



# **The Case for Payday and Auto Title Loan Reform**

Texans tell personal stories.  
Local governments take action.  
Experts weigh in.

# An introduction

to payday lenders, auto title lenders and credit services organizations.

Texas has a long, proud history of protecting its citizens from unscrupulous lenders peddling products with exorbitant interest rates. Usury protections are built into the Texas Constitution and have been credited with helping save Texas from the worst of the current economic crisis.<sup>1</sup> Yet, over the last decade, the **\$4 billion payday and auto title lending industry in Texas** has succeeded in finding ways to evade the state’s usury protections.

Instead of operating as licensed consumer lenders or licensed consumer loan brokers, payday and auto title loan stores are registering as credit repair businesses under the Texas Credit Services Organizations (CSO) Act.<sup>2</sup> By using this legal loophole, they are able to broker loans with no caps on fees, no examinations, and no meaningful oversight.

Communities across the state are concerned about this growing high-cost lending industry operating outside of the laws established to oversee consumer lending in Texas. The cities of Brownsville, El Paso,

Midland, Richardson, Rowlett, Sachse and San Antonio have all **passed resolutions asking the Texas Legislature to close the CSO loophole.** Bexar and Travis Counties, the mayor of Houston and the Permian Basin Regional Council have also called on Austin to take action.

## Loan Rates and Terms Trap Borrowers in Debt

A payday loan is a two-week loan secured by a post-dated check. An auto title loan is a 30-day loan secured by an automobile title. These short-term loans often carry annual percentage rates of over 500%, far exceeding the rates and fees permitted under Texas consumer lending laws.<sup>3</sup> A core problem with these loans is that **repayment of the full amount** is required within two to four weeks, which is impossible for most borrowers. Until the entire amount is repaid, in one lump-sum payment, **borrowers must pay high fees ranging from 20 to 30 percent of the loan amount every two to four weeks** – trapping them in a cycle of debt.

## A Drain on Family and Community Wealth

Payday and auto title borrowers frequently pay high fees month after month without paying off their loans. The average Texan pays \$840 for a \$300 payday loan and \$1,604 for a \$700 auto title loan.<sup>4</sup> When auto title borrowers cannot sustain paying these fees, they can lose their vehicles. Although no data exists for Texas, lenders in other states repossess nearly one in ten vehicles.<sup>5</sup>

A recent survey found that 59% of Texas payday borrowers are women, many single mothers; One in five is age 50 or older.<sup>6</sup> A 2010 AARP study found that 25% of under- and un-banked persons age 44 to 64 and 22% age 65 and older have taken out auto title loans.<sup>7</sup>

Statewide, the economic impact of payday and auto title lenders evading Texas consumer protection laws is substantial. **It costs Texas families between \$800 million and \$1.1 billion in excess fee charges.**<sup>8</sup> This is money that could go to savings, purchases at local businesses, and local jobs.

## An Unfair Playing Field for Consumer Lending

Unlike other consumer loan businesses in Texas, payday and auto title lenders are not licensed, regulated or subject to any meaningful consumer protections. Texas has laws on the books regulating consumer loans. More than 1,700 consumer lending locations currently abide by these rules. They pay licensing fees of \$600 to \$1,200 per licensed site and are subject to oversight and compliance exams.<sup>9</sup>

In contrast, payday and auto title lenders using the CSO loophole pay a \$100 annual registration fee to the state and are not subject to regulatory examinations, fee caps or oversight. Because they are unlicensed, **there is no state agency charged with both recording and responding to individual consumer complaints.**

