January 24, 2023

Chair Stephenson and members of the House Commerce committee,

I am writing today to submit comments on behalf of the Minnesota Credit Union Network regarding H.F. 290, legislation that would cap payday loan rates at 36%. The Minnesota Credit Union Network is the trade association for credit unions and works to ensure the success, growth and vitality of our member credit unions and their more than 2 million members. We agree this is an important consumer issue to address and would like to offer examples of what credit unions are doing to assist Minnesotans with financial challenges.

According to the Financial Health Network, more than 2/3 of Americans are not considered financially healthy. National surveys show that approximately 40% of Americans would not be able to pay an unexpected expense of $400 without borrowing money from family or friends. And in a OnePoll survey conducted in 2021 on behalf of AmeriLife, 7 in 10 Americans said that they live paycheck to paycheck. This insecurity and instability mean that many people are living right on the edge often turn to unsecured, high interest, short-term payday loans to pay their bills. Many times, consumers end up in a downward debt cycle, having to take out more loans to pay off the first one with increasingly disastrous terms. Minnesota Department of Commerce data from 2019 shows that the average payday loan borrower took out seven loans with an average percentage rate of 275%

Credit unions in Minnesota have long undertaken efforts to help their members in times of financial duress through loan products that don't function in a predatory manner. The National Credit Union Administration, under guidance from the Consumer Financial Protection Bureau, have developed a framework for credit unions to offer payday alternative loans (PALs) that, among other things:

- Allows a federal credit union to offer a PALs loan for any amount up to $2,000.
- Requires loans to have a minimum term of one month with a maximum of 12 months.
- Caps PAL rates at 28%
- Allows a federal credit union to make a PALs loan immediately upon the borrower's establishing membership.
- Restricts a federal credit union to offering only one type of PALs loan to a member at any given time.
- Enacts a prohibition against loan rollovers.
- Imposes a limitation on the number of loans a single borrower can take in a given period.

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Many credit unions offer PALs framework loans or similar products to help their members meet their financial needs. These products include unsecured personal loans, a cap on the number of loans a member can take out, credit cards or lines of credit with low, fixed rates or other, more creative ways to help with short term cash crunch emergencies.

Consider this story from a Minnesota credit union: "[The member] came in asking for a loan for a small amount. When we ran her information, we noticed some high interest payday loans she had recently taken out. When discussing this, the loan officer came up with an offer to help her consolidate her debt into a smaller monthly payment that included the original amount she was asking for. Her monthly payments dropped by about $350, we saved her thousands of dollars of interest payments, and she will pay it off in a much shorter time frame as well. She walked out smiling and said she was blessed to come in that day and talk with us."

Stories like this abound with credit unions across Minnesota. Helping members escape debt traps in a manner that fits their situation are proof yet again that credit unions continue to be trusted financial partners with families and communities across our state and that there are short term loan products that can comport with the parameters laid out by HF 290 and function effectively for all Minnesotans.

Thank you for the chance to offer comments on HF 290 and for addressing this important consumer issue.

Regards,

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