

Consumer Lending Testimony: January XX, 2021

Good afternoon Mr. Chairman and members. My name is Paul Cassidy and I am with the law firm of Stinson LLP. I am here today to speak in opposition to the legislation before you on behalf of our client Payday America.

Payday America operates 12 locations throughout Minnesota employing over 100 team members, and provides loans to thousands of customers every month who have short-term credit needs.

In addition to the negative impacts on our employees, this bill will effectively eliminate over \$100 million in short-term credit currently available in Minnesota, cutting off tens of thousands of Minnesotans who each year access short-term credit.

This legislation will have the complete opposite effect of what supporters of this legislation intend. This legislation will force individuals into worse options when they need a short-term credit resource. By limiting their choices, you drive them to higher cost, unregulated lenders who use less than ethical debt collection practices and for whom you as a regulator have no control over. These choices include obtaining loans on the street – the “black market” or loan sharks, the Internet – from both off-shore and on-shore unregulated lenders, from unregulated sovereign nation payday

lenders and from border state lenders – some of whom are unregulated – at fees and interest rates much higher than allowed under Minnesota’s tough consumer lending laws.

We are unaware of any material complaints from Minnesota consumers involving our loans, loans written by other regulated consumer loan and payday loan lenders and regulated by the Minnesota Department of Commerce. Minnesota’s regulated short-term consumer loan industry is a safe, reasonable and responsible place for consumers seeking financial products. Putting us out of business or restricting customers’ access to credit doesn’t reduce the demand to address a short term financial need – it would rather create a \$100 million plus hole in Minnesota’s consumer credit market.

The supporters of this legislation say that there is no underwriting conducted with these loans and, therefore, consumers are unable to repay their obligation. Nothing could be further from the truth. To be clear: we don’t make loans to customers unless they have verified, and sustained incomes and they have the ability to repay their loans.

Who are our payday customers today?

They are:

- middle-income Minnesotans (majority with annual incomes between \$25,000 and \$50,000);

- educated (94% have a high school diploma or better and 56% have some college or a degree);
- are young families (68% are under 45 years old, a majority are married and 64% have children in the household);
- are stable working class people (42% own homes, 100% have steady incomes and checking accounts) They work in state government, they work at the University of Minnesota, they work at Mayo. They are not poor;
- our customers are intelligent Minnesota consumers who sometimes find the need for a short-term loan, and they do not want their financial choices reduced.

Speaking of our customers, I would now like to play a 3 minute video where Payday America customers share in their own words why they seek these loans and more.

(Play video)

Some of you may recall that we passed the toughest consumer lending law in the country in 2009. The 2009 legislation—coupled with the existing Minnesota laws—provides for the toughest consumer small loan regulation in the country. Supporters of the legislation before you today are simply opposed to this industry and these loan products. If you enact this legislation, the demand for this credit will not go away, you will force Payday America out of business. This in turn will eliminate over 100 Minnesota jobs and a critical source of short-term unsecured consumer

credit to thousands of Minnesota consumers—without any legitimate alternative sources of credit—at a time when it is needed the most.

Payday America is licensed as an Industrial Loan and Thrift under Chapter 53 of Minnesota Statutes. As an Industrial Loan and Thrift Company, Payday America has greater flexibility in the products and services it can provide to its customers. Under Minn. Stat. § 47.60, the only financial product that Payday America can offer its customers is a single payment unsecured loan up to \$350 for no longer than 30-days. As an Industrial Loan and Thrift, Payday America can offer many other services. In addition to a single payment unsecured loan, similar to that allowed by 47.60, Payday America can offer its customers:

- a secured single payment note;
- secured and unsecured open-end lines of credit;
- secured and unsecured loans with higher loan limits (subject to underwriting and qualification) and longer loan terms;
- check cashing and money transmission services;
- debit cards, insured by the FDIC, and
- stored value MasterCard® products.
- In a nutshell, Payday America is a financial institution that offers many more products and services than simply the single payment unsecured loan up to \$350.

The ability to offer these additional financial products and services comes with increased regulatory scrutiny. The licensing

requirements for an Industrial Loan and Thrift are far greater than for a traditional payday lender. The Minnesota Department of Commerce conducts periodic in-person audits that scrutinize our activities. There is no so called “loophole” – just an expanded range of services that are greatly appreciated by our customers.

The current statutes were first contemplated years ago to protect citizens from unscrupulous characters who operated underground and who took advantage of workers in need of short-term cash. The law was created to bring these transactions above board and to put reasonable regulations in place to protect citizens. Was it contemplated that these types of loans were short-term transactions with high interest rates and fees? Of course, it was. Lawmakers also understood at that time:

- Without regulation, the business of short-term lending would go underground, and individuals would be taken advantage of; and
- People would turn to our border states where transactions are either unregulated or where fees and interest rates are significantly higher.

Mr. Chairman and Members of the Committee, we respectfully oppose this legislation. If you fairly consider the consequences of this legislation and the critical need to provide Minnesota consumer a safe and responsible place for them to access short-term credit products, you will not

advance this proposal. Please respect the intelligent choices made by thousands of hard-working Minnesotans who in times of need rely on our products and services.

Please take the time to view this issue in the context of what is really happening on the ground right here in Minnesota. Not Chicago, not New Jersey or North Carolina. We have a safe, responsible and reasonable regulated small consumer loan industry in Minnesota that takes care of its customers.

Finally, I ask that you consider this question: Do you think it is reasonable and fair to charge someone \$35 for the privilege of taking out a \$350 for 2 weeks? That is at the heart of the question you are being asked today.

Thank you, Mr. Chairman and Members of the Committee.