8421 Wayzata Blvd | Suite 110 | Golden Valley, MN 55426

February 28, 2023

Dear Members of the Commerce and Consumer Protection Committee:

My name is Martha Njolomole, and I am an Economist at Center of the American Experiment. I thank you for the opportunity to provide comments on bill SF 1635. This bill, if passed, will likely reduce the incentive for financial lenders to offer short-term loans which might hurt poor Minnesotans, who disproportionately rely on these kinds of loans.

Restrictions on short-term loans only hurt consumers

Short term loans generally exist because they are necessary. To some people, short term loans are the only fast and convenient source of cash. As explained by the Federal Reserve Bank of St. Louis,

"Payday loans fulfill a need for many people, especially consumers who don't have access to traditional loans or who have no or low credit scores.[18] In 2017, estimates show that among U.S. households, 6.5 percent (8.4 million) were unbanked; and 18.7 percent (24.2 million) were underbanked—that is, they had a bank account but used alternative financial services, such as payday loans.[19] With bad credit (no or low credit scores), these consumers are often unable to get traditional loans, so they turn to alternative lenders."

Thereby laws that restrict short term loans end up hurting borrowers than they help. In fact, a 2011 research paper found that restrictions on short-term loans "deny some consumers access to credit, limit their ability to maintain formal credit standing, or force them to seek more costly credit alternatives."[1]

And contrary to popular opinion, people that use short term loans are not unaware or easily exploited. They are rational individuals who make thoughtful decisions regarding their financial situation. According to a working paper published by the National Bureau of Economic Research (NBER), for example, long-term borrowers can accurately predict when they would need to borrow, which helps them pay off loans early thereby reducing the total cost of borrowing. [2]

[1] Edmiston, Kelly D.. "Could restrictions on payday lending hurt consumers." *Econometric Reviews* 96 (2011): 63.

[2] Allcott, H., Kim, J., Taubinsky, D., & Zinman, J. (2021). Are high-interest loans predatory? theory and evidence from payday lending. https://doi.org/10.3386/w28799

By restricting the amount of interest that financial lenders can charge on short-term loans, Bill SF 1635 will discourage financial lenders from providing short term loans. This will only hurt individuals that rely on such loans.

Sincerely,

Martha Njolomole

Economist

Center of the American Experiment