## Protecting Families and Creating a Fair Market

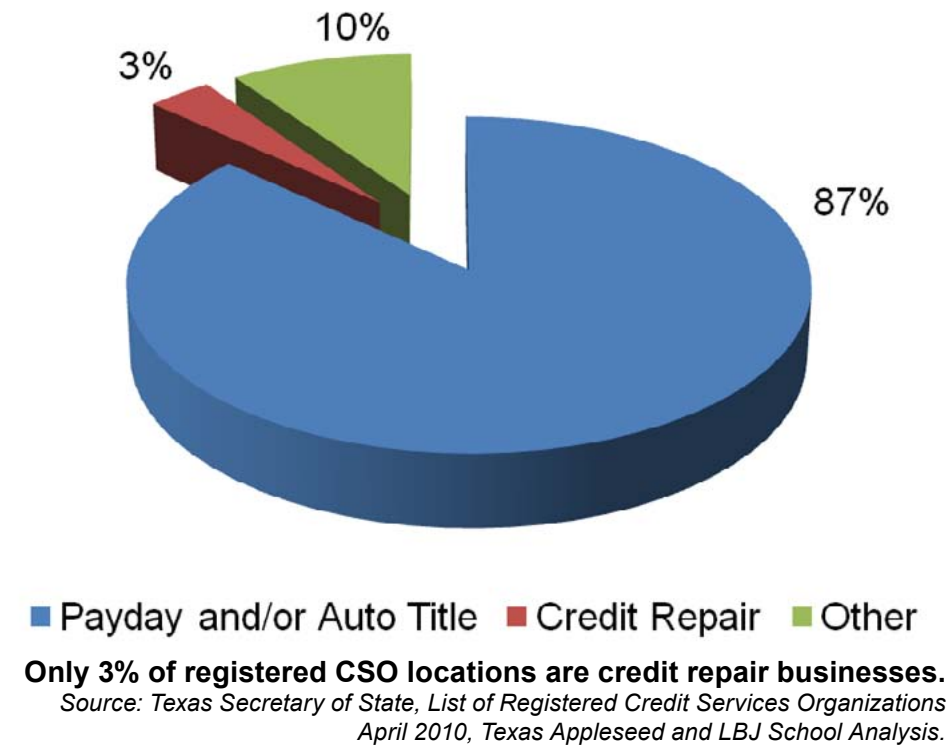
The solution to the problem of unregulated payday and auto title lending is simple: close the CSO loophole.

Closing the loophole would:

- respect the intent of the usury protections in the Texas Constitution,
- support a fair playing field in the consumer lending market,
- add no new regulations,
- create no additional cost for the state of Texas, and
- promote financial stability and fair financial services across our state.

The following pages feature Texans sharing personal stories and calling on the Texas Legislature to close the CSO loophole. From mayors to mail carriers, clergy to case workers, bishops to borrowers, the message is the same:

*500% interest loans hurt our communities. It’s time to end the special treatment that high-cost payday and auto title lenders are receiving by evading licensing under Texas consumer lending laws. It’s time to support fair competition. It’s time to close the loophole.*





# Travis County

takes action against predatory payday and auto title lenders.

“Victims of this particular situation are very pervasive throughout the poor [communities] of Travis County. We have folks that are located all over the county that qualify as far as being poor, and this is one of the outlets that they use because of their poor conditions. [They’re] never able to escape this type of scenario.

“Unfortunately, the county can’t... change the law per se. It will take the state legislature to do that. Of course, whatever we can do to make sure that happens through this particular resolution... from Representative Eddie Rodriguez...

“There are persons that will not comply... if the law actually passes and it becomes law. What type of penalty setup has been associated with noncompliance? ...In other states there’s always shenanigans that happen after a law is passed, and it requires effective enforcement not only of the state regulator, but also the attorney general as well...

“Solicitation from some of these predators – I call them predators – on the poor are actually even given through mail. In other words, the mail even comes to residents’ homes encouraging... these particular loan practices. And these folks are unaware of the consequences of what they’re getting into.

“So, again, I applaud you... for this initial step because I think it’s a good step in the right direction. But I think the penalty ought to be so severe that folks don’t want to practice this in Travis County anymore. I am really looking for the big penalty phase, the big hammer to make sure that folks will not violate the poor in this community.”

Ron Davis  
Travis County Commissioner

On Dec. 7, 2010, the Travis County Commissioners Court passed a resolution calling for the Texas Legislature to stop these predatory lenders:

*Whereas the Commissioners Court of Travis County is deeply concerned about the harmful effects of payday and title lending practices...*

