



Legal Services Advocacy Project

February 23, 2024

The Honorable Zack Stephenson
Chair, Commerce Finance and Policy Committee
Minnesota House of Representatives
449 State Office Building
St. Paul, MN 55155

The Honorable Tim O'Driscoll
Republican Lead, Commerce Finance and Policy Committee
Minnesota House of Representatives
237 State Office Building
St. Paul, MN 55155

Re: HF 3680

Dear Chair Stephenson, Lead O'Driscoll, and Members of the Commerce Finance & Policy Committee:

Legal Aid respectfully writes in strong support of HF 3680, which would prevent predatory lending in Minnesota and create a level playing field for Minnesota's home-grown banks. Legal Aid provides civil legal services to low-income Minnesotans, Minnesotans with disabilities, and elder Minnesotans, statewide, to help them meet their basic needs. Legal Aid's Legal Services Advocacy Project provides legislative and administrative advocacy on behalf of our clients and all low-income Minnesotans.

In 1980, the Depository Institutions Deregulation and Monetary Control Act (DIDMCA) was enacted. Its passage was prompted by concerns expressed by state banks that they were at a competitive disadvantage to national banks, which, under the National Bank Act and federal preemption, could export their (potentially higher) interest rates on loans and credit cards to other states, superseding state rate caps. DIDMCA gave state banks parity to export their rates as well.

But, importantly, DIDMCA gave states the right to opt-out and require those lending to consumers in those states to follow the state's lending laws and the rates established by those state's legislatures. In Minnesota, lenders can lend at about 22% (or at a blended rate of 33% on a certain threshold amount, and 19% at the remainder).¹

In the modern era of FinTech lending, a predatory phenomenon of the "Rent-a-Bank" scheme has emerged, where these online platforms partner with and use a state bank (none of whom are Minnesota banks) as a front to make loans to Minnesotans at outrageous rates, averaging, according to Exodus Lending, 150% and going as high as 300% (and even one at 700%). Online lending was NOT contemplated in the DIDMCA legislation 40 years ago, nor did Congress establish a scheme that would allow lenders to exploit consumers.

¹ Minn. Stat. § 47.59, subd. 3.

This is not parity; it is predatory lending. Beyond the fact that these practices are harmful to Minnesota's consumers, none of Minnesota's state banks are engaged in these Rent-a-Bank schemes, and the fact that it has proliferated places our home-grown state banks at a competitive disadvantage.

Iowa (many years ago) and Colorado (more recently) have opted out. Under this bill, Minnesota would exercise its right under federal law to opt out like those other states and restore fairness of rates for consumers and stop predatory lending by out-of-state FinTech companies.

This bill would do several things for the benefit of Minnesota consumers and Minnesota state bank lenders:

- It would require that out-of-state lenders comply with Minnesota lending laws;
- It would end the ability of out-of-state lenders to charge excessive interest rates to Minnesota consumers;
- It would end the flow of dollars from the pockets of Minnesotans into the coffers of out-of-state entities; and
- It would create a level playing field for Minnesota's own state banks.

Thank you for the opportunity to share our views on HF 3680. We strongly urge passage of this important consumer protection bill.

Sincerely,



Ron Elwood
Supervising Attorney

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