



Beware of Internet Loans

From the Office of Minnesota Attorney General Keith Ellison

Many people are financially squeezed—living paycheck to paycheck—and may seek the temporary financial help of a short-term Internet loan to pay for such things as a car repair, utilities, and groceries. Internet lenders may offer easy credit, but this credit comes with a hefty price tag and often leaves a rash of problems in its wake. In addition to charging extremely high fees or rates of interest, many of these lenders are not licensed to do business in Minnesota. Providing your personal information to such unlicensed entities over the Internet could lead to unauthorized withdrawals from your bank account, identity theft, or phony collection scams perpetrated by international crime rings.

The Attorney General's Office has filed lawsuits against numerous Internet lenders that made loans to cash-strapped Minnesota borrowers that were marketed as providing "cash between paydays," but that contained unlawfully high annual interest rates of up to 782 percent and that were often illegally extended from paycheck to paycheck, trapping the borrower in a cycle of expensive debt. The loans are often called "payday loans."

Internet Payday Lenders. Numerous short-term or payday loan websites operate on the Internet. A customer generally types in his or her personal information, including Social Security and bank account numbers, and the loan may be deposited into their bank account within hours. Although the quick cash promised by these loans may sound attractive, consumers should make sure that they know what costs they are agreeing to pay when signing up for such loans. They should also make sure the lender is licensed with the State of Minnesota. Minnesota law caps the amount of fees that can be charged on payday loans. Some Internet payday lenders try to evade state interest rate and licensing laws by getting licenses in states without meaningful restrictions, by operating without state licenses at all, or by setting up operations outside of the country or under American Indian tribal authority, and claiming that the loans are subject to the laws of the home country or tribe. Minnesota law, however, makes clear that online

payday lenders that lend money to Minnesota borrowers are subject to the requirements of Minnesota law, even if the lender is physically located in another state. If a payday loan is \$350 or less, Minnesota rates are capped on a sliding scale as follows:

LOAN AMOUNT	FEE
\$50 or less	\$5.50
\$50.01 - \$100	10 percent, plus a \$5 fee
\$100.01 - \$250	7 percent (minimum of \$10), plus a \$5 fee
\$250.01 - \$350	6 percent (minimum \$17.50), plus a \$5 fee

For loans between \$350.01 and \$1,000, payday lenders cannot charge more than 33 percent annual interest plus a \$25 fee. Minnesotans should not obtain payday loans that do not meet these fee caps.

Payday lenders must be licensed with the State of Minnesota. Minnesota's payday loan statute provides certain protections to Minnesota consumers. All payday lenders, including Internet payday lenders that make loans to Minnesota residents, must comply with its provisions, including its licensure provisions and rate caps.

The Attorney General's Office warns Minnesotans against taking out loans over the Internet from unlicensed lenders, as it has seen a growing list of complaints to the Office from consumers who have done business with such companies. Consumers who have taken out or even just explored the option of short-term loans from unlicensed Internet companies have experienced the following types of problems:

- **High interest rates.** Minnesota law caps the interest that licensed lenders may charge. Unlicensed Internet payday lenders regularly violate these caps, charging annual interest rates of up to 782 percent.
- **Auto-extensions.** Minnesota law prohibits a short-term lender from extending payday loans of \$350 or less for over 30 days and from using the proceeds of

one payday loan to pay off another. Online lenders routinely violate these laws by either extending the loan and withdrawing only interest charges or by “rolling over” the loan, paying off the old loan with the proceeds from the new loan. These practices can turn a payday loan—advertised as a short-term financial fix—into a long-term financial nightmare where borrowers pay far more in interest than they intended to borrow.

- **Unauthorized withdrawals.** When consumers take out an online loan, they must provide their banking and personal information. Some consumers report that unlicensed lenders made unauthorized withdrawals from their accounts, sometimes of hundreds of dollars.
- **Unlawful debt collection tactics.** Consumers report that some online lenders and their collectors use illegal debt collection tactics, such as threatening that the consumer will be taken to jail and prosecuted for a financial crime, or attempting to illegally garnish their paycheck.
- **Phony collection scam.** Some consumers who did not even take out a payday loan, but who only explored the option online, report being hounded by overseas scam artists who threaten to have them arrested if they do not pay, even though the consumer does not owe any money. These scam artists contact the consumers, often impersonating attorneys or law enforcement, demand large payments, and frequently attempt to scare or intimidate consumers into paying with threats of arrest or legal action against them or their families.

Advance Fee Internet Loans. Consumers should also be on guard against Internet loans that require a borrower to pay an upfront fee, or so-called “advance fee.” Fraudulent operators target would-be borrowers with promises of being able to find them loans during this “credit crunch,” only to collect up-front fees from them and then disappear. Be on guard against such “advance fee loan” scams. Federal regulators, such as the Federal Bureau of Investigation and the Federal Deposit Insurance Corporation, report increases in this scam nationwide. Many fraudulent operators create flashy and professional-looking websites to lure in victims

who seek credit in the difficult economy but are having a hard time finding a loan through traditional channels. The supposed “lender” offers to make a loan to help with cash flow needs but requires that the “borrower” first send the lender (usually via a wire transfer) a loan processing fee of hundreds or even thousands of dollars. The hitch is this: Once you wire the money, you will never see the loan proceeds.

Considerations Before Taking Out an Online Loan.

The Attorney General’s Office offers the following advice to consumers considering online loans:

- Before doing business with an Internet lender, borrowers should check with the Minnesota Department of Commerce to see whether the entity is licensed to make loans in Minnesota.

Minnesota Department of Commerce

85 East 7th Place, Suite 280

St. Paul, MN 55101

(651) 539-1500

www.mn.gov/commerce

- Check if the Internet lender is complying with state interest rate caps and other state consumer protections.
- Be wary about giving out information online to unknown Internet companies. This can expose you to potential privacy and fraud risks. Disreputable Internet companies can use your bank account number to make unauthorized withdrawals and drain your account.
- Beware of companies that ask you to pay upfront fees in order to borrow money. If an Internet company disappears with your upfront fee, the money may be difficult to track down.

For more information, or to file a complaint, contact the Minnesota Attorney General’s Office as follows:

Office of Minnesota Attorney General Keith Ellison

445 Minnesota Street, Suite 1400

St. Paul, MN 55101

(651) 296-3353 (Twin Cities Calling Area)

(800) 657-3787 (Outside the Twin Cities)

www.ag.state.mn.us