

MINNESOTANS FOR FAIR LENDING

Responding to the Payday Lending Industry

March 24, 2014

“There Are No Complaints at the Department of Commerce nor with the MN Attorney General”

Though it was illegal in Minnesota until 1995, and 17 states now effectively ban payday loans, payday lending is legal in MN and that is why case files are not opened. Ending the debt trap requires us to change the law.

“Where Will People Go?”

There are many healthier strategies than taking on more debt at triple-digit APR interest.

North Carolina recently banned payday lending, leading to almost perfect conditions for a research project commissioned by that state’s Banking Commissioner, and conducted by the University of North Carolina-Chapel Hill. This research shows that after the ban, customers made healthier adjustments and, importantly, customers themselves said they were better off without payday loans.

Healthier adjustments include: making arrangements with creditors, borrowing from relatives and friends, enhancing income by working more hours or selling items, reducing expenses, and using credit cards at double-digit rates.

Our proposal does not ban payday lending. In Delaware and Washington, states that have limited the number of payday loans, lenders continue to lend and borrowers still have access to a modest number of payday loans.

“We Will No Longer Offer Payday Loans if This Bill Passes”

In Delaware and Washington State, where they have laws like the one we propose, payday lenders (including ACE Cash Express, the second largest lender in Minnesota) are still lending – but lending the way the product was intended: for very limited emergencies.

“They’ll Go to the Internet”

Not true. Borrowers are not driven to the internet – or to any other sources as a result of bills like this one. In fact payday borrowing from online lenders and other sources varies only slightly among states that have payday lending stores and those that have none. Pew Charitable Trust, *Payday Lending in America: Who Borrows, Where They Borrow, and Why* (2012)

“They’ll Go to Loansharks”

The last reported case in Minnesota involving loansharking was in 1939.

“There is a Huge Demand for Payday Loans”

The demand is driven by trapping people in 10, 20, or more loans a year.

“Payday Loans Are Cheaper Than Overdrafts or Late Fees and Reduce Financial Stress”

Not true. Payday loans actually CAUSE overdraft fees and late fees because payday lenders have direct access to bank accounts and pay themselves first. The industry will cite a study that indicates that NSF checks increased after Georgia and North Carolina banned payday lending, but that study had serious flaws because it looked at data from regional, multi-state check processing centers, and did not isolate on Georgia or North Carolina residents.

Interestingly, bankruptcy rates in North Carolina and Georgia are less than half of what they were before payday lending was eliminated.

“You Can’t Fairly Apply an APR to a Two-Week Loan”

Because the typical borrower is trapped in a cycle of repeat borrowing and is in debt for around 5 months, we think it is fair to point out the exorbitant cost of this type of borrowing, and the APR is the standard way to compare among lending options.

“We Do Underwriting Already”

Not true. Just looking at percentage of income without looking at expenses and ability to repay is NOT underwriting. Any loan should be responsibly underwritten.

“It’s a Straightforward Transaction”

Not true. The loan terms are deceptive because they are marketed as a quick financial fix but the typical borrower finds the terms difficult to meet and so begins the cycle of repeat lending.

“Customers are Satisfied”

They are not satisfied when they fall into the debt trap. Where payday loans were recently banned, borrowers say they are better off without them. Watch a video of what Minnesota borrowers say at www.fairlendingmn.org.