

STOP THE PAYDAY LOAN DEBT TRAP



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Predatory Payday Lending Bill Summary HF 2293 (Atkins) / SF 2368 (Hayden)

Ensures Borrowers Have the Ability to Repay the Loan

- Requires payday lenders to conduct sound and responsible underwriting prior to making a payday loan, ensuring a borrower's ability to repay.
- Rationale: Payday lenders are subprime lenders. Irresponsible lending by subprime lenders leads to financial troubles for families, neighborhoods, and local economies.

Stops the Debt Trap

- The combined number of payday loans issued to a borrower in a year cannot exceed 4 loans or exceed 90 days of indebtedness. This is modeled on similar standards established by the FDIC for state-chartered banks and NCUA for federal credit unions.
- Rationale: Payday loans, contrary to the way they are marketed, are NOT primarily used once for emergencies. In a national survey of payday borrowers 69% first used payday loans for recurring expenses, like utilities or rent (*Pew Charitable Trusts, 2013*). In Minnesota, the average payday borrower takes 10 loans per year, while about one-fifth of borrowers take out 20 or more per year. This is the debt trap, making borrowers worse off for using this type of predatory loan.

Closes the Loophole

- Eliminates the ability of the dominant payday lenders to evade Minnesota's Payday Lending Law under a technicality, and to charge more than the Payday Lending Law allows.
- Rationale: Ensures a level playing field for the industry by treating all payday lenders the same.

Protects Active Military Personnel and their Families

- Ensures that Minnesota's payday lenders comply with federal law by requiring lenders to inquire whether the borrower is an active duty service member or family member.
- Rationale: In 2006, the Department of Defense determined that payday loans to soldiers threatened national security, and asked Congress to help stop the exploitation of military personnel and their families. Congress responded by passing the Military Lending Act, which caps the interest rate on payday loans to active duty military personnel and their immediate families at 36% APR.

Prevents Circumvention

- Provides protection from clever subterfuges that payday lenders sometimes use to evade state laws.
- Rationale: Experience in other states shows this type of protection is needed. One common evasion is claiming that payday lending now operates as a "credit repair" business.

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