Payday and Auto Title Lending in Texas

MARKET OVERVIEW AND TRENDS 2012 - 2015

White Paper

Ann Baddour, *Director, Fair Financial Services Project*
Jamie Tegeler-Sauer, *Development Associate*
Deborah Fowler, *Executive Director*
Texas Appleseed

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Texas APPLESEED

1609 Shoal Creek, Suite 201
Austin, TX 78701
512.473.2800
TexasAppleseed.org
Facebook.com/TexasAppleseed
@TexasAppleseed

Introduction and Overview

Payday and auto title lending in Texas is a $5.8 billion industry built on high fees and refinances. These high-cost loans, with APRs averaging from 200% to over 500%, have been the subject of much policy debate and controversy in Texas over the past two decades. In the late 1990's, when regulations of this burgeoning industry were the subject of debate in the Texas Legislature, then Texas Attorney General John Cornyn took some high-profile actions against payday loan businesses, including a settlement with a company charging annual interest rates of 860%. He noted in the press announcement,

> "This kind of abusive payday lending is illegal in Texas and those companies who continue this practice will face serious consequences."[1]

His words and actions were impactful. They bolstered efforts to rein in payday lending abuses and bring these businesses under the state's established fee and rate caps for consumer lending.[2] Reforms in the early 2000's were followed by an era of loopholes to evade state usury laws that have defined the operations of payday and auto title loan businesses in Texas through the present day.[3]

Currently, payday and auto title loan businesses operate as "credit access businesses" in Texas. Their uncapped fees, coupled with loan structures that too often pull vulnerable families into even deeper financial crisis, have led to an outcry for reform in communities across Texas. **Faith leaders, city leaders, social service providers, nonprofits, borrowers, and concerned citizens have led movements in 35 Texas cities, and growing, to adopt a unified city ordinance that reins in the most abusive loan features—stepping in where the state has refused to act.[4]**

WHAT IS A CREDIT ACCESS BUSINESS?

In Texas, payday and auto title loan businesses operate as credit access businesses (CABs), a special designation created by the Texas Legislature in 2011, under Chapter 393 of the Texas Finance Code. The 2011 law was the first step in the reform process. It licensed operations, where they had previously been unlicensed, and instituted data collection and consumer disclosures. CABs serve as loan brokers, arranging short-term loans with third-party lenders. The lender charges an interest rate near 10%, the state constitutional usury cap, and the CAB charges unlimited fees to arrange, service, and provide a letter of credit or guaranty to the third-party lender who funds the payday and auto title loans.

CABs offer four basic loan products:

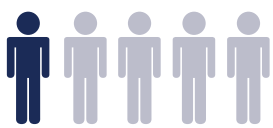
- **Single payment payday loans** are due in full at the borrower's next payday—usually two weeks—and secured by a post-dated check or electronic access to a deposit account;
- **Installment payday loans** are secured by a check or electronic account access and include multiple scheduled payments that may or may not reduce the principal owed. Many CAB installment loans are not amortizing. They include multiple scheduled fee-only payments, with the total principal due in one balloon payment as part of the last scheduled payment;
- **Single payment auto title loans** are due in full in one month and secured by a vehicle with a clear title; and
- **Installment auto title loans** are secured by a clear vehicle title and include multiple scheduled payments that may or may not reduce the principal owed.

This study analyzes four years of payday and auto title loan data from the state consumer credit regulator, the Texas Office of Consumer Credit Commissioner, to assess market trends and chart a pathway forward that enhances the financial well-being of Texas families and local economies.[5]

Key findings include:

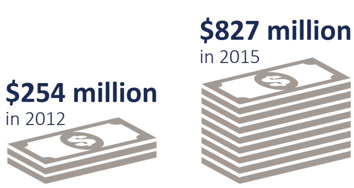
- **Fees continue to grow.** Fees grew by 34% from 2012-2015, while the dollar value of new loans fell by 9% and refinances declined by 14%.

- **Auto title lending is on the rise, and so are repossessions.** In 2015, 1 in 7 borrowers lost a car to repossession. Among single payment auto title borrowers, 1 in 5 lost a car.



Nearly **1 in 5 single payment auto title borrowers** lost their car to reposession in 2015.

- **Installment lending, a key driver of the increased fee charges, continues to grow.** Installment payday and auto title lending volume more than doubled from 2012 to 2015, increasing by 112%. An average $500 installment payday loan, with a 160-day loan term, cost more than $1,300 to repay without any refinances. With refinances, the cost is even higher. The average APR is 567%. From 2012 to 2015 installment payday loan fees increased by 225%.



Installment Payday Loan Fees

- **Local ordinances are making a positive difference.** On a positive note, preliminary data, looking at areas where the state-reported data substantially overlap with cities that have adopted the unified ordinance, show that fees and vehicle repossessions are largely decreasing in those areas.

