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THE EFFECTS OF PAYDAY AND AUTO TITLE LOANS ON TEXAS VETERANS

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March 2019

Executive Summary

Payday and auto title loans are marketed as short-term loans, but often keep families trapped in long-term debt. Sixteen states and the District of Columbia cap rates for payday and auto title loans, including any related fees, at 36% interest or below.¹ The Military Lending Act, a federal law adopted in 2006, sets a similar cap for loans to all active duty military, but does not protect veterans.² Other states limit fees, re-borrowing, or the total number of loans. Texas is one of a handful of states with no fees caps or other protections.³ The result is crushing interest rates and terms that make the loans hard to repay—with most scheduled payments going only to fees, leaving the loan principal untouched. In 2017, the average cost to repay a \$500 payday loan in Texas was over \$1,200.

Veterans can be particularly vulnerable to these loans that are sold as “easy money,” because of financial hardship resulting from the transition to civilian life and health challenges due to their time in service. The results of a 2018 survey of Texas veterans offer a snapshot of veteran experiences with payday and auto title lending in Texas. Topline findings include:

- **Veterans get caught up in payday or auto title loans at high rates:** 45% had taken out a payday or auto title loan, and 24% of the full survey population used payday or auto title loans more than once per year. In comparison, 7% of adult Texans overall used payday or auto title loans in 2017.⁴
- **Basic needs drive veteran use of payday and auto title loans:** 58% used payday or auto title loans to pay utilities, 42% to pay rent, and 38% for groceries and gas.
- **High-cost payday or auto title loans often pull veterans into an ongoing cycle of debt and financial hardship:**
 - Among surveyed veterans who used payday or auto title loans, 76% said they struggled to repay the loan when it came due, and 77% said they struggled to pay other bills because of the loans.
 - 70% of those surveyed took at least three months to repay the loans, and 37% were trapped in debt for more than 6 months.

- Veterans often paid at least twice the amount borrowed for payday and auto title loans. The median amount veterans borrowed for a payday loan or auto title loan was \$2,000, and the median paid towards the loans was \$4,000 at the time of the survey.
- 39% of those who had used payday or auto title loans still owed money on the loans, with 43% of those who owed money still owing more than \$1,000.
- **Veterans face illegal threats and harassment related to payments and collections of payday and auto title loans:** 65% of the surveyed veterans who used payday or auto title loans reported threats or harassment. Of those who reported threats or harassment, 89% reported harassing phone calls for debt collection, and 26% reported threats of criminal charges for defaulting on a loan.

Payday and auto title loans are exacerbating financial hardships for Texas veterans. Texas leaders can and should take action to rein in abuses and establish a baseline of fair market practices to enhance the financial well-being of our veterans and of all Texas families including:

1. **Expand Federal Military Lending Act Protections to Veterans;**
2. **Ensure that Payday and Auto Title Loans Are Affordable to Borrowers;**
3. **Ensure Payday and Auto Title Businesses and Their Debt Collectors Stop Abusing the Criminal Justice System; and**
4. **Work with Texas Banks, Credit Unions, Community Development Financial Institutions (CDFIs), and Other Low-Cost Lenders to Expand Access to Fair Loans for Texas Veterans.**

Introduction

Mark, a 71-year-old veteran from Pharr, Texas, lives off of social security and a veteran's pension. His total income is just over \$1,000 per month. In 2016 he took out three payday loans, totaling \$600, for car repairs. He eventually paid back two of the loans, which carried APRs of 480%, but he could not repay the third. After missing his payment, the payday loan business started calling him many times a day. They threatened to have him arrested and thrown into jail for theft if he did not pay the entire amount owed on the \$200 loan, which had nearly doubled to almost \$400. The payday lender also called his brother about the debt and arrest threats. Mark was terrified of going to jail and was humiliated that his brother was calling him, demanding to know what was going on and to have the harassing calls stopped. He pulled together \$150 to make a payment and, as a result, faced eviction because he could no longer pay his rent.

Mark is not alone among Texas veterans, struggling with unaffordable payday and auto title loan debt. Texas is home to the second largest veteran population at nearly 1.5 million veterans, and the third largest active duty military population. Texas honors the service of its veterans, but when it comes to payday and auto title loans, the state leaves them unprotected and at the mercy of 500% plus annual percentage rates and loans that too often exacerbate financial hardship.

