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Opponents, new leaders get traction against payday-credit industry

● Diverse allies arrayed against the Minnesota payday loan industry are getting a little traction.

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Photo credit • Renee Jones Schneider, Star Tribune

Michelle Washington relies on an average $300 PayDay loan every two weeks to pay her bills. She was photographed at home on Thursday, July 29, 2015, in St. Paul, Minn.

Sunrise Banks of St. Paul, which has developed a small-dollar loan program that already covers 10,000 employees through participating employers, last month won a $2.2 million Next Opportunity Award, which is funded in part by Wells Fargo.

Sunrise CEO Dave Reiling said the fresh capital will bring its 2015-launched TrueConnect program "to scale nationally and offer a safe-loan alternative for 26 million Americans who do not have a credit score."

Sunrise Banks spent $1.25 million and three years developing TrueConnect with test employers, including Lutheran Social Service of Minnesota, which provides financial counseling to many payday loan customers trapped in debt. Sunrise, which makes 60 percent of its credit available in low-income communities, has signed up 20-plus employers and is expanding TrueConnect to California, Ohio and other states.

Through TrueConnect, offered as an employee benefit, a worker can get a loan of up to $3,000 but no more than 8 percent of total wages. The loan is retired through payroll deductions for up to 12 months. The maximum interest rate is 25 percent over the one-year term. Employers position the loan as something to be tapped in an emergency to cover a car repair, medical bill or other one-time expense.

And it is an economical alternative to payday loans. The Minnesota Commerce Department says lenders like Payday America can charge 100 percent or more in effective annual interest rate through multiple loans, rollover fees and other charges. Fees can amount to more than the original loan and lead to perpetual debt.

In 2014, Minnesota lenders issued nearly 390,000 payday loans valued at more than $149 million, according to Commerce. The payday lenders have opposed efforts of Commerce, church and consumer groups to modify the law at the Minnesota Legislature by limiting the number of loans and maximum-rate caps.

Phil Jury, a Twin Cities businessman, cheered the Sunrise program expansion.

Jury helped establish a nonprofit lender called Exodus Lending through his Minneapolis Holy Trinity Lutheran Church congregation after payday lenders moved into Holy Trinity's East Lake Street neighborhood.

Exodus has only enough capital raised to refinance up to 100 clients over the next year or so with its small-dollar program that so far has a 95 percent repayment rate in full and on time. Its clients also must go through financial counseling.

Jury said Exodus founders knew they lacked the capacity to refinance many people but wanted to do something.

"What is required ... are more Sunrise-type initiatives from banks or credit unions with a much larger footprint than Exodus or Sunrise," Jury said. "It is a good start. Properly governed payday lenders still have a role to play. It will be interesting to see how many choose to leave the field [thanks to competition], when they begin to lose these loans with obscene profits."

In August, some Minnesota religious leaders began preparing a campaign for

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A Payday America office at 26th and Nicollet Avenue.

payday lending changes at the State Capitol, in partnership with more than 100 congregations. ISAIAH, an ecumenical coalition that focuses on affordable housing and fair lending, this week plans to picket Payday America stores and U.S. Bancorp.

U.S. Bank and Wells Fargo dropped their payday-like loan products, known as "deposit-advance products" in 2014, under pressure from bank regulators and consumer groups who alleged that they were small-borrower "debt traps." Both huge financiers still make an unspecified amount of "wholesale loans," however, to unspecified payday lenders. That's how payday lenders fund their operations.

"Wells Fargo exercises strict, enhanced due diligence with customers in the payday lending space to ensure that they do business in a responsible way and meet the highest standards," Wells Fargo spokesman John Hobot said. "We do business only with companies that have demonstrated a strong, ongoing commitment to complying with all laws and regulations."

Susan Beatty, a U.S. Bancorp spokeswoman, said: "We have done a lot of work looking at how to meet short-term, small-dollar credit needs for our customers, and we continue to work closely with [federal] regulators as they finalize rules on these products. On the wholesale side, we bank limited customers in the money-service business and routinely review these relationships to ensure they're in compliance with our standards."

Minnesota Commerce Commissioner Mike Rothman has indicated that he will move for what he considers modest reforms, once again, during the 2016 legislative session. The payday industry has held more sway with key legislators than the religious groups and some of the working-poor who have testified against the industry.

Fifteen states and the District of Columbia have effectively banned payday lenders outright, and the U.S. military has banned payday lenders from its bases. Nine of the 36 states that permit payday lending have tougher standards than Minnesota.

In addition to Wells Fargo, funders of the Opportunity Finance Network Next grant won by Sunrise Banks include Prudential Financial, the Kresge Foundation and the MacArthur Foundation.

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