Public opinion is clear.

A recent poll of Texas voters found that the public understands the need for reform:

- 75% of all respondents support changing Texas law to cap interest rates and fees including 68% of Republicans, 82% of Democrats and 82% of Independents.
- 85% of respondents believed that the appropriate rate for short-term loans in Texas should be 36% or less.
- The top five most popular words/phrases respondents used to describe these loans were: “high interest,” “rip-off,” “expensive,” “interest rates,” and “scam.”

New Data Released

Data collected in the first half of 2012 and reported by the OCCC:

Single Payment Payday Loans

- More refinances than new loans.
- Over 70% of borrowers had to rollover their loans.
- Of those who refinanced, 65% did so multiple times.
- Average Fee = $22.90 per $100 borrowed – among highest in the nation.
- Average loan of $473.35 costs $108.40 every two weeks.

Installment Payday Loans

Lenders have been rapidly turning to multiple installment payday loans – a 71.6% increase in volume from the first to the third quarter.

Average Fee

- $169 per $100 borrowed.

Typical Loan

- An average loan of $576.72 costs the borrower a total of $1,553.97 in 98 days.
- This is equal to a traditional single payment loan refinanced/rolled over 7.4 times.

Car Repossessions

- Over 25,000 cars taken from borrowers in first three quarters of 2012.

Join the reform effort today!

Charging desperate borrowers outrageous rates and fees is just wrong. But you can help turn things around.

- Help us restore morality in the market by effectively enforcing traditional usury law.
- Engage your local officials and call on them to pass a city ordinance.
- Join one of our coalitions as we seek to stop the cycle of debt across Texas by advocating for new laws in the State Legislature.

Who We Are

Texas Faith *for* Fair Lending

www.texasfaithforfairlending.org

Texas Baptist Christian Life Commission
Texas Impact
Texas Catholic Conference

TFLA
Texas Fair Lending Alliance
www.texasfairlending.org

AARP Texas
Texas Association of Goodwills
Texas Appleseed
Center for Public Policy Priorities
RAISE Texas
Texans Care for Children
Texas Association of Community Development Corporations

CLC
CHRISTIAN LIFE COMMISSION
BIBLICAL INSIGHT. PRINCIPLED LIVING.

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PAYDAY & AUTO TITLE LENDING

A Debt Trap Texas Families Can’t Afford

TEXAS ★ BAPTISTS®
BAPTIST GENERAL CONVENTION OF TEXAS

What are Payday and Auto Title Loans?

Payday and auto title loans are high cost, small-dollar loans offered to individuals without a credit check and little consideration of their ability to repay. Payday loans are unsecured and simply require proof of employment and access to a bank account via a post-dated check or electronic ACH authorization. The initial term is typically two weeks, until after the next paycheck. Auto title loans are secured by a car title; the amount loaned is based on the value of the car and they have terms of thirty days. They are both marketed on the basis of speed and convenience to people who feel they have no other options.

What's the problem with these loans?

The structure and high cost of these loans often trap borrowers in a cycle of debt where they continually pay fees and interest but never pay down the loan. In spite of the short initial term of the loan, borrowers can be stuck paying for months on end. When combined, fees and interest often reach annual percentage rates (APR) of over 500%. For example, a borrower who takes out a $300 payday loan will owe $368 at the end of the initial two week term. If they cannot pay that full amount, they can pay only the fee and interest portion of the loan, $68, and extend the due date two more weeks and again owe $368. No partial payments of principal are accepted. Fees are typically $20-$25 per $100 borrowed and paying the fee to extend the term does not reduce the principal of the loan. Data from states across the country show that the average cost for a $300 loan is actually $840. Auto title loans function in a similar manner, but can cause even more damage, as the amount loaned is generally higher and the car will be repossessed if payments are not made. In Texas, a $4,000 auto title loan can result in a borrower paying $1,200 per month in fees and interest for months on end, never reducing the amount owed.

How can this be legal?

In the past, such lending practices were illegal and would have been the domain of neighborhood loan sharks. Today, large corporations making billions of dollars off these loans have found ways to weaken or evade state usury laws. In Texas, the state constitution declares that any loan not regulated by another statute with an APR of over 10%, shall be deemed usurious. The Texas Finance Code contains regulations governing these products which set generous limits on rates and fees. However, lenders desiring no limits whatsoever have found successive loop-holes to evade these basic safeguards. Lenders are able to avoid Texas' usury law by registering as Credit Access Businesses (CAB) under the Credit Services Organizations code. The CABs set up a storefront that collects only fees while a third party lender receives interest at or below 10% APR. This lucrative, fabricated arrangement has led to an explosion of predatory lending in Texas. There are nearly 3,500 storefront lenders, more locations than McDonalds and Whataburger combined.

Reform Efforts

There are efforts on the federal, state and local level to address the problem, but each attempt is met with well financed industry opposition. Established in July 2011, the Consumer Financial Protection Bureau has the authority to regulate consumer lending across the country. While regulating this market is a top priority for the Bureau, they have only recently begun listening to consumer and industry representatives and conducting research. Any nationwide rule promulgated by the CFPB addressing this problem is likely years away. During the 2011 session of the Texas Legislature, Texas Faith for Fair Lending and members of the Texas Fair Lending Alliance helped pass two bills aimed at reform. The bipartisan effort improved the regulatory situation in Texas, but did not address the exorbitant fees and interest rates that lead to a cycle of debt. HB 2594 gave licensing, oversight, examination and enforcement authority to the Office of Consumer Credit Commissioner for lenders operating as CSOs. The bill requires quarterly reporting of important data and allows for enforcement of fair debt collections practices, as well as federal military lending laws. HB 2592 provided for clearer notice and disclosures for consumers to help borrowers make informed choices and allow for easier comparison with other similar, short-term credit products.

Local Response

Absent significant reform at the state level, Texas cities have taken the matter of predatory lending into their own hands. Numerous cities have passed zoning ordinances aimed at limiting the growth of storefront locations. These ordinances often stipulate that "alternative financial services businesses" (i.e., payday or auto title lenders) may not be located within 1000ft of one another, within 200ft of a property in a residential zoning district, within 500ft of a major thoroughfare, and must be in a free standing building, not a strip mall. In addition, the cities of Dallas, Austin, San Antonio and El Paso have passed lending ordinances that attempt to stop the cycle of debt by limiting the amount borrowed and ensuring that payments reduce the principal owed so that loans would be paid off after only four payments. These cities were quickly sued by members of the industry claiming they could not be profitable under such regulations. More Texas cities, fed up with these lenders, are considering similar lending ordinances in spite of the threat of legal action.