Texas has some of the highest rates in the country for payday and auto title loans and is one of a handful of states with no caps on charges and no other protections, such as refinance limits or limits on the size of the loans.⁵ In 2017, average annualized interest rates ranged from 209% to 530% APR, with average loan terms ranging from 20 to 157 days, before any refinances. Most scheduled payments, even for longer-term installment versions of the loans, cover only fees, leaving the loan principal untouched. The result is crushing interest rates and terms that make the loans hard to repay.⁶ In 2017, the average cost to repay a \$500 payday loan in Texas was over \$1,200.

The problem of payday and auto title loan businesses targeting active duty military has been long-documented by the U.S. Department of Defense.⁷ In 2006, the U.S. Congress adopted the Military Lending Act, with bipartisan support, signed into law by then-President George W. Bush. The Military Lending Act limits interest, fee, and other charges associated with a loan to active duty military and their spouses to a combined Military Annual Percentage Rate of 36 percent.⁸ This law has helped the military, but leaves veterans vulnerable.

This study looks at the impacts of payday and auto title lending on veterans in Texas. It provides a snapshot of how veterans fare when they become entangled in these high-cost loans and suggest ways Texas leaders can support veterans by reining in payday and auto title lending abuses in Texas.

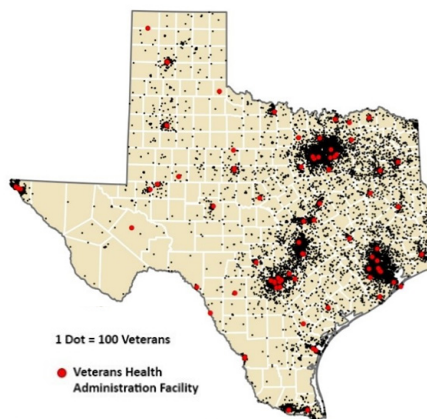
OVERVIEW OF TEXAS VETERANS

Texas has the second largest state population of veterans, after California, at 1,482,871.⁹ Of the veterans living in Texas, 25.6% served in the war in Afghanistan, 26.4% in the Gulf War, 32.7% in the Vietnam War, 6.1% in the Korean War, and 2.3% in World War II.¹⁰

Within the state, the Dallas-Fort Worth Metropolitan Area has the highest population of veterans with 344,102, followed by the Houston-The Woodlands-Sugar Land Metropolitan Area with 271,845. Central Texas also has a large share of veterans, with the San Antonio-New Braunfels and the Austin-Round Rock Metropolitan Area having a combined 306,404 veterans.¹¹ The Killeen-Temple Metropolitan Area, also located in Central Texas, has the highest concentration of veterans with over 1/5th (21.4%) of the population having served in active duty. Approximately 95,000 Texas veterans live below the poverty level.¹² A 2014 Texas study found that 82% of the state Zip codes with

a veteran-serving facility also have one or more payday or auto title lenders located in the same Zip code.¹³

Map of Texas Veteran Population and Veteran Health and Administration Facilities



Source: Veterans Statistics, American Community Survey 2009-2015 5-year Estimates. Map downloaded from <https://www2.census.gov/library/visualizations/2015/comm/vets/tx-vets.pdf>

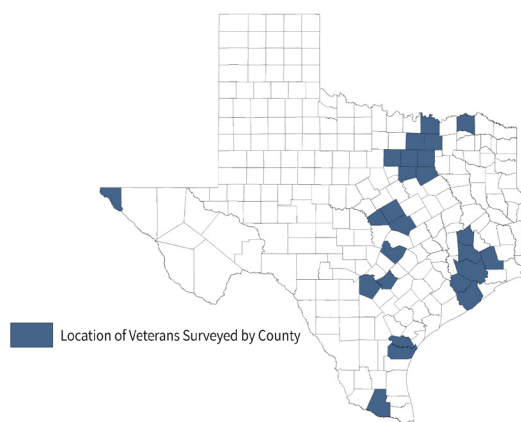
Study Methodology

This study presents the results of a 2018 survey of Texas veterans. It offers a snapshot into veteran experiences with payday and auto title loans. The survey was developed and implemented through a partnership with Texas Appleaseed, the United Way of Central Texas, and the United Way of Greater Houston. The United Way of Central Texas distributed the survey through the Association of the United States Army Regional Chapters, Heart of Texas Defense Alliance, Workforce Solutions, Area Agency on the Aging—The Veterans Council, and United Way partner agencies in Central Texas that serve veterans. The United Way of Greater Houston distributed the survey to veteran-serving organizations in its service area, including the Texas Veterans Commission and Grace After First. It was also distributed through direct outreach to veterans at veteran events in the greater Houston area, including Attack Wing Family Day, North Houston Veteran Fair, the Veteran Summit, Houston Homeless Veteran Summit, Veterans Health Fair, Lone Star Veterans Family Picnic, Houston Salutes American Heroes, the Welcome Home Veterans Fair, and an Open House at the Waller County Community Center.

