A Toolkit for Cities

Increasing Access to Fair, Low-Cost Loans

Executive Summary

Texas
APPLESEED

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Texas Appleseed Mission

Texas Appleseed promotes social and economic justice for all Texans by leveraging the skills and resources of volunteer lawyers and other professionals to identify practical solutions to difficult, systemic problems.

About Us

Texas Appleseed is a public interest justice center. Our nonprofit works to change unjust laws and policies that prevent Texans from realizing their full potential.

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Advisory Committee

Texas Appleseed would like to thank the members of our Advisory Committee for providing crucial information and guidance that informed this toolkit. The recommendations in this toolkit are Texas Appleseed's and do not necessarily reflect the opinions of advisory committee members.

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Cities Lead the Way: Payday and auto title lending is a $5.8 billion industry in Texas, with over 70% of the volume due to refinances or rollovers and high fee charges. Except in cities where city councils passed ordinances, payments in the two weeks often required for payday loans and four weeks for auto title loans do nothing to reduce the original debt. Texas borrowers typically pay $1,200 or more over five months on what is supposed to be a short-term $500 payday loan.

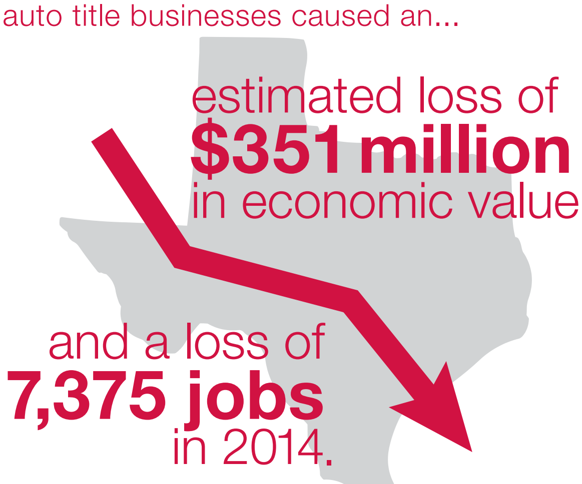
While a heavily lobbied state legislature has shied away from reform, cities across Texas—35 and counting—have stepped up. These cities have witnessed the drain on the local economy as well as the increased demand for social services and need for local charities to help families get out of payday and auto title loan debt. In 2015, auto title lenders repossessed 717 cars per week. One study found that payday and auto title lending in Texas led to an estimated net loss of $351 million in economic value and a loss of 7,375 jobs.[1]

Cities are at the forefront of efforts to combat the harmful economic impact of high-cost payday and auto title loans on low- and moderate-income families.

In 2008, some Texas cities began using municipal land use ordinances to limit the concentration of payday and auto title loan storefronts within their city limits. Three years later, Dallas became the first Texas city to adopt an ordinance aimed at preventing payday and auto title borrowers from becoming ensnared in a protracted cycle of debt. A total of 35 cities (with more on the horizon) have now adopted this "unified ordinance," available to cities through the Texas Municipal League (TML) and endorsed by a broad coalition of cities, nonprofits, and civic and religious organizations.

While it is outside a city's regulatory authority to address the exorbitant fees charged for payday and auto title loans—which, coupled with the interest, can exceed 500% APR (Annual Percentage Rate)—the city standards benefit borrowers by limiting the number of installments or rollovers, requiring payments to reduce the loan principal, and limiting loan amounts based on borrower income.

A 2015 study from the Texas League of Women Voters found that payday and auto title businesses caused an...



[1] League of Women Voters of Texas Education Fund, Payday & Auto Title Loans in Texas: A Study by League of Women Voters of Texas Education Fund, 4 (Aug. 2015).

The vision of our cities is making a difference. Today, more than a third of all Texans—*over 9 million people*—live in a city that offers these basic consumer protections. And help is available for other cities willing to join them, with model ordinance language and other resources easily accessible online.[2]

What comes next? What do the next steps look like for cities after adopting what is now known as the unified payday/auto title loan ordinance? How can other Texas communities build on this momentum of local success to hold the line against predatory lenders?

