

Written by  
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Payday lending, short-term consumer loans have nearly doubled in the past five years, reaching a high of 350,000 in 2011. Minnesotans may turn to payday-lending companies to make ends meet during difficult economic times, the Department of Commerce urges consumers to beware if committing to a payday loan online.

Financial products sold in Minnesota are regulated and include specific sets of standards to protect consumers – including loan amount and interest rates. However, some payday lenders offer consumer loan services over the internet without a proper license, charging customers high fees for their loans, outside of the law in Minnesota.

“Minnesota’s payday lending laws are in place to protect consumers – getting a loan online may be easy but check to ensure the company is licensed to do business in Minnesota,” said Commerce Commissioner Mike Rothman. “In the end, consumers pay the price by taking out loans from companies that ignore state regulations, ending in greater financial hardship due to the excessive fees and aggressive payback schedules.”

### **What is a ‘payday loan’?**

Payday loans offer cash fast to those willing to borrow against future paychecks. Payday loan agreements usually require borrowers to pay back the entire loan within just two weeks. They are advertised as being a short-term solution to help consumers bridge the gap between paychecks.

### **How can you protect yourself?**

Payday loans typically have high interest rates and late payment penalties. Minnesota regulations cap annual interest rates for payday loans, also known as consumer small loans. The caps for interest rates and fees are as follows:

<b>Loan Amount</b>	<b>Interest Rates/Fees</b>
\$0 – 50	\$5.50
\$50 - \$100	10%, plus a \$5 fee
\$100 - \$250	7% (minimum of \$10), plus a \$5 fee
\$250 - \$350	6% (minimum of \$17.50), plus a \$5 fee

However, a large number of people enter into payday loan agreements with companies that claim to be exempt from Minnesota regulation. Online companies often obtain licenses in states that have fewer regulations or restrictions on payday lending; while others simply ignore the need for state licensure altogether. Either way, these companies argue that they are not subject to Minnesota’s laws and regulation because they are not located within the state and sell their financial products through the internet.

In these instances, payday loan companies have been known to charge interest rates in excess of 400%. Such excessive fees can produce devastating consequences and tie up consumers’ financial obligations for years to come. Some consumers have been known to take out multiple payday loans to help pay off earlier ones, which can produce a vicious cycle.

Minnesota law indicates that anyone who lends money to borrowers within the state are subject

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to its regulations. This becomes a complicated matter when considering payday loan companies.

### **What steps should you take before taking out a loan?**

The Department of Commerce licenses all payday lenders equipped to do business in Minnesota. Minnesotans should not enter into an agreement with an unlicensed payday loan company. Before agreeing to the terms and conditions of the loan, check to see if a particular payday loan company is licensed by visiting the Department of Commerce website's [License Lookup Tool](#)

If you do plan on taking out a payday loan, it is essential that you pay very close attention to the terms of whatever contract you sign. Make sure you can pay back the loan and interest rates, and understand that it may include shockingly large penalties if you fail to comply with the loan's terms.

Consumers with complaints or questions may call the Minnesota Department of Commerce at (651) 296-2488 or toll free, 800-657-3602.