The survey was open from October 15, 2018 through December 3, 2018. Participation was optional and partici-

pants could use either an online or paper version of the survey. In total, 157 veterans or veteran spouses completed the survey. The surveyed veterans served an average of 10 to 11 years, with the majority serving in the Army (48%) followed by the Air Force (20%), Navy (17%), Marines (13%), and Coast Guard (2%). They were located in 22 counties across Texas that largely mirror areas of the state where veteran populations are concentrated.

Location of Veterans Who Participated in the Survey by County



Finding 1: Texas Veterans Fall into Payday and Auto Title Debt at High Rates

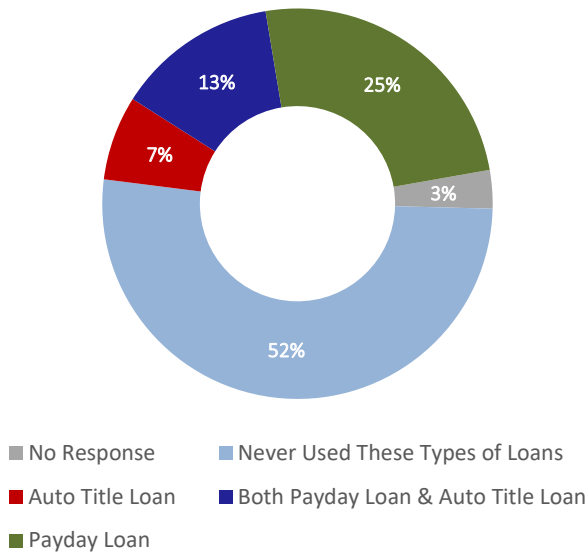
In 2017, 7% of the Texas population, 18 or older used a payday or auto title loan, according to the borrower data reported by the Texas Office of Consumer Credit Commissioner.¹⁴ Among veterans who responded to the survey, the rate for using payday and auto title loans was more than six times that of the overall Texas adult population, at 45%; 24% of the surveyed veterans who used payday or auto title loans used them more than one time per year.

“I advise family and friends to avoid the trap. It became an endless trap.”
 — VETERAN FROM HARRIS COUNTY, TEXAS

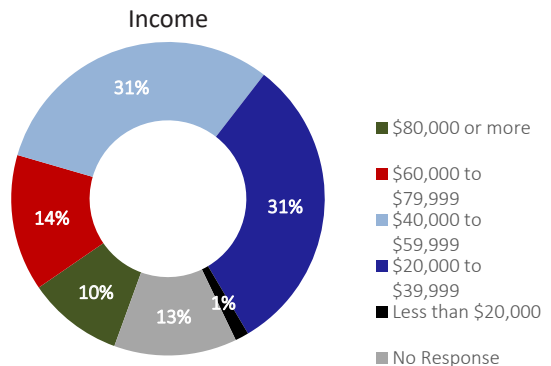
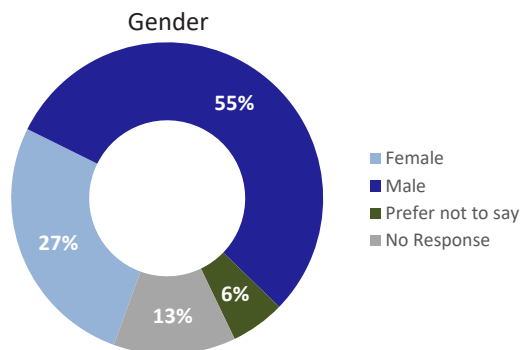
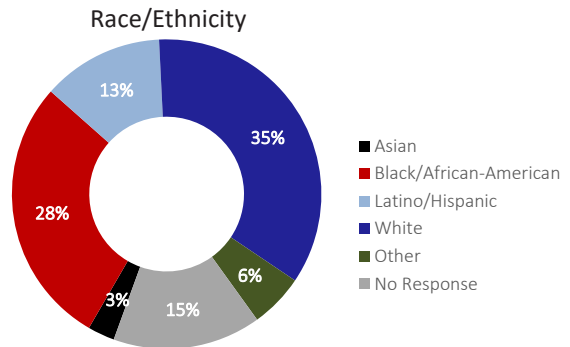
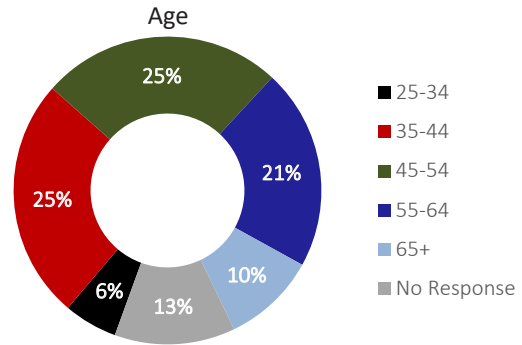
Those who got caught up in payday and auto title loan debt tended to be low- to moderate-income, White and male. After White veterans, African Americans were the next highest affected group of veterans, making up 28% of the surveyed veterans who used payday or auto title loans. Affected veterans spanned all ages, with the majority falling between 35 and 64 years of age.

