Letter to the Editor

Template and Talking Points

ABBREVIATED LETTER TO THE EDITOR

Payday loans are small dollar loans due on the borrower's next payday – but all too often, they function like a debt trap. In Minnesota, the average payday loan size is $417, and the cost of borrowing this amount for two weeks computes to an appalling 203% APR. The terms are designed to lead to repeat borrowing — on average, customers are trapped into 7 loans per year.

A group called Minnesotans for Fair Lending is advocating for reasonable reforms to the payday lending industry: A 36% annual interest rate cap, including fees, following the lead of 18 states and the District of Columbia who have already enacted this rate cap. Minnesota legislators ought to implement fair lending regulations that protect consumers from predatory lending and ensure their credit options are safe and responsible.

HIGH-COST DEBT TRAP TALKING POINTS

- Payday loans are small dollar loans due on the borrower's next payday. In Minnesota in 2020, the average payday loan size was $417, and the cost of borrowing this amount for two weeks computes to an appalling 203% APR.

- Lending at 203% interest is legal loansharking. This is an exorbitant interest rate even if borrowers took out one loan, climbed out of debt, and walked away. But that is not the reality surrounding this predatory loan product. Minnesota Commerce Department data show that the typical payday loan borrower takes an average of 7 loans per year and is in debt for 20 weeks or more at triple-digit APRs. The fact that nationally, 75% of fees come from borrowers with 10 or more loans per year demonstrates that the industry relies on repeat borrowing for its existence.

- Here's how lenders set the debt trap. First, the industry does virtually no underwriting to measure a customer's ability to pay back a loan; they only require proof of income and do not inquire about debt or expenses. Second, the loan plus the hefty fee is due in full so quickly, with the lender having access to the borrower's bank account to extract payment, that most borrowers are forced to reborrow to make ends meet over and over again.

- The harms of payday lending have been thoroughly documented. Borrowers struggle to keep up with the other bills. Repeated extractions from their bank accounts create overdrafts and insufficient funds fees to the point that borrowers may lose their bank accounts and get thrown out of mainstream banking altogether. Many borrowers eventually have to file bankruptcy.

36% RATE CAP TALKING POINTS

- A group called Minnesotans for Fair Lending is advocating to reform the payday lending industry in Minnesota by enacting a 36% interest rate cap for small consumer loans (average about $400), including fees. This type of rate cap has put a stop to predatory payday lending in 18 states and DC.

- A study out of Illinois shows borrowers are able to find other ways of overcoming cash shortfalls after a 36% cap stopped triple-digit payday lending.

  Source: Predatory Lenders' Predictions of Gloom-and-Doom Fail to Materialize as Consumers Embrace Illinois's Interest Rate Cap - Woodstock Institute

- Minnesota ought to implement fair lending regulations that protect consumers from predatory lending and ensure their credit options are safe and responsible. Minnesotans should support a 36% interest rate cap to prevent the cascade of harms caused by payday lending, harms that make financial problems infinitely worse for struggling individuals and families.

FAITH-BASED TALKING POINTS

- As a person of faith, I vigorously oppose usurious practices that exploit people's financial problems for profit. Our legislators ought to implement fair lending regulations for the financial health and safety of all Minnesotans. It's a simple matter of right and wrong.

- The practices of most contemporary payday lenders are very similar to those condemned in the sacred texts and teachings of Judaism, Islam, and Christianity. The Bible declares, "If you lend money to one of my people among you who is needy, do not treat it like a business deal; charge no interest" (Exodus 22:25). The Qur'an takes a principled stance against predatory lending — charging any interest at all is sinful according to Allah, as it is the responsibility of financial professionals to help people get out of debt as soon as possible, rather than deepening and profiting from their debt (Surah 2:275-281). The Compendium of the Social Doctrine of the Church, the Catholic Church teaches that "usury is a scourge that is also a reality in our time and that has a stranglehold on many people's lives" – and Pope Francis recently spoke out specifically against payday lending!

MINNESOTANS
FOR FAIR LENDING