Calculating APR – unfairly skewed for short term loans.
The Reality -- A $350 loan costs just $35.

- The APR formula below. (Graphic courtesy of Bench.co.) highlights how using a limited number of days in the loan term results in an inflated APR.

$$\left[\left(\frac{\left(\dfrac{\text{Fees + Interest Paid over Life of Loan}}{\text{Loan Amount}}\right)}{\text{Number of Days in Loan Term}}\right) \times 365\right] \times 100 = \textbf{APR}$$

- For example, if a payday customer charges $35 in fees and interest to a borrower in order to make an unsecured loan of $350 for two weeks, that's an annual percentage rate of 261%. Yet, this is NOT an annual loan, but rather it is a loan that will last only 14-days.

- Charges permitted under the law governing short-term lenders pales when compared to the average cost of:
  - $100 check overdraft — $29 fee = 756% APR
  - $100 credit card late payment — $37 fee = 965% APR
  - $100 utility bill late/reconnect fees — $46 charge = 1,203% APR
  - $100 bounced check — $54 NSF/merchant fees = 1,409% APR

- Payday lenders like Payday America operate brick-and-mortar locations that allow their customers to visit them face to face in a safe and secure environment. They know they can return to pay off their loan and are not left with the unsettling feeling of making a loan on-line. Operating stores with well-paid Minnesota employees is all covered in what Payday America charges for their loans.

- If the provisions including in HF 0102 (Rep. Davnie) become law, they will harm consumers ability to receive state regulated short-term unsecured loans as the provisions would all but eliminate access to short-term unsecured state regulated consumer credit in Minnesota. But the need for this credit will not go away. Thousands of Minnesotans depend on consumer short-term lenders for short-term unsecured consumer credit. Customers with a short-term cash challenge need a place to turn. Negatively impacting the consumer finance marketplace will eliminate access to legal and regulated short-term unsecured consumer credit for thousands of working-class Minnesotans. And it will force consumers into the unregulated marketplace with higher fees and little or no recourse. Unregulated online payday lenders advance over a $1 billion annually.

- Payday customers are middle-income Minnesotans (majority between $25,000 and $50,000), well educated (94% have a high school diploma or better and 56% have some college or degree), young families (68% are under 45 years old, a majority are married and 64% have children in the household), who are from the stable working class (42% own homes, 100% have steady incomes and checking accounts).

- The ability to offer these financial products and services comes with regulatory scrutiny. The licensing requirements for an Industrial Loan and Thrift are greater than for a Consumer Small Loan Lender. Additional requirements include higher capitalization and maintaining reserves that are not needed under Minn. Stat. § 47.60. The Minnesota Department of Commerce also conducts in-person audits that scrutinize the activities of Industrial Loan and Thrift Companies.