STOP THE PAYDAY LOAN DEBT TRAP

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MYTHS AND FACT ABOUT PAYDAY LENDING

MYTH: Payday loans are infrequent, short-term loans for emergencies.

FACT: They may be marketed that way, but the typical payday loan results in a cycle of debt. The average Minnesota borrower takes out 10 loans annually. It is this cycle of repeat borrowing which drives the payday lending business model: 76% of all payday loans are due to churning borrowers every two weeks.[1]

MYTH: Payday loans are for the unbanked.

FACT: 100% of payday borrowers are banked. You can't get a payday loan without proof of a checking account, pay stubs and income. Payday lenders require direct access to a borrower's bank account as a condition of the loan; therefore, the payday lender stands first in line on payday to be repaid. A payday lender has no reason to assess whether the loan is affordable in light of a borrower's other expenses. This is what creates the debt trap.

MYTH: Payday lending is an urban phenomenon.

FACT: Studies show that rural communities can have a higher per capita amount of payday loan debt than urban areas. In Minnesota, payday lenders are not isolated to urban communities. There were 84 licensed payday loan outlets in 45 Minnesota cities in 2012. Of the loans made since 1999, over 75% of payday loans were made in communities outside of the cities of Minneapolis and St. Paul.

MYTH: Interest rates are astronomical because it's a risky loan.

FACT: Payday loans are not a risky loan for lenders to make because the loans are repaid to the lender on a borrower's payday from his or her bank account. The cumulative default rate in Minnesota between 1999 and 2012 is only 2.1% of all loans – less than half the rate of credit card charge-offs.

MYTH: The growth in payday lenders reflects greater demand.

FACT: Although payday lending numbers are up, it would be incorrect to conclude that new demand is the driver. Instead, payday loan volume is due to payday lenders churning borrowers every two weeks. 76% of the customers are repeat customers, getting on average 10 loans in a year. The growing number of loans reflects a growing number of consumers stuck in the debt trap.

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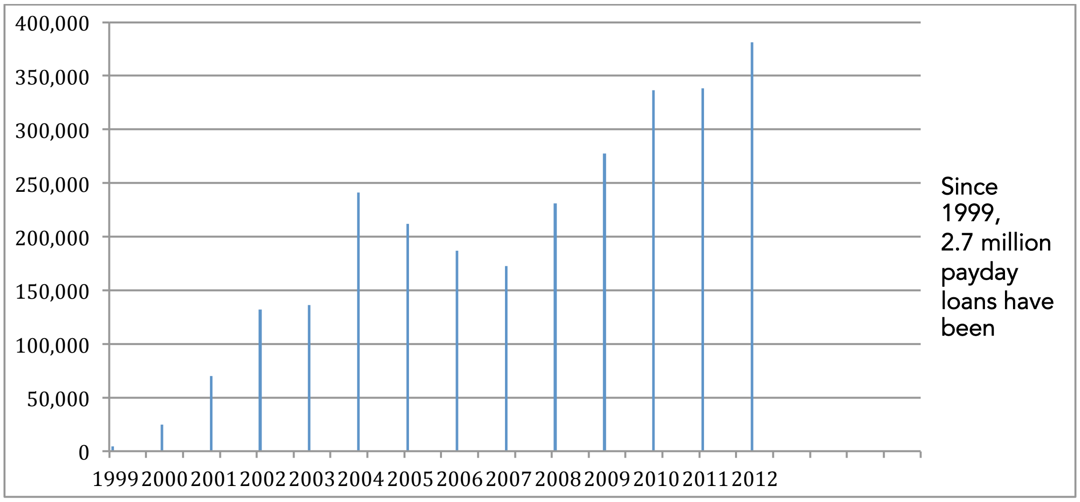
[1] Center for Responsible Lending, Phantom Demand, (2009). Page 3.

FACTS ABOUT PAYDAY LENDING IN MINNESOTA

Number of Loans: There were more payday loans – almost 381,000 – made in Minnesota in 2012 than during any year since statutorily authorized payday lending began in the state. The number has actually doubled since 2007. This is troubling because 76% of payday loan volume is due to payday lenders churning borrowers every two weeks. This growing number of loans reflects a growing number of consumers stuck in the debt trap.

Payday Loans in Minnesota, 1999 – 2012



How much money are we talking about? According to Minnesota Department of Commerce data, the average loan in 2012 was $380. Assuming a 273% APR (what Payday America charges for that size loan) on 10 two-week loans (the average number of loans a Minnesotan borrower takes out per year), the total amount paid back on a $380 loan would be $777.90 (principal and interest). That is money drained away from a family's ability to pay monthly bills. Cumulatively, payday lenders drain over $9 million annually from Minnesotans in excessive fees.[2]

Who makes the loans? The three largest payday lenders in Minnesota are Payday America, Ace Cash Express, and Unbank/Unloan, accounting for about 70% of the loans made since 1999.

If Minnesota's Consumer Small Loan Act allows short-term loans up to $350 and fees and interest equaling no more than about $26, why do we have APRs at 273% and loans available up to $1,000? Since 2005, some lenders began to use what is called the Industrial Loan and Thrift (ILT) loophole in the law. The loophole makes it possible for a payday lender to be licensed as an ILT and charge different fees. Loophole loans have far exceeded the number of loans made under the payday lending law. According to Minnesota Department of Commerce data, in 2012, loophole (ILT) lenders made 75% (285,125) of payday loans in Minnesota; while 25% (95,923) were made by lenders operating under the Payday Lending Law.[3] To effectively address the debt trap and predatory lending practices, we should close the loophole and require all payday lenders to play by the same rules.

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[2] Center for Responsible Lending, The State of Lending in America and its Impact on U.S. Households, (2013). Page 24.
[3] Minn. Stat. § 47.60.