While city ordinances are an impactful first step, cities can do more. The high visibility of the more than 2,500 payday and auto title storefronts operating across Texas is a barometer of the economic pressures facing low- and moderate-income families and the need for more easily accessible and affordable small-dollar loan products. Where such options do exist, they are often dwarfed by the sheer number of payday and auto title loan businesses who use mass advertising near major traffic arteries and in poorer neighborhoods.

Despite the economic recovery since the Great Recession, half of Texas families continue to live under perpetual financial strain.[3] The ongoing financial strain too often drives families to resort to these high-cost loan products to bridge gaps in income to cover basic living expenses.[4] The good news is that cities can make a difference for their citizens and local economies by enacting policies that constrain abuses surrounding high-cost payday and auto title loans (like the unified ordinance) and encourage productive market options, such as low-cost loan products and local initiatives to promote financial well-being across neighborhoods in our cities.

As housing, utility and basic living costs continue to rise, cities are tasked with finding creative ways to meet affordability, economic development, and quality of life challenges impacting low- and moderate-income families. Communities are best able to address these challenges when cities—and in some cases, county governments or other local bodies—remove barriers to financial well-being and encourage fair loan products.

Implementing the five strategies outlined in this guide creates not only a win-win for lenders and borrowers; it holds the promise of bolstering local economies and making Texas cities more affordable and inclusive.

Overview of Local Opportunities

1 Local Opportunity: Offer affordable employer-based loans to employees.

Benefits to Cities:

- Helps attract and retain employees at little to no cost to the employer—for city employers, it also ensures more lower-income workers can afford to live within the city limits.
- Reduces presenteeism (in this case, employees addressing or preoccupied with personal financial problems while at work) and time spent by employees away from work making payments to storefront lenders.
- Decreases the number of paycheck advances to employees.
- Cuts down on the number of employment verification calls from payday and auto title lenders.

How it Works:

- Reduces default risk by structuring repayment through optional automatic payroll deduction.
- Gives employees new credit building and financial education opportunities in-house or in partnership with local nonprofits with expertise in these areas.
- Uses available funds as needed for loan capital and loan loss reserves.
- Cities or city-encouraged private employers can leverage their employee base to establish an affordable lending program.

Examples at Work:

- **Programs Leveraging Nonprofit Partnerships:** Community Loan Center of Texas Small Dollar Loan Program, Virginia Credit Union's Virginia State Employee Loan Program, Filene Research Institute's Employer-Sponsored Small Dollar Loans
- **For-Profit Led Programs:** Kashable, TrueConnect Employees Investment Solutions

2 Local Opportunity: Provide funding and/or support for other low-cost lending programs.

Benefits to Cities:

- Creates stronger local economy by creating alternatives to predatory lending.
- Reduces use of payday and auto title loans.
- Provides a financial pathway forward for struggling families to build savings and improve credit scores.

How it Works:

- Cities invest directly, where possible, in financial institutions to generate loan capital or loss reserves to encourage local innovation for affordable loans.
- As a supplement or alternative to direct investment, cities can convene local financial institutions and stakeholders (such as nonprofits) to find innovative market solutions to the problem of high-cost lending. Leveraging other funding, such as support from the federal CDFI fund to catalyze local solutions, is one example of this.
- Cities can explore creating bank or credit union development districts (authorized by Texas statute in the 84th Legislative Session) to bring these more affordable financial services to underserved parts of the community where payday and auto title lenders are too often the first resort.

Examples at Work:

- **Direct Investment or Operational Support:** Better Choice Program, Society of St. Vincent de Paul Predatory Loan Conversion Program, GECU Fast Cash Loan program, West End Neighborhood House Loans Plus Program

3 Local Opportunity: Partner with a local Council of Government (COG) to promote affordable lending.

Benefits to Cities:

- Expands the potential benefits of fair, lower cost lending to a larger geographic area to benefit more people and create a healthier economy.