The data show that, though there are localized market improvements, overall the market continues to worsen for borrowers. **Families are mired in higher cost debt for longer loan terms, and an increasing number of auto title borrowers are losing their cars.**

Texas has opportunities for reform:

1. **Expand the unified city ordinance to more Texas cities and adopt the unified ordinance standards as state law.**

2. **Cap fee charges at the state level.**

3. **Push for strong rules from the Consumer Financial Protection Bureau (CFPB) to establish a fair baseline for market practices across city and state lines, including online loans.**

4. **Invest in and encourage lower cost alternative loans.**

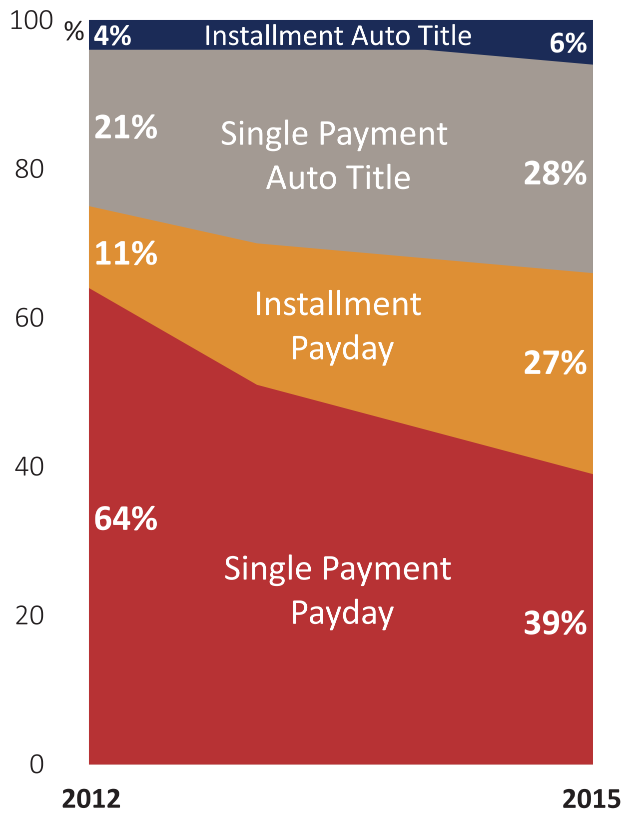
The current Texas market is financially harmful to too many families and local economies. With the growing local ordinance movement, forthcoming federal rules to encourage affordable loans, and an upcoming state legislative session in 2017, Texas can and should do better.

Market Trends

The Texas Office of Consumer Credit Commissioner (OCCC) has been collecting data on payday and auto title lending in Texas since January 1, 2012. In 2012, single payment payday loan products dominated the market. Since 2012, following a similar national trend, single payment payday lending has declined, while installment payday lending and all auto title lending have increased.[6]

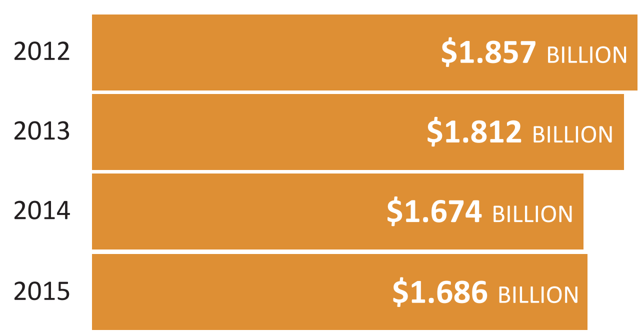
Share of single payment payday is declining while share of installment payday and single payment auto title are rising

Percent of total dollar amount of new loans, refinances and fees by product type 2012 - 2015

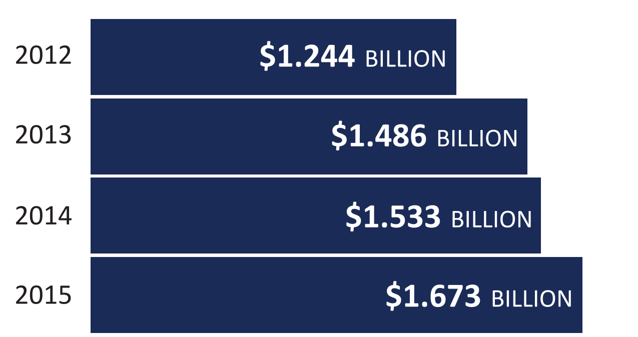


The total loan volume, including the dollar value of new loans, refinances, and fees, has been stable over the past four years. There was just a 2% decrease from $5,922,552,239 in 2012 to $5,777,390,508 in 2015. However, there have been changes in the components that make up the total volume. While the dollar value of new loans decreased by 9% and refinances fell by 14%, fees increased by 34%—from $1.24 billion in 2012 to $1.67 billion in 2015. It is important to note that the total amount of reported fees is incomplete, because it does not include late payment charges, non-sufficient funds fees, and fees paid by auto title borrowers related to vehicle repossession.[7] **Texas payday and auto title loan borrowers pay higher fees every year to access credit in this already expensive market.**

Total dollar volume of **NEW LOANS DECREASED by 9%**



Total dollar volume of **FEES INCREASED by 34%**



Finding 1: High Fees and Refinances Dominate Payday and Auto Title Loan Volume

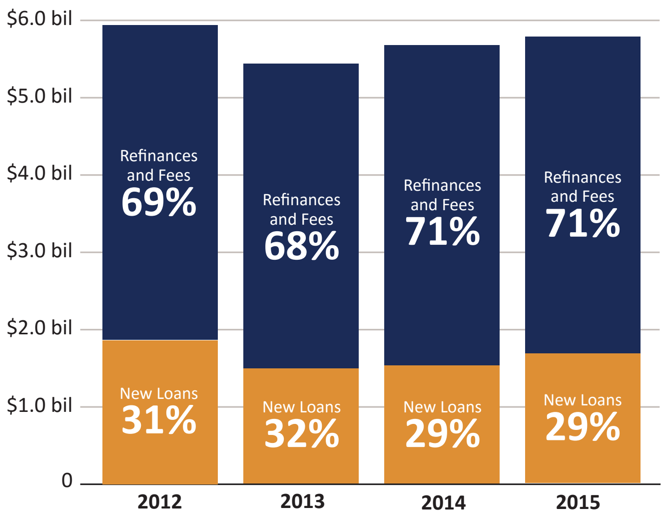
Healthy and beneficial consumer lending markets are driven by borrowers' successful repayment of loans with reasonable rates and fees. A top issue with payday and auto title loans is that the combination of refinances and high fees make the loans unaffordable to repay for too many borrowers.

