MINNESOTANS FOR FAIR LENDING

Payday Loan Debt Trap Drains Millions of Dollars from Financially-Strapped Minnesotans

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$82 Million Dollar Fee Drain: Between 1999 and 2012, payday lenders have drained over $82 million in fees from financially-stressed Minnesotans, primarily from suburban and Greater Minnesota communities. In 2012 alone, 84 storefront locations extracted from customers over $11.4 million statewide. The payday debt cycle is responsible for the significant majority of these fees. Payments toward payday loan fees are dollars that Minnesotans cannot spend on typical household goods and services. In addition to this direct loss to households, Minnesota's overall economy loses $2.1 million annually because dollars spent on payday loan fees and interest generate less economic activity than do typical household purchases.[1]

The next page shows, **by city,** estimates of how much has been drained by payday lenders between 1999, the first year for which such data is available, and 2012, the most recent year's available data.

Table 1: Fees drained by payday loan storefronts, by region, 1999-2012

Region	Wealth Drained	Percentage of Total
Suburban	$43,494,316	56.6%
Greater Minnesota	$20,287,657	26.4%
Minneapolis/St.Paul	$13,025,411	17.0%

The Payday Loan Debt Trap: Although payday loans are marketed as a quick financial fix, they result in a cycle of long term debt. In Minnesota, payday loans carry, on average, a 273% annual interest rate for a $380 loan. A typical Minnesota payday borrower is stuck in **10 payday loan transactions a year** and, in 2012, more than 1 in 5 borrowers were stuck in over 15 payday loan transactions.[2] Nationally, three-quarters of payday loan fees are due to churning borrowers payday after payday.[3]

Even payday lenders acknowledge that payday loans are harmful if used for the long-term.[4] Data show that the payday loan debt trap leads to financial consequences such as delinquency on other bills, increased likelihood of overdraft fees, and even bankruptcy.[5] In addition to the individual harm, these payday practices are a net economic loss for Minnesota communities.

Methodology: The amount of fees drained by payday lenders in Minnesota is estimated from payday lenders' annual reports filed with the Minnesota Department of Commerce. These reports provide information about payday loan activity in the state, by city, including details such as storefronts and loan volume. Minnesotans for Fair Lending estimates the amount of fees based on amounts currently permitted by law on a typical loan and actual rate schedules for Minnesota payday loans. This analysis includes information for payday loans made both under the state's Payday Lending Law and under a loophole that enables certain lenders licensed as Industrial Loan and Thrifts to charge higher rates on payday loans than otherwise allowed.[6]

Table 2: Estimated payday loan fees drained by payday lenders in Minnesota, 1999-2012

GREATER MINNESOTA			**SUBURBAN**	
Rochester	$5,212,385		Burnsville	$8,807,019
St. Cloud	$2,592,073		Robbinsdale	$6,923,820
Moorhead	$2,150,515		Bloomington	$5,923,786
Duluth	$1,207,982		Coon Rapids	$5,849,752
Brainerd	$1,064,830		Anoka	$4,870,015
Bemidji	$1,006,122		Fridley	$3,386,748
Mankato	$985,191		Brooklyn Center	$2,213,491
Park Rapids	$862,032		Richfield	$1,773,998
Detroit Lakes	$623,339		St. Louis Park	$1,473,261
Cloquet	$601,591		Columbia Heights	$437,785
Hibbing	$542,718		Lakeville	$406,697
Virginia	$500,211		Roseville	$389,497
Grand Rapids	$483,328		Blaine	$374,638
Fergus Falls	$437,126		New Hope	$246,882
Alexandria	$433,107		Crystal	$102,736
Willmar	$317,216		Maplewood	$99,843
Little Falls	$316,227		Falcon Heights	$86,096
Worthington	$246,591		Spring Lake Park	$49,223
Cambridge	$185,825		Inver Grove Heights	$37,002
Paynesville	$103,399		Savage	$18,813
Elk River	$96,946		Walker	$18,552
Waite Park	$84,671		Apple Valley	$1,786
Luverne	$47,884		Shakopee	$1,005
Windom	$32,640		Brooklyn Park	$802
Marshall	$25,632		Redwood Falls	$794
Pelican Rapids	$18,857		Edina	$275
North Branch	$17,823		**Total Suburban**	**$43,494,316**
Pine City	$14,303			
Wabasha	$14,131			
Winona	$13,596		**MINNEAPOLIS/ST. PAUL**	
Windsor	$10,811			
North Mankato	$8,796		Minneapolis	$3,101,504
Chisago City	$8,629		St. Paul	$9,923,907
Perham	$5,273		**Total**	**$13,025,411**
Crookston	$4,719			
Montevideo	$3,614			
Cannon Falls	$3,586		**Licensed Internet Lenders**	**$5,480,784**
Thief River Falls	$2,473			
Austin	$829			
Long Prairie	$487		**TOTAL FEE DRAIN**	**$82,288,168**
Cross Lake	$149			
Total Greater MN	**$20,287,657**			