Average years of service among surveyed veterans who used payday or auto title loans was between eight and nine years of service.

45% of Surveyed Veterans Used a Payday or Auto Title Loan



Demographics of Surveyed Veterans with Payday or Auto Title Loans



Finding 2: Veterans Use Payday and Auto Title Loans to Meet Basic Needs

Both national and Texas studies have found that payday and auto title loans are generally used to meet ongoing basic needs rather than for an unexpected emergency.¹⁵ This finding makes the loans particularly harmful for struggling families, as they create a hole in families’ budgets that is difficult to repay. The same pattern holds true for the Texas veterans surveyed.

This finding is concerning, as it indicates that public taxpayer funded benefits, which are supposed to alleviate poverty and stabilize families, are instead going into the pockets of high-cost payday and auto title loan businesses.

“[I] do not recommend [payday or auto title loans] to anyone with financial challenges. It'll keep them in debt.”

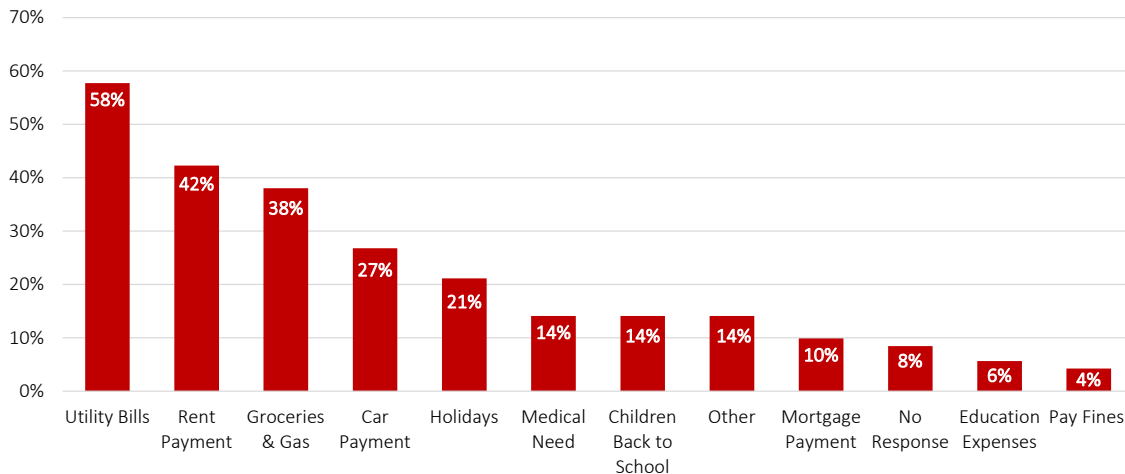
— VETERAN FROM HARRIS COUNTY, TEXAS

“You can easily lose your vehicle with an auto title loan. I was mortified and I felt led astray, because the information was not clear despite all my understanding of English Language...[the] fees mount up and they are ready to take your vehicle within the month.”

— VETERAN FROM KILLEEN, TEXAS

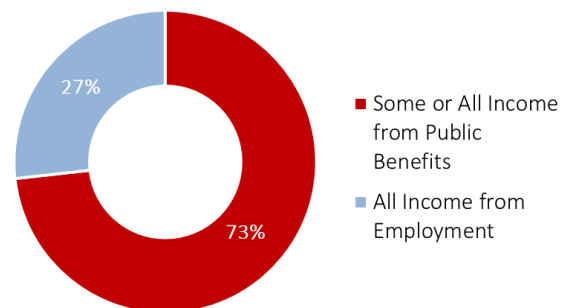
Among those surveyed, 58% said they took out a payday or auto title loan to pay for utilities, 42% needed money to cover rent, and 38% needed the money for groceries and gas.

