Using APR for short term loan calculations skews cost.
The Reality, the average payday loan of $500 costs $31 and is paid back in 2 weeks.

- If a payday customer is charged the maximum allowed under current MN law in fees and interest to borrower an unsecured loan of $500 for two weeks, it cost $31.33. This translates to an APR of 163.36%, but it is NOT an annual loan, it is a loan that lasts just 14-days.

- The APR formula below. (Graphic courtesy of Bench.co.) highlights how using a limited number of days in the loan term results in an inflated APR.

$$\left[\left(\frac{\left(\frac{\text{Fees + Interest Paid over Life of Loan}}{\text{Loan Amount}}\right)}{\text{Number of Days in Loan Term}}\right) \times 365\right] \times 100 = \textbf{APR}$$

- Using the same 14-day calculation, charges permitted under the law governing short-term lenders, would produce APR scores on:
    - $100 overdraft of — $35 fee = 913% APR *
    - $100 credit card late payment of — $30 fee = 782% APR
    - $100 utility bill reconnect fee of — $50 charge = 1,304% APR
    - $100 bounced check merchant fee of — $35 fee = 913% APR *

  Note: * = $100 bounced check creates an APR of 1,825%.

- If the provisions including in HF 290 become law, they will harm consumers ability to receive state regulated short-term unsecured loans as the provisions all but eliminate access to short-term unsecured state regulated consumer credit. But the need for this credit will not go away.

- Thousands of Minnesotans depend on consumer short-term lenders for unsecured credit. Customers with a short-term cash challenge need a place to turn.

- Negatively impacting the consumer finance marketplace eliminates access to legal and regulated short-term unsecured consumer credit for thousands of working-class Minnesotans.

- HF 290 would do little more than force consumers into the unregulated marketplace with higher fees and little or no recourse. Today unregulated online payday lenders already advance billions annually.

- Payday customers are middle-income Minnesotans ($25,000 and $50,000), well educated (94% have a high school diploma or better and 56% have some college or a degree), young families (68% are under 45 years old, a majority are married and 64% have children in the household), with a stake in their communities (42% own homes).

- 100% of payday customers have steady incomes and checking accounts.

- The ability to offer these financial products and services already comes with regulatory scrutiny. In fact, the licensing requirements for an Industrial Loan and Thrift are greater than for a Consumer Small Loan Lender.

Proposed payday restrictions will do little more than harm Minnesotans.

- If the provisions including in HF 290 (Authors: Koegel, Stephenson, Hollins and Kotyza-Witthuhn) become law, they will harm consumers ability to receive state regulated short-term unsecured loans.

- The provisions in HF 290 would effectively eliminate access to short-term unsecured state regulated consumer credit in Minnesota. But the need for this credit will not go away. Thousands of Minnesotans depend on consumer short-term lenders for short-term unsecured consumer credit.
- Customers with a short-term cash challenge need a place to turn. Negatively impacting the consumer finance marketplace will eliminate access to legal and regulated short-term unsecured consumer credit for thousands of working-class Minnesotans.
- HF 290 will force consumers into the unregulated marketplace resulting in higher fees and little or no recourse. These unregulated online payday lenders advance billions annually.
- The reality, payday customers understand the terms of their loans and those of the more costly unregulated alternatives.
- Payday customers are middle-income Minnesotans (majority between $25,000 and $50,000), well educated (94% have a high school diploma or better and 56% have some college or degree), young families (68% are under 45 years old, a majority are married and 64% have children in the household), who are from the stable working class (42% own homes, 100% have steady incomes and checking accounts).
- Opponents of consumer short-term lending would have you believe short-term unsecured consumer loans are extremely expensive and have exorbitant fees. This is simply not true.
- The average fee charged by Payday America, Minnesota's largest lender, on a $500 loan is less than 7% of the amount borrowed.
- Payday America's fees are less than the those charged by banks on similar products. Bank non-sufficient funds (NSF), overdraft protection (ODP), default interest, late fees, merchant fees and reconnect fees exceed the cost of the average $500 payday loan. In fact, most financial alternatives have higher APRs and online lenders charge even more.
- Charges permitted under current MN law governing short-term lenders pales when compared to the average cost of:

- Using the same 14-day calculation, charges permitted under the law governing short-term lenders, payday opponents like to use would produce APR scores of on:

  - $100 overdraft — $35 fee = 913% APR *
  - $100 credit card late payment — $30 fee = 782% APR
  - $100 utility bill late/reconnect fees — $50 charge = 1,304% APR
  - $100 bounced check — $35 permissible merchant fee = 913% APR *

  Note: * = $100 bounced check creates an APR of 1,825%.

- Payday America's customers are satisfied with the products and services offered. They have a low default rate (less than 1% go to collection) and the company receives almost no consumer complaints.

What is the reality facing Minnesotans today?

- 61% of Americans who've paid a bill late in the past six months say they didn't have enough money to cover the cost. Women are more likely than men to cite this — 64% versus 57%.

- Nearly half of those who were recently late with a payment say it was a utility bill (46%), followed by a credit card (39%) or cable or internet bill (34%). Women cite utility bills as the main culprit (51%), while men say it's credit card debt (42%).

- 40% of Americans say they're less able to afford their bills than a year ago. Those who make less than $35,000 a year are the only demographic in which more than half (54%) cite this.

- 62% of Americans struggle to afford at least one bill.

- 51% of Americans have over drafted their account to pay a bill, with 26% saying they've done it more than once. Of people who paid a bill late in the last 6 months, 72% paid a bank overdraft fee.

Source: Lending Tree

How do Minnesotans rate Payday America?

- Google reviews done between September 2021 - January 2023 resulted in a 98.5% Excellent rating!
- 396 total customer reviews: 384 rated 5-Star, 6 rated 4-Star, 6 other

What happened in Illinois after they passed an APR Cap?

It is important to understand the supply of consumer credit is limited, and economic theory shows that an interest-rate cap, like any price ceiling, creates shortages, and gives rise to additional costs.

- Using credit bureau data, a report done in IL found that in the six months following the imposition of the 36 percent interest-rate cap created by the Illinois Predatory Loan Prevention Act the average loan size for subprime borrowers in Illinois increased by roughly 40 percent.

- A survey of known borrowers responded:

  - their financial well-being had declined after the rate cap went into place highlighting the negative welfare effects from the loss of credit access. Most respondents report being unable to borrow money (presumably from any source) when they needed it and were unable to pay one or more bills since March 2021.
  - Nearly 80 percent of respondents answered they would like the option to return to their previous lender.
  - More than 90 percent indicate their previous loan helped them manage their financial situation.

What really happened in IL because of the new law?
The financial well-being of many consumers got worse.

Source: The Online Lenders Alliance