

**American Financial Services Association Testimony
Opposing Michigan SB 408**

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Before the Honorable Chair Senator Mary Cavanagh and Honorable Members of the Michigan Senate Committee on Finance, Insurance, and Consumer Protection

Please accept this written testimony on behalf of the American Financial Services Association (AFSA) regarding Senate Bill 408, which would make various changes to the garnishment exemptions and procedures in Michigan.

Founded in 1916, AFSA is the primary national trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including traditional installment loans, direct and indirect vehicle financing, mortgages, and payment cards. AFSA members include national banks and non-bank state licensed financial institutions. AFSA members have a significant Michigan footprint and provide approximately \$20 billion in credit to Michigan consumers annually.

We are grateful for the opportunity to weigh in, as the Committee considers this important policy issue. We offer our particular thanks to Senator Irwin and his staff, who have taken the lead on this issue, engaging in a dialogue with those most affected by the legislation, and making important improvements to the original bill.

Despite this, challenges with the proposed language remain. As written, we are concerned that the bill still goes too far, particularly around wage garnishment exemptions, and would have the effect of removing the incentive for many consumers to resolve their debts before lawsuits and post-judgment collections become necessary. It would do this while severely curtailing the ability of creditors, including banks and non-bank lenders, to collect debts owed through the court system. This in turn risks forcing lenders to significantly limit their pool of borrowers.

By making the extension of credit significantly riskier, excessive wage garnishment exemption levels would decrease the amount of credit available, denying a vital financial capability to Michigan individuals and families, leaving many with no place to turn to for safe, affordable credit and no way to establish the credit scores so important to modern life. The U.S. Consumer Financial

Protection Bureau (CFPB) recently found that increasing the amount of income exempt from garnishment tends to decrease credit availability for all consumers and, “more strongly for below 700 credit score consumers.”¹ Reducing credit availability for below 700 credit score consumers—especially those who cannot turn to banks or other lenders—would inhibit their ability to smooth their finances, meet emergencies, purchase necessary household appliances, purchase or repair automobiles, and, critically, establish or repair credit with creditors that report to the major credit bureaus. This has real world consequences for Michigan families.

These concerns are exacerbated by the fact that the current proposal would make it harder to recover funds through wage garnishment in Michigan than in many other states across the country. For example, Wisconsin allows garnishment of 20% of an individual’s disposal income, with lower exemption levels available to those most in need.² And Ohio exempts from garnishment the greater of 75% of a debtor’s disposable earnings or 30 times the annual federal minimum wage (for those paid weekly).³ In Virginia, up to 25% of wages may be garnished for an ordinary debt with additional protections for lower income individuals based on a calculation of 40 times the federal minimum wage.⁴ These examples, and those of many other states, provide a roadmap for how to balance the necessity that loans be repaid with the well-being of low-income borrowers.

This case is further bolstered by the fact that, for AFSA in Michigan, state complaints about debt collection are rare. Many AFSA members operate a relationship-lending model establishing long-term relationships with customers. This style of lending means that creditors are motivated to work things out wherever possible and garnishment of wages is a last resort, usually utilized only when the borrower is unresponsive and all other methods of working with the borrower have failed. AFSA members also appreciate that Michigan courts have unique flexibility to provide need-based alternatives for borrowers through installment orders—a policy that can be built upon further to ensure the protection of those most in need.

Because of remaining issues with SB 408, particularly related to wage garnishment exemptions, AFSA is prepared to discuss solutions which would more suitably balance consumer protections with wide credit access. AFSA appreciates that garnishment is a critical issue that requires a careful balance. Specifically, garnishment policies must weigh the need to protect the integrity of the credit system, including the ability of lenders to collect outstanding loan amounts, while ensuring that borrowers are able to access safe, affordable credit.

¹ [CFPB Office of Research: Using the Courts for Debt Collection, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4394821](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4394821)

² Wis. Stat. Ann. § 812.34

³ Ohio Rev. Code § 2329.66(A)(13)

⁴ § 34-29 of the Code of Virginia

Thank you for your continued attention to this matter. If you have any questions about how AFSA can be of any further assistance to you as you move forward, please do not hesitate to contact me at 952-922-6500 or dfagre@afsamail.org.