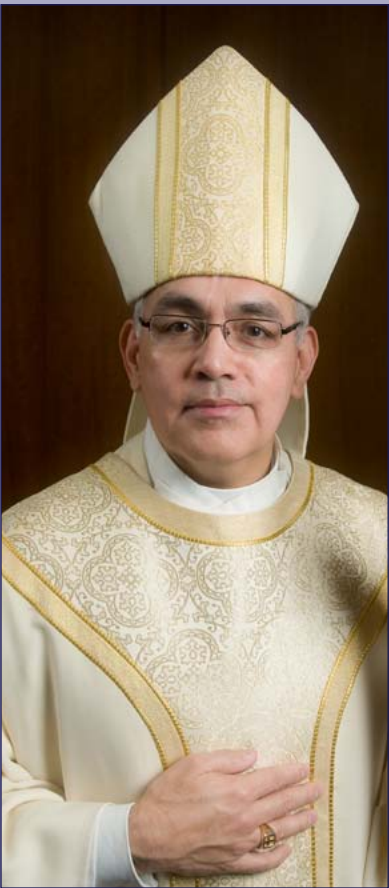
*And whereas a Texas survey found... those who utilize [these lenders] do so to cover such basic necessities as paying utility bills, buying groceries or gas, paying home rent or mortgage...*

*And whereas 17 states... have adopted a 36 percent or lower annual percent rate cap for these small loans and the federal government has adopted a similar rate cap for payday and auto title loans to the military...*

*The Travis County Commissioners Court urges the State Legislature, the governor and the lieutenant governor of the state of Texas to take action in the next regular session... to enact laws that will close the loophole in state law that allows payday, auto title and other consumer loans to carry annual percentage rates upwards of 500 percent, and... provide a level playing field by requiring all lenders and brokers of payday auto title or other consumer loans to be licensed...*

# Austin

residents are among thousands of Texans with horror stories



“Forcing poor families to pay 500% interest on short-term loans is wrong. The extreme interest rates charged by payday lenders create a painful cycle of dependence that traps financially vulnerable families throughout our state.

“It is time to end that cycle and offer families protection from this abuse.”

Bishop Joe Vásquez  
Diocese of Austin

“I make a good living, I just don’t have good credit.

“My partner and I had a bill of \$1,400, and just absolutely didn’t have the money to pay for it. My friends and family couldn’t help. I was turned down for a loan by my employer and my credit union.

“I walked into an Advance America and walked out in 20 minutes with \$500 cash. I thought I would be able to pay it back in two weeks’ time , but then it was our rent due and we had a car thing come up, I just didn’t have the money.

“They made it too easy if you can’t pay it today. To pay off the first one, I borrowed from another company, but then you owe them, it’s just a cycle.

“You go to these places and feel like the lowest person in the world.

“I couldn’t pay my rent or my car payment because I was paying them every month. It was insane. Eventually, I defaulted on the loan so I could stop paying to refinance and just pay down the interest. I worked at Costco on Sundays, and now I walk dogs for extra money. Fifteen months after taking out my first loan, I’m still chipping away at the last one.

“I will never do it again.”

Samie Martinez  
Austin

# San Antonio

leaders take a stand against predatory lending in their community.

“All you have to do is drive down Southwest Military Drive or one of the other corridors in San Antonio... to see that is a real concern. And particularly some of those that are predatory...

“So we support this legislation [from Representative Joe Farias] and look forward to its introduction during the session.”

Julian Castro  
San Antonio Mayor

“Representative Farias, thank you very much for bringing this forward. I have a great deal of concern with the new [financial] regulations, a lot of our community banks are going to back out of providing financing for our families that need legitimate financing. And part of the problem that we have here is that we have to identify good organizations that are what I consider nondepository financial institutions that are responsible to help our families...

“Part of that is to understand the ones that aren’t responsible in helping our families. The representative is doing a very good job of this and I will be willing, at any time I am asked to, to come and try to help on that... I appreciate very much this being put on our agenda.”

W. Reed Williams  
San Antonio City Council



Julian Castro  
Photo courtesy James Gatz, via a Creative Commons license.



Julia Castellano-Hoyt  
Photo courtesy AARP Texas.

The San Antonio City Council passed a resolution supporting payday and auto title loan reform on Dec. 16, 2010:

*“Whereas there are over 278 of these entities in our local community charging annual percentage rates of over 500%...*

*“Whereas... the federal government had adopted a... rate cap for payday and auto title loans to the military based on a Department of Defense finding that these loans, ‘undermine military readiness, harm the morale of the troops and their families, and add to the cost of fielding an all-volunteer fighting force...’*

*“[The] City Council supports legislation which would...*

*“Close the loophole in state law that allows payday, auto title, and other consumer loans to carry annual percentage rates of over 500%...*

*“Create a system to collect consumer loan data from lenders and brokers of consumer loans to ensure that these entities engage in fiscally sound lending that supports the well-being of our community...”*

“We’re all here in support of the effort, resolution on payday lending and auto title loans. I’m confident that [your] staff has given you all the statistics and all the information regarding this type of loan and what it does to our citizens. My concern is that 59% of those who use these companies are single, [female] heads of households...