The Texas data, from 2012 to 2015, show a market dominated by fees and refinances. In every year, refinances and fees make up 68% or more of the total dollar volume of the market. **In 2015, new loans made up just 29% of the market volume.**

High Fees and Refinances Drive Market Volume

Dollar value and percent of new loans, refinances & fees

2012 - 2015

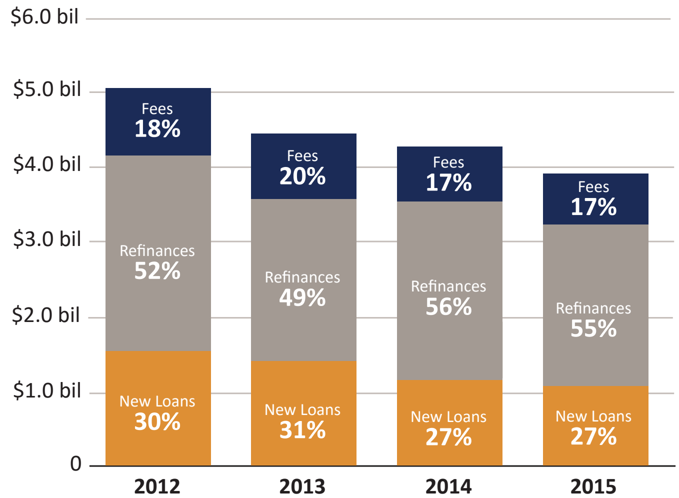


A closer look at single payment versus installment lending shows that while single payment volume is driven by refinances, fee charges dominate the installment lending market volume. Refinances alone comprised 55% of the single payment loan volume in 2015, while fees comprised 53% of the installment volume.

Single Payment Loan Volume

Dollar value and percent of new loans, refinances & fees

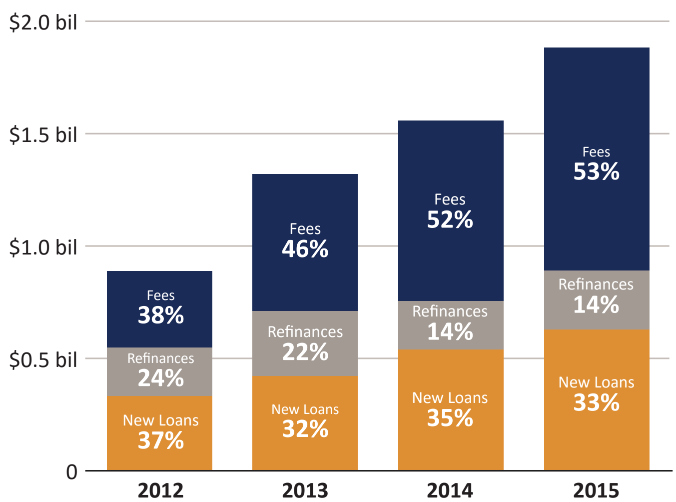
2012 - 2015



Installment Loan Volume

Dollar value and percent of new loans, refinances & fees

2012 - 2015



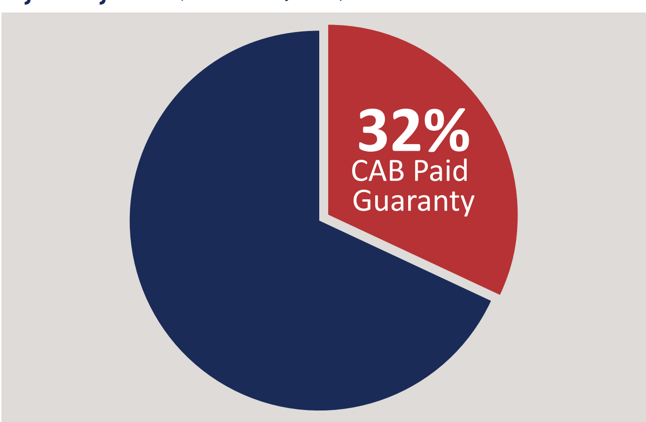
Another helpful data point is the number of extensions of consumer credit arranged by a CAB where the CAB pays the third-party lender under the loan guaranty or letter of credit. The CAB generally only pays the third-party lender if the consumer either does not make payments per the contract (for example is very late with a payment) or cancels the contract with the CAB. An examination of this data adds to the understanding of the degree to which borrowers struggle to repay the loans.

In 2015, the number of transactions where the CAB paid the third-party lender under their guaranty of the loan was equal to nearly 1 in 3 of the total number of loan transactions for the year.[8] For installment loans the number was even higher, at 36% of the total loan transactions.

