REFORMING PREDATORY PAYDAY LOAN PRACTICES IN MINNESOTA

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CAP INTEREST RATES. CREATE FAIR LENDING.

Issue Statement

Since 1999 the payday lending industry has been draining millions of dollars from Minnesotans struggling to keep a roof over their heads, put food on the table, and provide for other basic needs. For many people, repeat borrowing is the only via option to meet their monthly expenses. People who use this short-term loan option often fall into a debt trap because of steep interest rates that make it nearly impossible pay off the original and subsequent loans. Predatory marketing and lack of available banking solutions force marginalized groups into a cycle of debt. Minnesota needs to invest in fair lending practices by implementing interest rate caps and investing in solutions that eliminate the cycle of debt.

The Need

In Minnesota, a typical payday loan is $365 and carries an APR of 200% and is re-borrowed an average of nine times in a year.

Payday loans are short-term, high interest loans that target borrowers who need money for "quick fixes". Loans are required to be paid back in a short timeframe, typically 2 weeks. These predatory loans are actually designed to create long-term debt traps. When individuals and families cannot climb out of debt, it makes it impossible to save and accumulate resources that can lift people out of poverty

Payday lending takes advantage of the most marginalized Minnesotans by increasing their economic and income insecurity and increasing racial inequities. In the United States, payday loans can carry annual interest rates well over 600%. Payday storefronts are mostly located communities that have greater numbers of people of color, people with lower incomes and lower levels of education, immigrants and renters. Internet payday loans are especially problematic.

FAST FACTS ON PAYDAY LENDING IN MINNESOTA

- Average loan size: $417
- Average loans per year: 9
- Average weeks in debt: 20
- Average annual interest: 203%

Eighteen states and DC stop predatory payday lending with caps of 36% annual interest, inclusive of fees.

79% of Minnesotans support a rate cap of 36% or lower, with high levels of support among all party affiliations.

Poverty, chronic stress, including financial stress, has profound negative effects on health and well-being. In Minnesota, the communities where payday stores are available are also the communities that are ranked in the bottom half of the State health outcomes.

Refer to the **original policy advocacy** brief for a more detailed analysis.

Payday Lending Practices in Minnesota

There are three different types of payday loan lending regulations: permissive, hybrid, and restrictive. Minnesota's approach is hybrid, meaning there are some restrictions. The Minnesota Attorney General's Office warns borrowers of "high fees and costs".

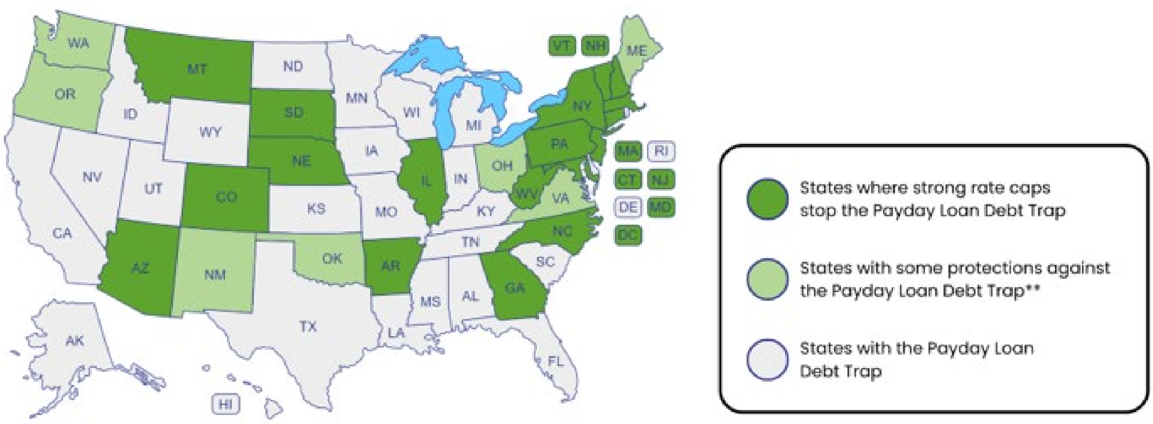
- For example, if a payday loan is $350 or less, a sliding scale is applied, with fees ranging from $5 to $5.50 per loan and interest rates from 6% to 10%.
- For loans between $350.01 and $1,000 annual interest is capped at 33% plus a $25 fee.

The problem is many borrowers get caught in the debt cycle. The average annual percentage rate of a payday loan in Minnesota is at 203% APR.

Payday Loan Reform

Currently, 18 states and the District of Columbia prohibit high-cost payday lending.

- 4 states set APR caps at 36%, the rate set under federal law for military members.
- 3 states allow low-cost payday lending.
- Protections against payday loan lending include loan transparency, interest caps, installment payments, and shortened loan terms.



Policy Position Statement and Recommendations

Minnesota needs fair lending practices. All Minnesotans who need emergency financial relief deserve a monetary lending system that is fair and free from predatory lending practices. Our payday lending policies do not protect Minnesotans from being exploited by steep interest rates and aggressive repayment plans. In addition, Minnesota must provide long-term solutions to help individuals and families struggling financially to avoid the need for payday loans.

- Implement a cap on interest rates no higher than 36%.(HF 290/SF 1635
- Limit the number of loans to 3 per year an individual can take out at a time while creating a repayment plan that will protect and prevent the debt trap.
- Invest in predatory loan refinancing programs like Exodus Lending to create a pathway for people in the debt cycle to refinance their payday loans, create a flexible and manageable payment plan, and break free from predatory debt.
- Create more inclusive public banking that is accessible and serves all communities.