

BILL ANALYSIS

Senate Research Center
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S.B. 1323
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Auto title lenders and payday lenders do not operate as licensed consumer lenders or licensed consumer loan brokers. Payday and auto title lenders are registered as credit repair businesses under the Texas Credit Services Organizations Act. This legal loophole allows them to broker loans with no cap on fees. Despite the fact that auto title lenders and payday lenders are required to obtain a license, it still does not solve the problem of exorbitant interest rates and fees.

Payday and auto title loans hurt families and veterans. What may seem like a quick solution turns quickly into an inescapable cycle of debt. This is because payday and auto title lenders charge rates of 500 percent or higher. Borrowers are expected to pay off the loan in two to four weeks, which many cannot because of the exorbitant interest rates. According to the Fair Lending Alliance, 57 percent of borrowers cannot pay back the loan in two weeks. Additionally, an average of 710 vehicles a week were repossessed in 2013.

Texas is one of the few states that does not cap fees on payday and auto title loans. In order to protect consumers, 22 cities in Texas have passed local ordinances to regulate the fees.

S.B. 1323 seeks to protect consumers and regulate pay day and auto title lenders by treating their fees as interest for usury purposes.

As proposed, S.B. 1323 amends current law relating to fees paid to certain credit services organizations in connection with certain extensions of consumer credit.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter A, Chapter 302, Finance Code, by adding Section 302.003, as follows:

Sec. 302.003. RESTRICTION ON CERTAIN THIRD-PARTY FEES TO OBTAIN, ARRANGE, OR GUARANTEE CERTAIN EXTENSIONS OF CONSUMER CREDIT. Provides that the amount of a fee paid or to be paid to a credit services organization subject to Chapter 393 (Credit Service Organizations) to assist a consumer in transacting, arranging, guaranteeing, or negotiating an extension of credit or to obtain for a consumer an extension of credit is considered interest for usury purposes under state law if:

- (1) the extension of credit is secured by a non-purchase money security interest in personal property or is unsecured; and
- (2) the proceeds of the extension of credit are used for personal, family, or household purposes.

SECTION 2. Makes application of this Act prospective.

SECTION 3. Effective date: September 1, 2015.