Comparing the number of transactions where the CAB paid the third-party lender under their guaranty to the number of unique borrowers per location[9] shows an even starker picture. The ratio is 1 to 1 in 2015 across all loan products. This data further suggest that a significant number of borrowers are experiencing hardship repaying the loans.

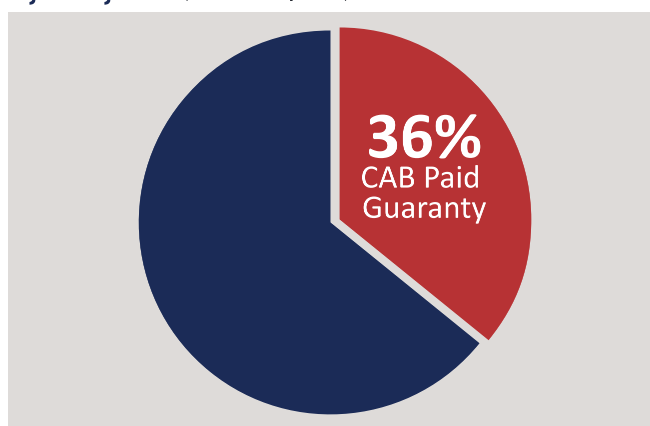
The data confirm what the high refinances and fees already point to—that many borrowers struggle to repay these loans. **And this trend is cause for concern. It supports the need for fee caps and stricter underwriting standards to assess borrowers' ability to repay the loans.**

Total Number of Loan Transactions in 2015
5,354,435 *(New Loans + Refinances)*



Number of Extensions of Credit in 2015 where CAB Paid Guaranty **1,707,090**

Total Number of Installment Loan Transactions in 2015
1,285,214 *(New Loans + Refinances)*



Number of Installment Extensions of Credit in 2015 where CAB Paid Guaranty **468,126**

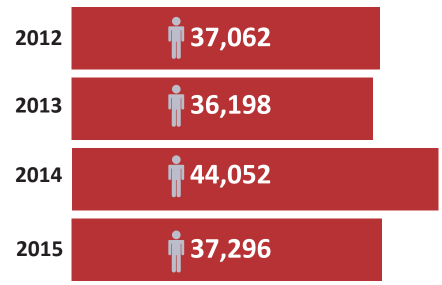
Finding 2: Growth in Auto Title Lending Parallels Increased Refinances and Repossessions

The share of auto title lending in the Texas market grew from 25% in 2012 to 34% in 2015. **Much of that growth is due to an increase in refinances for single payment auto title loans.** In 2015, new single payment auto title loans totaled $352 million, while refinances reached over $1 billion.

Repossessions are also on the rise. In 2012, 1 in 10 borrowers lost a car to repossession. Though the total number of vehicles repossessed decreased from 2014 to 2015, 1 in 7 borrowers lost their cars in both years, an increase over the 2012 rate. **For single payment auto title loan borrowers in 2015, 1 in 5 borrowers lost their cars.**

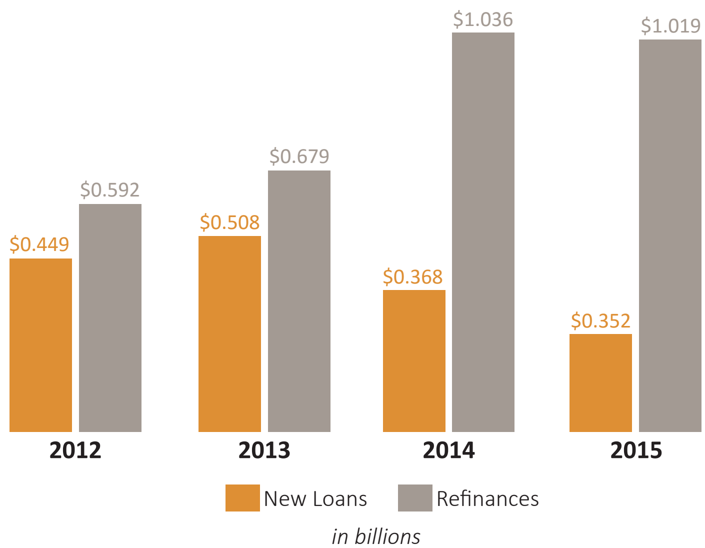
Auto Title Loan Repossessions

Single Payment and Installment Auto Title 2012 - 2015



Single Payment Auto Title Loans

Dollar value of new loans and refinances 2012 - 2015



Profile: Single Payment Auto Title Loans

Single payment auto title loan terms averaged close to one-month for each of the four years studied, but the average loan amount has increased, from $1,000 in 2012 to over $1,300 in 2015. Average quarterly refinances have tended to increase as average loan amounts increased. In 2015, the average borrower who refinanced did so nearly 6 times, paying over $1,100 to repay a $500 loan. Even more notable is the increase in repossessions. In 2015, 1 in 5 borrowers lost a car to repossession, for a total of 34,576 cars repossessed that year.

