

500% Interest *is Wrong*

It hurts communities. Texas needs a law.

www.StopPaydayAbuse.org

Abusive Small Dollar Lending in Texas: Time to Close the Loophole

The damaging effects of payday and auto title loans have attracted the attention of state legislatures and local governments around the country. There is growing concern that these high cost loans are draining community wealth and trapping consumers in a destructive cycle of debt.

The Facts

Payday and auto title lenders operate a multi-billion dollar lending business in this state yet, unlike most other lenders, they are not licensed, regulated or subject to any meaningful consumer protections. Texas has a law on the books, but these businesses do not want to follow it. Instead, they take advantage of a **loophole** that allows them to operate as “credit services organizations” (CSOs). The Texas CSO Act was intended to monitor credit repair services, not to regulate a \$3 billion lending industry. In Texas, a CSO is only required to pay a \$100 annual registration fee to the state and is not subject to regulatory examinations or oversight.

- Number of CSO Locations in Texas: over 3,000 (more than McDonalds and Whataburgers combined)
- Increase in CSO storefronts in the last four years: over 2000 new storefronts
- Average loan cost for a payday loan borrower: \$840 for a \$300 loan
- Average number of loans per year taken out by payday borrowers: 9
- Fees alone for a one-month \$4000 auto title loan: over \$1,000
(Missing a monthly fee payment can result in repossession of a vehicle)
- Sales tax revenue from payday and auto title stores: none
- U.S. Department of Defense rate cap for military payday and auto title borrowers: 36% APR
- Number of states with a rate cap around 36% APR: 16

An Unfair Playing Field

Allowing payday and auto title loan businesses to continue to evade Texas lending laws creates an unfair playing field for businesses that follow the rules. Regulated consumer lenders in Texas (under Ch. 342 F of the Texas Finance Code) made 4.4 million loans in 2008, totaling \$2.25 billion. These lenders run successful businesses and play by the rules.

Local Action is Growing

Cities and towns across Texas are showing support for reigning in abusive payday and auto title lending. When these loans push families into economic crisis, local governments and charities often must pick up the pieces, draining scarce charitable and budget resources.

San Antonio, Brownsville, Irving, Mesquite, Richardson and other municipalities have passed zoning laws that prevent payday lenders from expanding into new locations in their city without a special permit.

Counties and cities like Bexar County, Brownsville, El Paso, Midland, Richardson, Rowlett, and Sachse have adopted a resolution calling on the Governor and state legislature to close the loophole in state law that allows these lenders to avoid any accountability.

Statewide Action is Growing

A diverse and growing group of organizations are uniting behind closing the CSO loophole and ending abusive small dollar lending in Texas. These organizations include: Christian Life Commission, Texas Catholic Conference, NAACP, AARP, Texas Appleseed, Center for Public Policy Priorities, local United Way organizations, RAISE Texas, Texas One Voice, and Texans Care for Children.

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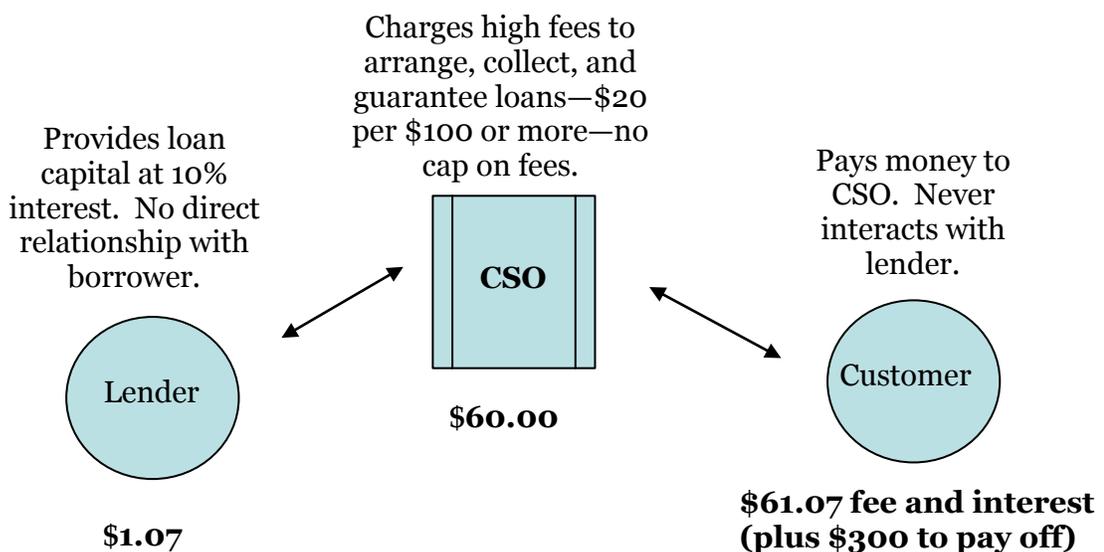
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CSO LOOPHOLE: A “CREDIT SERVICE” THAT HURTS OUR COMMUNITIES

A CSO, or Credit Services Organization, is supposed to help people clean up bad credit. Instead of helping, the Texas law governing CSOs is being exploited as a **loophole**. Payday and auto title loan outfits use it to charge high fees for loans that trap people in debt. They use the **loophole** to get around Texas laws that cap rates and fees for consumer loans, by claiming that they are not lenders. They charge excessive fees to broker and guarantee high-cost loans.

For example, a customer who takes out a \$300 payday loan owes \$361.07 at the end of the two-week loan term. The CSO earns a \$60 “fee” and the “lender” earns \$1.07 in interest. If the borrower cannot pay the loan back in full, the same “fee” and interest charges apply again two-weeks later. CSOs often charge the \$60 loan fee over and over again for the same loan. If the borrower must extend the loan nine times before paying it off, which often happens, the CSO earns \$540 in fee income and the lender earns \$9.63 on the \$300 loan. Who is the real lender?

How Does the CSO Loophole Work?



\$300 two-week loan transaction