Basic Needs Drive Use of Payday and Auto Title Loans Among Surveyed Veterans



The survey also asked veterans about income sources to assess how important income sources from public benefits were for veterans who used payday or auto title loans. In the survey, public benefits include: Medicare, Medicaid, Children’s Health Insurance Program (CHIP), Supplemental Security Income (SSI), Social Security, Temporary Assistance for Needy Families (TANF), Veterans Administration benefits, and military retirement. Among surveyed veterans who used payday or auto title loans, 73% had at least some income from a public source.

73% of Surveyed Veterans Using Payday or Auto Title Loans Receive Public Benefits



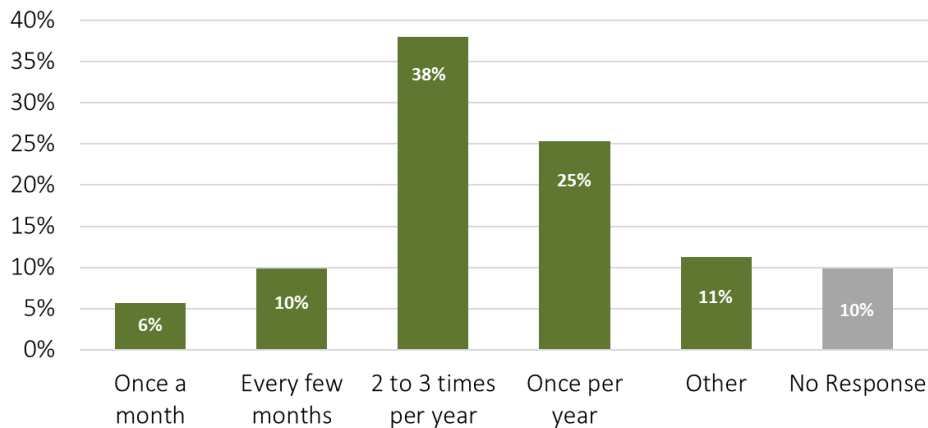
Finding 3: High-Cost Payday and Auto Title Loans Often Pull Veterans into an Ongoing Cycle of Debt and Financial Hardship

One in four of all veterans surveyed were caught up in ongoing payday or auto title loan borrowing, using the loans more than once per year. A closer look at the surveyed veterans who use payday or auto title loans reveals that more than half—54%—use the loans more than once per year, and 16% use the loans repeatedly, every few months or once per month. This finding is in line with Finding 2; these loans are often used to cover basic expenses—and once veterans borrow, they often need multiple loans to cover the hole in their budget left by the first loan, falling into a cycle of debt.

“They are not worth getting involved with, they suck you in for a quick fix and you have to get another then another, they only make your situation worse.”

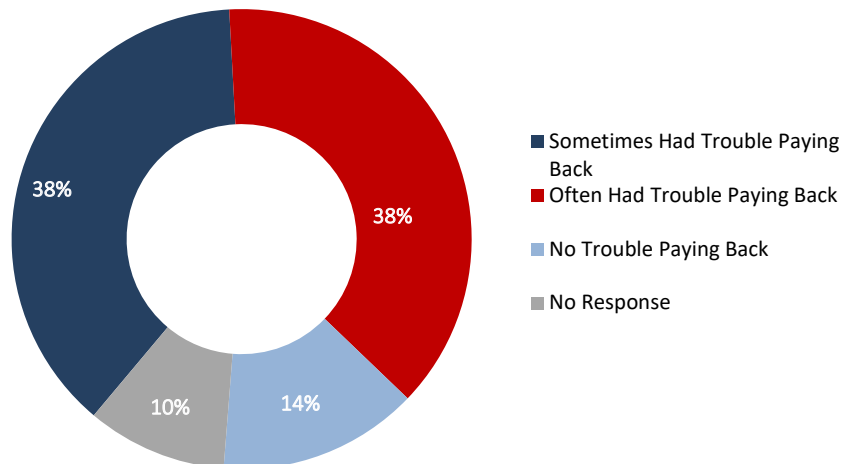
— VETERAN FROM HOUSTON, TEXAS

54% of Veterans Surveyed Who Use Payday or Auto Title Loans Use them More Than Once Per Year



Most surveyed veterans who used payday or auto title loans had trouble repaying the loans when due, another indicator that the loan terms and structure are unaffordable. Seventy-six percent struggled to repay the loans.