Single Payment Auto Title Loans

	2012	2013	2014	2015
Average Loan Term (Days)	29	30	30	30
Average Fees per $100	$22.57	$21.22	$19.12	$16.96
Average Loan Amount	$1,002.95	$1,183.73	$1,170.50	$1,307.50
Ave. Annual Percentage Rate (APR)	**294%**	**268%**	**243%**	**216%**
Percent of Borrowers Who Refinance (Ave. of Quarterly Rates)	46.32%	39.89%	46.74%	49.37%
Average Quarterly Refinances	1.55	1.52	1.47	1.52
Refinances as % of all Loan Transactions	62%	64%	68%	69%
Average Total # of Refinances for Borrowers Who Refinance	**4.71**	**5.71**	**5.33**	**5.82**
Total # of Repossessions (and % of Borrowers)	28,744 **(10%)**	31,990 **(10%)**	40,799 **(16%)**	34,576 **(19%)**

Loan sequences offer another helpful tool to understand the role of refinances in this market. Loan sequences document how many times loans have been refinanced back-to-back before the debt is paid in full or closed. This information is especially helpful, because it reveals what drives the market—new loans or refinances—and tells a more complete story about how borrowers really experience these products—often having to refinance or extend the loans because they cannot afford to pay them off. The loan sequence data table reflects the percentage of individual single payment auto title loans that fell into the different categories of refinance sequences—ranging from no refinances to 5 or more.[10]

In 2015, 9 in 10 loans in the loan sequence data were generated by borrowers who refinanced at least one time before the loan was paid in full or closed. Nearly two thirds of the loans were generated by borrowers refinancing 5 or more times.

Single Payment Auto Title Loans: Percent of the Total Number of Loans in Sequences Paid in Full or Closed in Calendar Year

# of Refinances	2012	2013	2014	2015
No Refinances	**16%**	**20%**	**11%**	**9%**
1 Refinance	11%	12%	8%	6%
2-4 Refinances	29%	36%	24%	21%
5 or More Refinances	**44%**	**32%**	**58%**	**64%**

Profile: Installment Auto Title Loans

Installment auto title loans remain a small but growing part of the market. After staying stable at 4% of the total market volume from 2012-2014, there was a small rise to 6% of the market volume in 2015. These loans carry terms of close to 180 days, the effective limit under Texas law.[11] Average loan terms decreased from 2014 to 2015, but have increased overall from 2012 to 2015. The change in loan terms does not affect the average number of refinances per quarter, meaning that for a consistent segment of borrowers, the loans are unaffordable almost from the beginning. The average borrower is indebted for 5-6 months and pays around $1000 to access $500 of credit with the average loan term. For borrowers who refinance, a $500 loan can cost $3,000 or more.

Installment Auto Title Loans

	2012	2013	2014	2015
Average Loan Term (Days)	146	184	191	169
Average Fees per $100	$91.97	$81.32	$96.48	$89.91
Average Loan Amount	$1,188	$1,138	$1,097	$1,083
Ave. Annual Percentage Rate (APR)	**378%**	**269%**	**289%**	**314%**
Percent of Borrowers Who Refinance (Ave. of Quarterly Rates)	27.98%	10.63%	13.01%	10.12%
Average Quarterly Refinances	1.38	1.40	1.40	1.39
Refinances as % of all Loan Transactions	33%	35%	32%	28%
Average Total # of Refinances for Borrowers Who Refinance	**2.12**	**5.99**	**4.05**	**4.44**
Total # of Repossessions (and % of Borrowers)	8,318 **(12%)**	4,928 **(9%)**	3,253 **(5%)**	2,720 **(3%)**

An analysis of auto title installment loan sequences, which examines the number of loans that were taken out back-to-back before a loan was either paid in full or closed, shows that 60% of loan transactions were generated by borrowers who refinance at least once. Despite the longer loan terms, 1 in 5 loans were part of a sequence of 5 or more refinances.

Installment Auto Title Loans: Percent of the Total Number of Loans in Sequences Paid in Full or Closed in Calendar Year

# of Refinances	2012	2013	2014	2015
No Refinances	**38%**	**40%**	**39%**	**41%**
1 Refinance	29%	25%	17%	14%
2-4 Refinances	12%	17%	25%	22%
5 or More Refinances	**21%**	**18%**	**19%**	**23%**

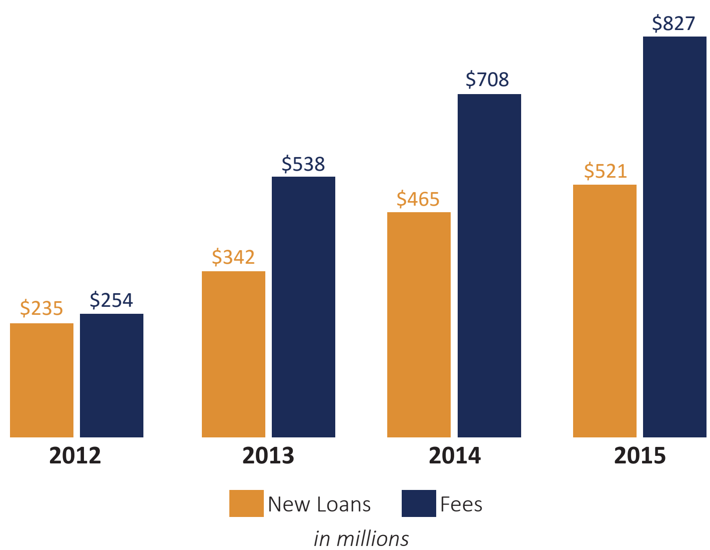
Finding 3: Single Payment Payday Lending Decreases as Installment Payday Lending Rises, Resulting in Even Higher Fees for Borrowers

In 2012, single payment payday loans were the dominant loan product offered among the four CAB loan products—64% of the total market volume reported by CABs in Texas. These loans have been on a steady decline since 2012, making up just 39% of the total market volume in 2015. **As single payment payday loan volume has decreased, installment payday lending has increased and has become the major driver of higher fees.**

Installment payday lending fees increased by 225% from 2012 to 2015, nearly twice the rate of the dollar value of new loans, which increased by 122% during the same period.

