



February 25, 2024

Dear Chair Stephenson and Commerce Committee members:

The City of Saint Paul writes in support of HF3680/SF3932 to require online lenders to comply with Minnesota’s lending laws.

In 2019, Mayor Carter launched the Office of Financial Empowerment to advance economic democracy that shares prosperity with all Saint Paul residents. Consumer financial protection is a key lever to pull to achieve this mission. This is why the City of Saint Paul supported and applauds the legislature’s action during the 2023 session to cap payday lending at 36% APR.

However, what we know is that some out-of-state payday lenders partner with banks to implement a practice known as Rent-a-Bank. This practice exploits a provision of federal law, via the Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA), that allows banks to import their interest rates into Minnesota from other states. Rent-a-Bank arrangements allow banks and online lenders to undermine the payday lending cap set in place during the 2023 state legislative session.

Truth-in-lending disclosure reports show that Rent-a-Bank practices are alive and well in Saint Paul and across Minnesota. As an example of how a Saint Paul resident is impacted, below is included a redacted truth-in-lending disclosure that shows a 159% APR on a \$3,000 loan from an out-of-state lender, which would result in a finance charge of over \$2,000, leading the resident to pay over \$5,000 on their loan.

CITY: Saint Paul	STATE: MN	ZIP CODE: 55101
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FEDERAL TRUTH-IN LENDING DISCLOSURE STATEMENT

ANNUAL PERCENTAGE RATE <small>The cost of your credit as a yearly rate.</small> 159.44%	FINANCE CHARGE <small>The dollar amount the credit will cost you.</small> \$2,089.05	AMOUNT FINANCED <small>The amount of credit provided to you or on your behalf.</small> \$3,000.00	TOTAL OF PAYMENTS <small>The amount you will have paid after you have made all payments as scheduled.</small> \$5,089.05
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Your payment Schedule will be:

Payment Number	Payment Amounts	Payment Dates
1	\$565.45	01/01/2024
2	\$565.45	02/01/2024
3	\$565.45	03/01/2024
4	\$565.45	04/01/2024
5	\$565.45	05/01/2024
6	\$565.45	06/01/2024
7	\$565.45	07/01/2024
8	\$565.45	08/01/2024
9	\$565.45	09/01/2024

PREPAYMENT: You may pay your loan early without any prepayment penalty. You may be entitled to a refund of the finance charge.
SECURITY: This loan may be secured by your Payment Authorization.
 See your contract terms below for additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

This Rent-A-Bank practice must come to an end. Through the passage of H36080/SF2932, the City of Saint Paul calls for the state to opt out of DIDMCA to give clear authority for the state to act, prioritizes banks and lenders that follow Minnesota law, and honors the 36% APR cap put in place by legislators last legislative session to provide Minnesotans with needed consumer financial protection.

This bill achieves three important objectives:

1. Prevents out-of-state banks and credit unions from importing their home state interest rate laws including those states that have no interest rate caps.
2. Protects Minnesotans from being subject to triple digit interest rates that these out-of-state banks/credit unions can assess.
3. Puts Minnesota state banks and credit unions on an even lending field with their out-of-state counterparts.

The City of Saint Paul stands in support of HF3680/SF3932 and encourages members to support this bill not only for Saint Paul residents but for all Minnesotans.

Cheers,

A handwritten signature in black ink, appearing to read 'M-K-Ramos'.

Muneer Karcher-Ramos
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