[1] Tim Lohrentz, Insight Center for Community Economic Development, "Net Economic Impact of Payday Lending in the U.S.," March 2013 (finding the multiplier effect for payments made to payday lenders is less than the effect of other types of household spending, finding specifically for MN that the lost economic activity was estimated to be $2.1 million in 2011.) http://www.insightcced.org/uploads/assets/Net%20Economic%20Impact%20of%20Payday%20Lending.pdf

[2] Data reports filed annually by payday lenders with the Minnesota Department of Commerce for 2012, the most recent year which the data is available.

[3] Consumer Financial Protection Bureau (CFPB), White Paper, "Payday Loans and Direct Deposit Advance Products," (April 24, 2013), http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf (*finding that 75% of payday loan fees are from borrowers stuck in more than 10 payday loans a year*); See also, Leslie Parrish and Uriah King, Center for Responsible Lending, "Phantom Demand," July 2009, http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-final.pdf (*finding that 76% of total payday loan volume is due to borrowers who take out a new payday loan within two weeks of the previous payday loan*).

[4] See for example, Cash Central's website, which states "*A single payday loan is typically for two to four weeks. However, borrowers often use these loans over a period of months, which can be expensive. Payday loans are not recommended as long-term financial solutions. Customers with credit difficulties should seek credit counseling*." http://www.cashcentral.com/. See also the website for the payday lenders' national trade association, "*A payday advance is designed to provide short-term financial assistance. It is not meant to be a long-term solution*." CFSA, "Is a Payday Loan Appropriate for You?", http://cfsaa.com/what-is-a-payday-advance/is-a-payday-advance-appropriate-for-you.aspx

[5] See studies such as Paige Marta Skiba & Jeremy Tobacman, *Do Payday Loans Cause Bankruptcy?*, Vanderbilt University Law School and University of Pennsylvania, (Sept 2011), http://assets.wharton.upenn.edu/~tobacman/papers/rd.pdf; Dennis Campbell, et al., *Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures* (Dec. 3, 2008), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1335873; and Brian T. Melzer, *The Real Costs of Credit Access: Evidence from the Payday Lending Market*, The Quarterly Journal of Economics (2011) 126 (1): 517-555; http://qje.oxfordjournals.org/content/126/1/517.full.pdf+html

[6] Payday lenders are required to submit an annual report to the Minnesota Department of Commerce, which include for each city: the total loan volume for each year, the total number of loans made, and the average loan size for each year, among other data. The data is reported for lenders making loans under both the Payday Lending Law (formally known as the Consumer Small Loan Act, codified at Minn. Stat. § 47.60) and under the Industrial Loan and Thrift loophole (i.e., loans made under Minn. Stat., ch. 53, which gives authority to lend under Minn. Stat. § 47.59). With this information, for all lenders other than Payday America, we applied the permissible fees for each type of loan for each city in that year. For Payday America loans made under the Industrial Loan and Thrift Law, we used the actual fee schedule that it advertises in its contracts with borrowers. For example, in 2012 in the city of Luverne, the total number of loans made was 332 and the loan volume was $95,430, resulting in average loan of $287. All of these loans were made by BnT Loans under the state's Payday Loan Law, which meant it could carry $22.22 in interest and fees. Thus, the fee drain for 2012 for Luverne then totaled $7,377 (332 loans x $22.22).