



Beware of Payday Loans

From the Office of Minnesota Attorney General Keith Ellison

Many Minnesotans may find themselves financially squeezed and looking for short-term help. Some cash-strapped consumers may turn to payday loans. A payday loan is a short-term, high-interest loan, targeted at borrowers who need money between paychecks. The contract generally requires borrowers to pay back the loan in 14 days, when their next paycheck arrives. Consumers should beware of the costs and fees associated with such loans. Consumers should also be wary of whom they are borrowing from, as some payday lenders do not follow Minnesota law and charge rates of interest far greater than those allowed in Minnesota.

What Is a Payday Loan?

Payday loans are short-term loans, often for \$500 or less, with hefty finance charges. Payday loans allow consumers to borrow against an anticipated paycheck or other anticipated earnings. Although payday loans may be marketed as “one-time-only” loans designed to help the consumer get by until their next paycheck, some consumers who take out payday loans find themselves trapped in a downward spiral of debt as they take out a series of loans, one after another, accruing greater and greater finance charges that can quickly exceed the amount borrowed.

Internet Payday Loans Are Especially Problematic

Tight finances can lead people to look for instant payday loans on the Internet. People should be on guard against Internet payday lenders that evade state interest rate and consumer protection laws by operating online without proper state licensure. Numerous 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 is deposited into their bank account within hours. If the loan is not repaid on time (generally within two weeks), hefty finance

charges are automatically debited from the consumer’s bank account every two weeks. The borrower can soon incur interest that exceeds the amount of the loan.

Some Internet payday lenders try to evade state interest rate and consumer protection 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 loans are made 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.

People should always check—before they sign up—to find out if an Internet payday lender is registered with the Minnesota Department of Commerce to make small consumer loans in Minnesota. Some consumers encounter legal problems when they dispute the amount owed under an Internet loan contract. Also, consumers who borrow online often have difficulty communicating with Internet payday lenders, who can be hard to locate to resolve disputes. Be wary about giving out information online to unknown Internet companies. This can expose you to potential privacy and identity theft risks, and a disreputable Internet company can use your bank account information to drain your account.

High Fees and Costs

Although the quick cash promised by payday loans may sound attractive, consumers should make sure that they know what costs they are agreeing to pay before signing up for such loans. Minnesota law caps the amount of fees that can be charged on payday loans. 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. This requires vigilance on the part of consumers, as some Internet payday lenders do not comply with Minnesota law.

Payday Lenders Must Be Licensed with the State

Minnesota has a payday loan statute that provides certain protections to Minnesota consumers. This law makes clear that 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. Before signing up with a payday lender, borrowers should check with the Minnesota Department of Commerce to see if the entity is licensed to make payday loans in Minnesota:

Minnesota Department of Commerce

85 Seventh Place East, Suite 280
 St. Paul, MN 55101
 (651) 539-1500
www.mn.gov/commerce

Review All Your Options

Consumers should review all of their options before taking out a payday loan. Ask yourself if you absolutely need the money urgently. If you can wait until the following payday, you may save yourself money and headaches. If you are considering taking out a payday loan to pay off a bill to another company, consider contacting the company to see if you can pay the bill late, or agree to a payment plan directly with company itself. You will often pay less to arrange such a payment plan than by taking out a payday loan. Also, shop around at other financial institutions to see if you can get a better deal. Know the cost of the credit you are taking out. Compare annual percentage rates and finance charges to those available through other lenders.

You may contact the Attorney General's Office for more information or to file a complaint at the contact information below.

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