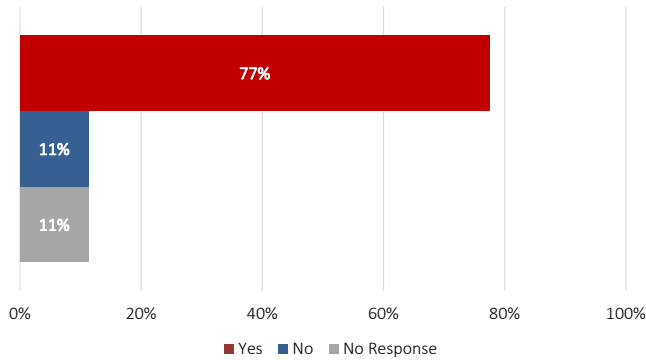
76% of Surveyed Veterans Who Used Payday or Auto Title Loans Had Trouble Paying Back the Full Loan When Due



“While I had the money to cover the loan, I spent most of my pay check. I never recommend these to anyone, this is a predatory business.”
 — TEXAS VETERAN

In addition to struggling to repay the loans, 77% of surveyed veterans who had used a payday or auto title loan had trouble paying other bills because of that predatory loan.

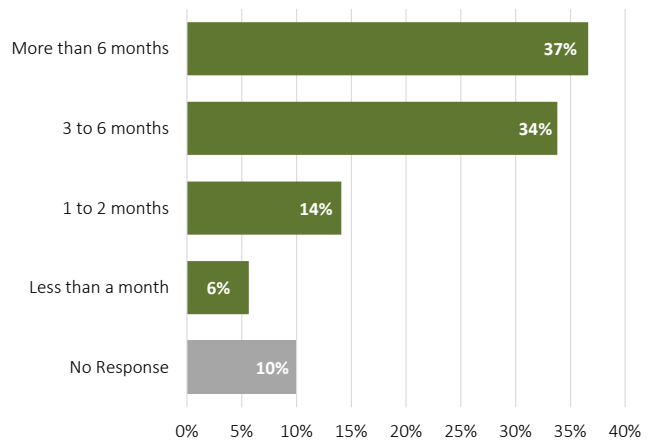
77% of Veterans Who Used Payday or Auto Title Loans Struggled to Pay Bills Due to the Loans



Compounding the financial stress caused by payday and auto title loans, many of the surveyed veterans who used the loans became stuck in a cycle of debt. Nearly three-quarters of the veterans were in debt for three months or more, and 37% were in debt for more than six months—for loans that are often sold as two-week to one-month loans.

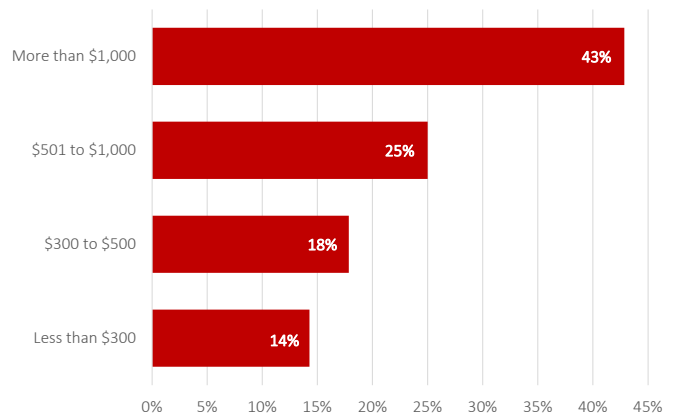
“It’s a terrible vicious cycle to get out of. Sometimes you have to take out a loan to pay the loan you have, then that equals two loans and so on.”
 —VETERAN FROM EL PASO, TEXAS

37% of Surveyed Veterans Using Payday and Auto Title Loans Were Stuck in Debt for Longer than Six Months



Looking at the median for the survey, surveyed veterans who had used payday or auto title loans over the past two years borrowed \$2,000 from payday or auto title loan outlets and paid \$4,000. Thirty-nine percent of those veterans still owed money to payday or auto title lenders at the time of the survey. Nearly half of those who owed money—43%—still owed more than \$1,000.

Among Surveyed Veterans Who Still Owed Money to a Payday or Auto Title Lender, 43% Owed More Than \$1,000



Finding 4: Veterans Face Illegal Threats and Harassment Related to Payments and Collections of Payday and Auto Title Loans