AARP joins with cities from throughout the state in an effort to deal with this issue. Last session, I testified before the [legislative] committee in Austin, and we didn’t get very far... but we hope to this year. We have a strong coalition of people working on this. So I’ll keep my remarks brief, but I do wanna thank you for all you do.”

Julia Castellano-Hoyt  
AARP Texas Executive Council

My husband was injured in a car wreck and times were tough. He lost job, and I turned to payday loans; it is hard to get away from them. I borrowed about \$500 and I had to pay back \$668 at the end of the week... House payment, utilities, food, gas – I just don’t know how I will get them all paid off.

Samantha [name withheld]  
San Antonio



# Midland

residents and elected officials are fed up with predatory lenders.

“People drive by, see the sign for a loan for \$1,000, they say ‘give me the money,’ and they don’t care what the deal is. Later they find out... what the interest rate is and what they’ve paid... We meet people who have gone to payday lenders and are struggling with how to get out [of debt]. The worst are the payday lenders... another organization that’s taking advantage of poor people.

“They hurt our charities and churches, who have to pay people’s food bills, electric bills. Those are needs in our foundations that are getting worse and worse. Payday lenders are definitely putting a burden on churches and generous organizations... This industry does more harm... than the potential harm of losing those jobs if they were gone.”

Wes Perry  
Midland Mayor

“Our Legislature in Austin has made a felony legal. They allow car title stores to stay in business, but car title stores are crooks. They’re a way to legally steal a lot of money.

“I didn’t know anything about these places until my mother-in-law’s caretaker came to me for help... She had taken out a title loan to pay for her stepson’s burial... \$5,000 due in 30 days. Right off the bat, that’s impossible... they got her hooked. She paid them \$1,308 in interest each month for seven months, taking out payday loans to pay for the interest on her title loan...

“I went to the district attorney, who was incensed... She was very surprised to have found out that it was all legal. Our Legislature, as it stands today, has given a license for car theft.”

Paul Davis  
Midland

The Permian Basin Regional Planning Commission, which oversees 17 West Texas counties, called for reform on Aug. 11, 2010:

*Whereas in the state of Texas there are over 3000 of these unlicensed and unregulated lending storefronts, making over \$3 billion in high-cost loans to Texas families each year...*

*Whereas we see a crisis in our communities and we need action at the state level to enforce fair consumer lending standards...*

*[We urge] the Texas State Legislature... to enact laws that will... [provide] a level playing field by requiring all lenders... to be licensed and to comply with the same standards...*

# Borrowers and Experts

have seen first-hand the real human impact of these harmful loans.



Granbury, Texas  
Photo courtesy Dana Smith, via a Creative Commons license.

“After having health insurance refused and then experiencing a stroke and then a heart attack, I could not keep up with my payments... I needed money for prescriptions and needed propane for heating. I thought a short-term loan from [a payday lender] would get me through until my [Social Security disability] check arrived... I make the interest payment and pay down the balance maybe \$50 each month, but it sure kills my budget. There is always something that really needs to be paid and they make it so easy to get cash that most people fall into the trap.”

Larry Perry  
Granbury



Karen Lyons Serna  
Photo courtesy Foundation Communities.

“Our clients come to us because they’re behind... When they have a payday loan, it’s our top priority to help them get out of it, because it can be impossible to get back on track...

“We also see clients who are at the end of their resources and are looking at payday loans as their next step... When you don’t have many options, you’re not thinking a week ahead, you’re thinking about ‘how are my utilities not going to be shut off?’ Or ‘how am I going to make my car payment?’ Payday loans fill that niche, but... they’re so hard to get out of.

“Payday loans in the long run do more harm than good. We need to figure out an alternative that is fair, reasonable, and gives people a chance... There’s a role the Legislature plays... in closing the loophole that allows payday lenders to do what they’re doing.”

