Act may file suit to recover actual damages and reasonable attorney fees.

ARE THERE ALTERNATIVES TO A PAYDAY LOAN?

More affordable alternatives to a payday loan may include:

- A small loan from a friend or family member;
- A small loan from a bank or credit union;
- Asking for advance pay from your employer; or
- Asking the creditor for more time to pay your bills.

DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES - COMPLAINTS AND FREQUENTLY ASKED QUESTIONS (FAQS).

In Michigan, any business offering payday loans must be licensed. To find out if a payday lender is licensed, you may contact [DIFS](https://mi.gov/difs) (mi.gov/difs) at 877 999 6442. Any complaints regarding a business offering payday loans should be sent to:

Department of Insurance and Financial Services
P.O. Box 30220
Lansing, MI 48909
[DIFS online complaint form](https://mi.gov/difs) (mi.gov/difs)

[DIFS also has a Deferred Presentment Service Transactions Act FAQs](https://mi.gov/difs/0,5269,7-303-13648-169856--,00.html)
(mi.gov/difs/0,5269,7-303-13648-169856--,00.html)

The Attorney General provides Consumer Alerts to inform the public of unfair, misleading, or deceptive business practices, and to provide information and guidance on other issues of concern. Consumer Alerts are not legal advice, legal authority, or a binding legal opinion from the Department of Attorney General.



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