Installment Payday Loans

Dollar value of new loans and fees 2012 - 2015



Profile: Single Payment Payday Loans

Single payment payday loans continue to have very short terms—19 days on average—with average loan amounts just under $500. Fees have steadily increased over the past four years and, at $23.58 per $100 borrowed for a two-week period, are significantly higher than the national average of $15.00 per $100 borrowed. **Texans continue to pay some of the highest fees in the country.[12]**

Quarterly refinance rates have declined since 2012, but are still near 50%. More than half of loan fees were generated by refinances across all four years—refinances made up at least 56% of all loan transactions in each of the four years. **In 2015 borrowers who refinanced did so between 5 and 6 times and paid an average of $1,282 to repay a $500 loan.**

Single Payment Payday Loans

	2012	2013	2014	2015
Average Loan Term (Days)	19	19	19	19
Average Fees per $100	$22.85	$22.92	$23.27	$23.58
Average Loan Amount	$468.38	$462.91	$474.75	$475.75
Ave. Annual Percentage Rate (APR)	**449%**	**450%**	**457%**	**463%**
Percent of Borrowers Who Refinance (Ave. of Quarterly Rates)	63.95%	57.08%	51.74%	47.21%
Average Quarterly Refinances	2.29	2.23	2.12	2.11
Refinances as % of All Loan Transactions	62%	60%	60%	56%
Average Total # of Refinances for Borrowers Who Refinance	**5.24**	**4.74**	**5.42**	**5.49**

An analysis of single payment payday loan sequences, which shows the number of loans that were taken out back-to-back before a loan was either paid in full or closed, finds that 4 out of 5 loan transactions were generated by borrowers who refinance at least once. One-third of the loan volume was generated by loans that were part of a sequence of 5 or more loans.

Single Payment Payday Loans: Percent of the Total Number of Loans in Sequences Paid in Full or Closed in Calendar Year

# of Refinances	2012	2013	2014	2015
No Refinances	**18%**	**14%**	**15%**	**20%**
1 Refinance	9%	10%	10%	10%
2-4 Refinances	34%	37%	39%	36%
5 or More Refinances	**38%**	**39%**	**36%**	**35%**

Profile: Installment Payday Loans

Installment payday loans saw increasing loan terms from 2012 to 2015, from an average of 98 days in 2012 to 160 days in 2015. The longer loan terms have led to fewer overall refinances, but do not significantly impact the average number of quarterly refinances. Within each quarter, borrowers who refinanced continued to do so 1-2 times per quarter. Since 2013, there has been a steady increase in the loan charges and the annual percentage rates. In 2015 an average $500 payday installment loan cost over $1,300 to repay—with no refinances—and carried an APR of 567%.

Installment Payday Loans

	2012	2013	2014	2015
Average Loan Term (Days)	98	145	152	160
Average Fees per $100	$137.89	$136.24	$150.69	$166.38
Average Loan Amount	$575	$514	$543	$540
Ave. Annual Percentage Rate (APR)	**738%**	**525%**	**522%**	**567%**
Percent of Borrowers Who Refinance (Ave. of Quarterly Rates)	30.93%	9.04%	7.42%	6.59%
Average Quarterly Refinances	1.46	1.24	1.27	1.35
Refinances as % of all Loan Transactions	29%	16%	15%	16%
Average Total # of Refinances for Borrowers Who Refinance	**1.91**	**2.90**	**3.48**	**4.01**

An analysis of installment payday loan sequences, examining the number of loans that were taken out back-to-back before a loan was either paid in full or closed, shows that 45% of loan transactions were generated by borrowers who refinanced at least once in 2015. Despite the longer loan terms in 2015, nearly 2 in 10 loans were from borrowers who had to refinance 5 or more times before paying off the loans.

Installment Payday Loans: Percent of the Total Number of Loans in Sequences Paid in Full or Closed in Calendar Year

# of Refinances	2012	2013	2014	2015
No Refinances	**41%**	**60%**	**65%**	**55%**
1 Refinance	18%	14%	14%	10%
2-4 Refinances	24%	14%	14%	17%
5 or More Refinances	**17%**	**12%**	**8%**	**18%**

Policy Solutions

The loan data in this study, examining four years of payday and auto title loan transactions, confirm that these loans trap Texas borrowers in high-cost debt. The increasing fees and loan terms of installment payday and auto title loans simply exacerbate the problem. The good news is that there are important opportunities for reform—some homegrown and others from outside of Texas—all with the end goal of establishing a consistent baseline of fair market practices.

1. **Expand the unified city ordinance to more Texas cities and adopt the unified ordinance standards as state law.**

   The unified city ordinance movement started in the City of Dallas in June of 2011. The city adopted a simple ordinance to address the payday and auto title lending cycle of debt caused by repeat borrowing, high fees, and unaffordable loans.