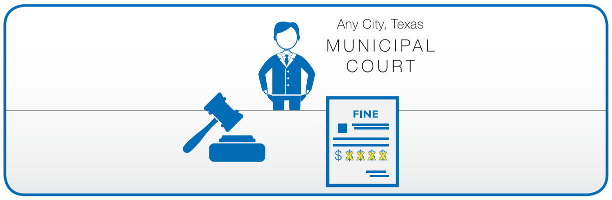
How it Works:

- COGs' regional perspective and flexibility make them an attractive partner to catalyze and oversee alternative loan programs.
- COGs cannot levy taxes but can implement programs to combat unemployment and increase per capita income—goals which affordable lending programs and financial education help address.
- Cities can tap into a COG's capacity to encourage alternative loan programs and help catalyze local innovation through assistance in obtaining low-cost lending capital or supporting loan loss reserves.

Examples at Work:

- **Offering small-dollar loans:** Brazos Valley CLC—a collaboration of Brazos Valley Affordable Housing Corporation, Brazos Valley Community Development Corporation, and the Brazos Valley COG[8]

4 Local Opportunity: Amend city-authorized fine and fee policies that drive people to high-cost loans.



Benefit to Cities:

- Provides indigent and low-income residents with affordable fine and fee schedules and options to boost repayment without inadvertently driving people to high-cost payday and auto title loans.

How it Works:

- Implement or evaluate existing public utility bill assistance programs to ensure reasonable terms that support bill payment without leading to additional consumer debt and high-cost loans.
- City councils can review municipal court payment plan terms for fines and fees in traffic and non-traffic misdemeanors and ordinance violations and encourage the courts to use terms for low-income city residents that account for their ability to repay within realistic time periods.[5]
- Encourage municipal judges to use discretion to waive or reduce fines and fees for indigent and low-income individuals and discourage the view of the municipal court as a revenue generator for the city.
- Review community service options to pay off municipal court fines to ensure that availability and scheduling times fit with work schedules and accessibility to low-cost transportation.
- Heavily publicize and market utility bill and court fine repayment options to counteract citizens defaulting to easily obtainable payday and auto title loans to cover debts.

Examples at Work:

- **Municipal utility bill assistance programs:** Houston's LIFT-UP Pilot Program, Austin's Deferred Payment Agreements with reasonable terms, Austin's Community Benefit Charge Funding for its Community Assistance Program
- **Municipal fee and fine policies:** Cities should review their fee and fine payment policies with an eye to debt pressures and unintended impacts of fostering dependence on predatory lending products.

5 Local Opportunity: Better connect borrowers to community asset building and financial empowerment services.

Benefit to Cities:

- Improves overall economic health and quality of life for city residents through programs with documented success.
- Provides help to residents in such areas as debt reduction, increased savings, student loan repayments, improved credit scores, resolution of federal tax issues, avoided evictions and foreclosure, and improved participation in job training programs.
- Reduces the demand for social services and allows cities to target social service support to those with the greatest needs.

How it Works:

- Take advantage of all internal and external media channels at the city's disposal to remind citizens of community asset building and financial empowerment service opportunities.
- Partner with local employers, nonprofits, COGs, and others to ensure people are connected with available services and programs.

Examples at Work:

- **Community Asset Building and Financial Empowerment Programs:** San Antonio Financial Empowerment Centers, efforts by the Mayor of Dallas and Mountain View College to improve family financial well-being in Dallas, Houston-area efforts including United Way THRIVE and Bank On Houston

ENDNOTES

1 League of Women Voters of Texas Education Fund, *Payday & Auto Title Loans in Texas: A Study by League of Women Voters of Texas Education Fund*, 4 (Aug. 2015).

2 Texas Municipal League website, *Payday Lending Clearinghouse* (includes a copy of the model unified ordinance).

3 CFED, *Assets & Opportunity Scorecard: State of Texas Profile* (Jan. 2016); see also Kristen Capps, *Half of all American Families are Staring at Financial Catastrophe*, CityLab (May 29, 2015).

4 *Id*. "The share of households seeking non-bank credit with incomes about $30,000 increased from 42 to 48 percent between 2011 and 2013."

5 Even if those terms are ultimately up to the court, the council can use their influence and position to urge the municipal courts to address fee payment schedules.

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