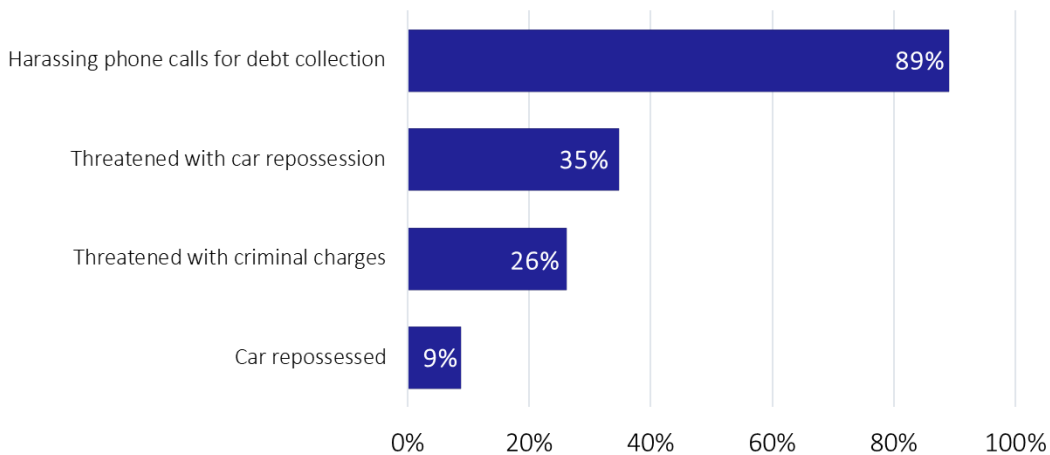
Harassment, false threats, and even filings of criminal charges abound for payday and auto title loans.¹⁶ In a 2014 investigation, Texas Appleseed found that, in addition to false threats of criminal charges, more than 1,500 illegal criminal bad check complaints were filed against payday loan borrowers in just 21 Texas counties.¹⁷

“Please stop and close the payday loans. They threatened us with jail and call 10 times a day. Please BAN these companies please. We go without food [be] cause of these companies.”

— VETERAN FROM IRVING, TEXAS

Based on the survey results, Texas veterans experience debt collection harassment at high rates. Sixty-five percent of those using payday or auto title loans experienced harassment or threats related to payday or auto title loans. Among those experiencing harassment, 89% experienced harassing debt collection phone calls and 26% were wrongfully threatened with criminal charges.

Veterans Who Use Payday and Auto Title Loans Experience High Levels of Threats and Harassment Due to the Loans



Harassing phone calls, false threats, and threats of criminal charges are all illegal in Texas. Yet they persist, scaring and intimidating Texas veterans and others caught in financial hardship due to loans that are designed to keep borrowers trapped in debt.

Recommendations and Conclusion

Texas can and should adopt fair market standards to ensure that veterans, and all financially vulnerable Texans, can access credit that is reasonably priced and supports borrower success.

1. Expand Federal Military Lending Act Protections to Veterans

The Military Lending Act, which establishes a 36% maximum interest rate for all loans to active duty military and their spouses—including any fees or credit insurance products sold with the loan—should be expanded to veterans and their spouses. This outcome can be achieved at the state level either through an overarching rate cap for all consumer loans or a targeted rate cap to at least ensure our veterans are marketed and sold fair loan products.

2. Ensure that Payday and Auto Title Loans Are Affordable to Borrowers

- Forty-five Texas cities have adopted local ordinances that put into place basic protections for payday and auto title loans to ensure that loan sizes are limited based on borrower income, that each payment includes principal repayment, and limiting all loans to four payments to ensure a clear pathway out of the cycle of debt. These ordinances should be adopted as state law.
- The Consumer Financial Protection Bureau (CFPB) issued a final rule in October of 2017 that established an ability to repay standard and cycle of debt protections for many payday and auto title loans.¹⁸ This rule was supposed to go into effect in August of 2019, but on February 6, 2019, the new Bureau leadership released a proposal to strike all of the affordability and cycle of debt protections from the rule.¹⁹ Urge the CFPB to maintain all affordability and cycle of debt protections in the final rule.
- Adopt standards in Texas law that ensure payday and auto title loan businesses assess the ability of borrowers to repay and limit refinances to end the cycle of unaffordable debt plaguing too many Texas veterans and other Texas families.

3. Clarify State Law to Ensure Payday and Auto Title Businesses and Their Debt Collectors Stop Abusing our Criminal Justice System

Threatening criminal charges to collect on a defaulted loan is already illegal in Texas, yet the practice persists, particularly among payday and auto title lenders and their debt collectors. State leaders should adopt standards that create additional clarification and enforceability in the law to ensure this abusive practice stops and establish high penalties for violations.

4. Work with Texas Banks, Credit Unions, Community Development Financial Institutions (CDFIs), and Other Low-Cost Lenders to Expand Access to Fair Loans for Texas Veterans

Families have emergency credit needs and deserve pathways to rebuild credit and access fair loans. Low-cost employer-based loan models and other approaches to expand access to fair loans that meet borrower needs and leave them better off, should be actively encouraged and promoted by state and local leaders. Texas can and should have a better market.