Unified City Ordinance Overview

Cities cannot cap fee charges. As a result, the unified ordinance addresses the cycle of debt problem with four simple standards:

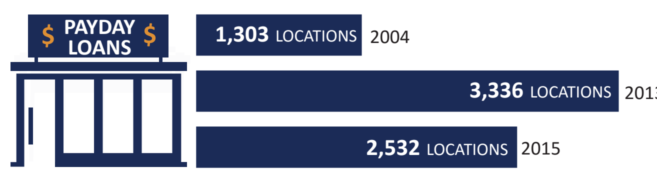
- Loans are limited in size based on borrower income, to enhance the ability of borrowers to repay the loans.
- Both single payment and installment loans are limited to a total of four payments (the equivalent of three refinances for the single payment loans) to ensure the loans are, in-fact, short-term.
- Each payment (or refinance, for the single payment loans) must reduce the original loan principal by 25% to ensure there is a clear pathway out of debt.
- A refinance is defined as a loan within 7 days of the previous loan to ensure that back-to-back loans are not used to evade the ordinance loan standards.

Today, 35 cities and counting, covering over 9.3 million Texans, have adopted what has become known as the unified ordinance. Though the data collected by the state regulator make it difficult to assess specific loan outcomes at the city level—data is only reported by certain metropolitan statistical areas and metropolitan divisions—preliminary data is encouraging.

Many payday and auto title businesses continue to operate in cities with ordinances. As of December of 2015, there has been a 24% decrease in licensed store locations from the peak in 2013. Despite the decline in store locations, Texas continues to have almost double the store locations of 2004, before the businesses migrated away from state consumer lending laws and to the loan brokering model they use today.

Number of Licensed Payday and Auto Title Locations in Texas[14]

2004, 2013, 2015



An analysis of two metropolitan statistical areas (MSAs) is instructive as a preliminary analysis. The two MSAs profiled below have a substantial percentage of licensed payday and auto title loan store locations within the city limits of a city with the unified ordinance.

In both the El Paso and Amarillo MSAs, 94% of the licensed store locations are in a city with the unified ordinance.[13] Both ordinances went into effect in 2014. Another interesting commonality between the two MSAs is that both have at least one low-cost alternative loan product available in the market. In the case of Amarillo, Amarillo National Bank has long offered customers small dollar short-term loans.[15] In El Paso, a large local credit union, GECU, launched the "Fast Cash" small dollar loan program in mid-2014.[16]

Amarillo MSA Profile: Change from 2014 to 2015

	2014	2015	Change	Percent Change
Dollar Value of New Loans and Refinances	$21,124,886	$8,471,169	$(12,653,717)	-60%
Dollar Value of Fees	$6,429,204	$4,734,110	$(1,695,094)	-26%
# of Vehicles Repossessed	489	158	-331	-68%
# of Licensed Store Locations	24	18	-6	-25%

El Paso MSA Profile: Change from 2014 to 2015

	2014	2015	Change	Percent Change
Dollar Value of New Loans and Refinances	$70,827,375	$67,944,277	$(2,883,098)	-4%
Dollar Value of Fees	$23,294,918	$21,993,107	$(1,301,811)	-6%
# of Vehicles Repossessed	1,321	792	-529	-40%
# of Licensed Store Locations	141	112	-29	-21%

Both MSAs show improvements in key outcome measures, particularly a substantial decrease in the number of vehicles repossessed. Adopting the unified ordinance in more cities, with an end goal of adopting it as state level policy would have beneficial statewide impacts based on this preliminary data. Applying the standards across city limits, and creating tighter product definitions would improve enforcement and outcomes. Based on cities' experiences, payday and auto title businesses would continue to operate, even while being held to basic fair market standards.

2. **Cap fee charges at the state level.**

   Though adopting market standards without a fee cap appears to have beneficial impacts at the city level, excessive fee charges remain a major problem in the payday and auto title lending market. The move towards installment loans has served to further highlight this problem. Capping fees is a simple way to address increasing fee charges and to bring payday and auto title loans back under state usury laws. The Texas Legislature and the U.S. Congress are the two bodies with the power to cap fees for these loan products.

3. **Push for strong rules from the Consumer Financial Protection Bureau (CFPB) to establish a baseline for fair market practices across city and state lines and including online.**

   Texas families and communities have a unique opportunity to support fair market standards that apply across city and state lines, and even online. The CFPB is issuing proposed rules governing payday lending, auto title lending and certain installment loans. Based on the rulemaking overview issued by the agency in March of 2015, the rules will likely cover all of the payday and auto title loan products currently offered by CABs in Texas.[17] Effective rulemaking from the CFPB that promotes fair lending standards based on a borrower's ability to repay the loans will support an improved market here in Texas.

4. **Invest in and encourage lower cost alternative loans.**

   Financial services reform efforts should also include policies and strategies to create better products in the market. An increasing number of for-profit and nonprofit businesses are stepping up to meet the need for affordable small loans in the Texas market. Loan loss reserve funds and low-cost loan capital to support innovative loan products are important catalysts for market-based reforms.

   Cities, states, and the federal government, as well as financial institutions, foundations, and social enterprises can all play essential roles in fostering market-based reforms. For example, the GECU "Fast Cash" loan product mentioned above was launched with loan loss reserve funding from the Community Development Financial Institutions (CDFI) Fund, a program of the U.S. Department of Treasury to support financial services for underserved communities. Another innovative loan program, the Community Loan Center, was also launched with funding support from the CDFI Fund. The seed funding spurred this low-cost loan program that started in the Rio Grande Valley, and now serves multiple cities in Texas and is expanding outside of Texas.

