MINNESOTANS FOR FAIR LENDING

The Case for Reforming Predatory Payday Lending in MN

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Payday Loans are Growing: The number of payday loans has doubled over the past five years, from 177,000 to 381,000 in MN.

Payday Loans Carry Exorbitant Interest Rates: The average APR on a payday loan in MN is 273%. The APR varies, but is always triple-digit. See chart below for examples:

Amount of Loan	APR under MN Payday Lending Law	APR under Payday America[1]	APR under Other Loophole Lenders
$100	391%	737% - 867%[2]	685%
$200	248%	385% - 450%	359%
$300	200%	294% - 330%	250%
$350	194%	294%	219%
$380 (Average Loan in MN)	**n/a**	**273%**	**199%**
$400 (Average Loophole Loan)	n/a	294%[3]	196%

MN Payday Lending Law vs. Chapter 53 (Loophole) Authority Loans

The Payday Loan Debt Trap: Marketed as a quick financial fix, payday loans usually result in a cycle of longer-term debt. In Minnesota, payday loans carry, on average, a 273% annual interest rate on 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. Nationally, three-quarters of payday loan fees are due to churning borrowers payday after payday.

1. Payday America is authorized under the Industrial Loan and Thrift loophole to charge a $30 loan fee and a $50 annual fee. Depending on the size of the loan, Payday America charges either a $25 or $30 fee and some portion of the annual fee per loan. The ranges represent what is actually charged vs. what is authorized. Where only one APR is listed, the maximum fee is charged and a $5 increment toward the annual fee is included.
2. A $12.95 charge may be added if the borrower requests payment by telephone. In that case, the APR's would be: 1,075% on a $100 loan; 554% for a $200 loan; 380% for a $300 loan; 353% for a $350 loan; 362% on a $380 loan; and 346% on a $400 loan.
3. A higher fee and increment toward the annual fee is charged for loans above $350.

Even payday lenders acknowledge that payday loans are harmful if used for the long-term.[1] 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.[2]

Predatory Lending Results from High Costs and No Underwriting: Payday loans are issued upon proof of a paystub and a checking account. Typically, the loan is due on the borrower's next payday and the amount owed is auto-withdrawn from the customer's bank account. Payday lenders do very little to evaluate a borrower's ability to repay the loan, and issue loans upon proof of any regular income — payroll, social security, social security disability. Because the high cost makes the following month's bills harder to meet, repeat lending traps the typical borrower into 10 loans per year.

Access to Small Amount Credit: Though payday loans are effectively banned in 17 other states, SF 2368—author's delete all, allows for 5 loans in a year, or 90 days of indebtedness; this addresses access to emergency small-amount credit. But it should be pointed out, 69% of borrowers first use a payday loan to pay expected, ongoing bills. This is why the debt trap is so common. The only time a payday loan makes sense is when the borrower can foresee added income or lesser expenses in the following pay period to make room for the extremely high cost of the cash advance. In two states where similar loan caps are used, Delaware and Washington, the industry continues to lend.

Minnesotans for Fair Lending believes access to healthy, small amount credit is important and is committed to keep working with credit unions, Community Action Programs, Minnesota Asset Building Coalition, and other community-based or faith-based efforts to expand healthy lending products.

Customers Tell Us the Debt Trap Hurts: Through focus groups, surveys, and interviews with hundreds of customers, we have learned that payday lending hurts people and leads to tragic results, including homelessness, bankruptcy, and inestimable stress and health problems. Financial counselors that meet with debt trap victims always have the same advice: Get out of the trap; stop using payday loans.

Other States Have Acted: 17 other states have effectively banned payday lending, and 5 others have enacted restrictions — using reforms proposed in SF 2368, Minnesota would be the sixth.

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[1] 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

[2] 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