“These companies are profiting from families in financial crisis. There needs to be financial assistance programs that assist families in crisis that the banks and credit unions will not assist.”

— VETERAN FROM DALLAS, TEXAS

The veterans participating in this study who have used payday or auto title loans gave a combined 590 years of service to our country. Offering basic protections against abusive loans is the least Texas can do for these veterans. It is time for our state and federal leaders to act and address the harms caused by unregulated payday and auto title lending in Texas.

Endnotes

¹Arizona, Arkansas, Colorado, Connecticut, Georgia, Maryland, Massachusetts, Montana, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, South Dakota, West Virginia, and Vermont. In Arizona, New Hampshire, and Georgia, the rate cap applies to payday loans, but not auto title loans. Auto title loans are legal in just 25 states, including Texas.

²The Military Lending Act rate cap is broader than most state rate caps as it includes credit insurance products sold in conjunction with loans in addition to any loan fees. This rate is called the Military Annual Percentage Rate and is the standard for fair loan pricing.

³Other states with no fee limits include: Delaware, Idaho, Nevada, Utah, and Wisconsin.

⁴Texas Office of Consumer Credit Commissioner, Credit Access Business Report CY 2017 (Feb. 4, 2019). According to the report, there were 1,499,599 payday and auto title loan borrowers in 2017. According to the American Community Survey 2013-2017 5-year estimate, there were 20,206,495 Texans 18 and over in 2017. This percentage is likely an over count of payday and auto title loan usage in Texas, as it could count the same person multiple times if a person uses multiple payday or auto title loan products (eg. Single payment and installment products), or multiple payday or auto title loan store locations.

⁵Other states with no fee limits include: Delaware, Idaho, Nevada, Utah, and Wisconsin.

⁶Texas Appleseed analysis of Texas Office of Consumer Credit Commissioner, Credit Access Business Report CY 2017 (Feb. 4, 2019).

⁷See two reports published by the US Department of Defense on the impacts of payday, auto title loans, and other high-cost credit on active duty military. The first was published in 2006 and the second in 2014. The two reports formed the basis for passage of the Military Lending Act and the subsequent rulemaking, available at: http://archive.defense.gov/pubs/pdfs/report_to_congress_final.pdf; and https://consumerfed.org/pdfs/140429_DoD_report.pdf.

⁸Military Annual Percentage Rate includes all charges associated with the loan: interest, fees, and charges for most ancillary products, such as credit insurance and debt suspension plans.

⁹2013-2017 American Community Survey 5-Year Estimates.

¹⁰2017 American Community Survey 1-Year Estimates.

¹¹2013-2017 American Community Survey 5-Year Estimates.

¹²2013-2017 American Community Survey 5-Year Estimates.

¹³Texas Appleseed, "New Data Documents the Practices Payday Lenders Use to Bypass the Military Lending Act," (September 26, 2014). Available at: <https://www.texasappleseed.org/sites/default/files/68-PDLPressReleaseMilitaryLendingActNewRules.pdf>.

¹⁴Supra note 4.

¹⁵See, for example, "Payday Lending in America: Who Borrows, Where they Borrow and Why," Pew (July 19, 2012), available at: <https://www.pewtrusts.org/en/research-and-analysis/reports/2012/07/19/who-borrows-where-they-borrow-and-why>; and "Short-term Cash, Long-term Debt: The Impact of Unregulated Lending in Texas," Texas Appleseed (April 2009), available at: <https://www.texasappleseed.org/sites/default/files/94-PDL-SurveyofPaydayBorrowers2009.pdf>

¹⁶See, for example, "CFPB Takes Action Against ACE Cash Express for Pushing Borrowers into Cycle of Debt: ACE to Pay \$10 Million for Using Illegal Debt Collection Tactics to Pressure Consumers into Debt Traps." (July 10, 2014). Available at: <https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-ace-cash-express-for-pushing-payday-borrowers-into-cycle-of-debt/>.

¹⁷See: <https://www.texasappleseed.org/sites/default/files/Complaint-CriminalCharges-PaydayBusinesses-Final2014.pdf>.

¹⁸See: <https://www.consumerfinance.gov/policy-compliance/rulemaking/final-rules/payday-vehicle-title-and-certain-high-cost-installment-loans/>.

¹⁹See: <https://www.consumerfinance.gov/policy-compliance/rulemaking/rules-under-development/payday-vehicle-title-and-certain-high-cost-installment-loans/>.