   No one alternative loan product is a silver bullet solution. But each new product is making important progress to shift the Texas market from one dominated by high-cost and often financially harmful loans to one where affordable loans are more available.

Payday and auto title lending reform in Texas is at a key juncture. We have four years of state data documenting a harmful cycle of debt caused by these high-cost loans; a city ordinance movement that is showing positive impacts from local level reforms; and CFPB rulemaking to address harmful market practices. For the first time in a generation, we are on the cusp of real and lasting reforms in this market space.

Texas families and communities in desperate circumstances deserve better than 500% plus APRs and loans that leave them worse off financially. It's time to establish fair market standards that can form the basis of a beneficial consumer credit market in our state.

Endnotes

[1]Office of the Attorney General News Release Archive, “Cornyn Announces $1 Million Settlement with ‘Payday’ Lender Cash Today.” Texas Office of the Attorney General. (Dec. 17, 1999). Last accessed May 25, 2016. Available at: https://texasattorneygeneral.gov/newspubs/newsarchive/1999/19991217cashtoday.htm.

[2]Chapter 342 of the Texas Finance Code governs licensed consumer lending in Texas.

[3]For a history of payday and auto title loan regulation in Texas, see: Ann Baddour, “Why Texas’ Small-Dollar Lending Market Matters.” e-Perspectives. Federal Reserve Bank of Dallas. Volume 12. Issue 2 (2012), available at: https://www.dallasfed.org/microsites/cd/epersp/2012/2_2.cfm#n10.

[4]See http://www.tml.org/payday-updates for information about the cities that have adopted ordinances and the specific ordinance features.

[5]Data was obtained by Texas Appleseed in Excel spreadsheet form through open records requests to the Texas Office of Consumer Credit Commissioner. The source data is available online at: http://occc.texas.gov/publications/activity-reports.

[6]See: Diane Standaert and Peter Smith, “Payday and Car Title Lenders’ Migration to Unsafe Installment Loans.” Center for Responsible Lending (Oct. 2015). Available at: http://www.responsiblelending.org/other-consumer-loans/car-title-loans/research-analysis/crl_brief_cartitle_lenders_migrate_to_installmentloans.pdf.

[7]Per Texas law, the third-party lender in these transactions may collect nonsufficient funds fees, late fees equal to the greater of $7.50 or 5% of the payment, and “reasonable” fees may be charged for repossession of collateral—in this case, most likely an automobile. The largest unreported borrower cost is likely late fees, as in the majority of these loans, the full loan principal is due with each payment. For auto title loans, which average over $1,000, but are often $4,000 or $5,000, each late fee could reach $200, $250, or more on top of the fee and interest payment due.

[8]Total loan transactions is the sum of the total number of new loans and the total number of refinances.

[9]Data about unique borrower is collected per store location and per product, and therefore could include multiple counts of the same borrower for borrowers with more than one loan or separate CAB loan product outstanding during the one-year data collection period).

[10]Each of the loan sequence tables used in this report apply the same methodology to determine the number of individual loans that fall into each category of refinance sequences. The state data is reported in the following ranges: no refinance; 2-4 refinances; 5-6 refinances; 7-10 refinances; and more than 10 refinances. The data measure the number of sequences rather than the number of individual loans. In order to convert number of sequences to individual loans, loans in the no refinance category were counted as 1 loan per entry. For 2-4 refinances, the mid-point of the range (4, 3 refinances plus the original loan) was used to estimate the number of loans in that category. The same methodology was applied to each range (6.5 for the 5-6 refinances category and 9.5 for the 7-10 refinances category). For more than 10 refinances, a conservative estimate of 12 loans (11 refinances plus the original loan) was used to estimate the number of loan transactions represented by the sequences recorded in that category.

[11]Tx. Fin. Code §393.201(b)(2).

[12]See, for example: “How State Rate Limits Affect Payday Loan Prices.” The Pew Charitable Trusts (April 2014). Available at: http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs/content-level_pages/fact_sheets/stateratelimitsfactsheetpdf.pdf.

[13]Larger cities, such as Dallas or Houston are more difficult to analyze with the available data, because the area covered by the published state data includes many areas not covered by the unified ordinance.

[14]Active licensee data obtained through open records requests to the Texas Office of Consumer Credit Commissioner in 2011, December of 2013, and December of 2015.

[15]See: “Public Disclosure: Community Reinvestment Act Performance Evaluation Amarillo National Bank.” Office of the Comptroller of the Currency (July 29, 2014) at 13. Available at: http://www.occ.gov/static/cra/craeval/jan15/14206.pdf. See also: Federal Deposit Insurance Corporation, “A Template for Success: The FDIC’s Small-Dollar Loan Pilot Program.” Vol. 4 (2010). Available at: https://www.fdic.gov/bank/analytical/quarterly/2010_vol4_2/smalldollar.html.

[16]See this linked presentation for more information about the GECU “Fast Cash” program: http://www.dallasfed.org/assets/documents/cd/events/2016/16raise-Garcia.pdf.

[17]“CFPB Considers Proposal to End Payday Debt Traps.” Press Release. Consumer Financial Protection Bureau (March 26, 2014). Available at: http://www.consumerfinance.gov/about-us/newsroom/cfpb-considers-proposal-to-end-payday-debt-traps/.