Karen Lyons Serna  
Director of Asset Building Programs  
Foundation Communities

# Houston

mayor and community leaders join together in calling for reform.

“We got a payday loan to avoid being late on bills, racking up late charges and having things like utilities shut off... I didn’t shop around. I received a flyer for one in my neighborhood. And it was fast – about 20 minutes each time.

“[We took out a loan for] \$800 in principle... We were supposed to pay back \$965 in two weeks, but in order to do that we’d have to not pay some other bill... It took a whole year to pay back the loan. We ended up paying about \$2000...

“To get out of the debt, you really have to cut something major off – don’t pay your rent for a month – because otherwise there is no way to come up with that much money. They just want to take everything from you...”

Crystal Delacruz  
Houston

“The harmful effects of payday loans and check-cashing outlets are well documented... In Houston alone, this industry is siphoning an estimated \$70 million annually out of our neighborhoods... If we are to truly help our residents keep more of their hard-earned cash in their pockets, it is imperative that programs like [Bank on Houston, a program making low-cost banking more accessible] be coupled with tighter regulations... It is critical to the financial wellbeing of Texans that payday, auto title, and other consumer loans be placed under regulation like any other financial lender is.”

Annisette Parker  
Houston Mayor



Crystal Delacruz and family  
Photo courtesy United Way of GreaterHouston.



Jackie Kudlaty  
Photo courtesy Care for Elders.

“I became aware [of auto title loans] through... Ms. K., a 73-year-old raising her granddaughter and great-granddaughter... She was financially struggling to get by on a fixed income... She took out the auto title loan when she fell behind in her rent. She struggled to pay the electric bill and to keep food in the house...

“She borrowed \$500 with 317% APR. She was supposed to pay \$150 per month and she had difficulty with that. She panicked because she worried she would lose her vehicle. She... took out an extension on the loan, borrowing \$150 to pay what was due at that time... She was not able to get any of the principle paid off... If there hadn’t been funds [from a nonprofit] to get out from this loan, she would still be struggling and she would have lost her car.”

Jackie Kudlaty  
Jewish Family Service, Houston

“This is a trend that has increased dramatically over the last few years, both in terms of the percentage of clients that have used payday loans, and also the number of payday loans clients have had to take out...

There are not many options for clients that need quick cash, but products should also be affordable, and lending should be responsible, to the mutual benefit of the lender and client...”

Nyla K. Woods  
President and CEO  
Family Services of Greater Houston

“...This seems to us the perfect time to encourage state lawmakers to clean up these businesses by closing the loopholes that permit them to charge unlimited interest and exorbitant fees... We grant that there’s a place for the services offered by these businesses, but only under rules that protect consumers and limit fees and interest rates.

“We’d like to believe that by next Christmas, gift-givers of limited means who need these small loans to brighten the holiday will be better protected than they are this Christmas. But that will only be so if our representatives in Austin act.”

Houston Chronicle Editorial Board



# Garland

area action is spurred by concerns about lenders’ economic impact.

“My dad has stage 4 colon cancer. Both my parents are elderly. They have Social Security, but that’s all they have... I got some grants to help with the treatment, but we have to supplement as much as we can. They will withhold treatment if the money is not there. So I had to take out a payday loan.

“Almost the minute you sign the papers and make your first interest payment, you’ve failed. It sets you up for failure. I took out my second loan to help with the interest payments on my first loan but still be able to help my dad.

“When it came time for the third loan, I was desperate. I thought I could pay off the first, pay the interest on the second, and still have something to contribute. I was in a vulnerable state and got caught up in a situation I couldn’t get out of. It’s embarrassing and it’s awful.

“I kept up the payments as long as I possibly could. After a year, I finally just said, ‘I’m sorry, I can’t keep it up.’ They tried to get me to take out a loan on a closed checking account or to take out a title loan on my car, but I wouldn’t.

“I never say I’m a victim. You do need to be responsible for the choices you make. I was in a vulnerable state, and I got caught up in a situation I couldn’t get out of. I feel like it’s financial bullying.”

Polly Ritter  
Garland

On Feb. 9, 2009, the Garland City Council decided to strictly zone payday and auto title lenders. These remarks were from that day:

“...There are some reports that are out that we have looked at, both within the state and nationally, that indicate that in some situations there have been declines in property values that have been attributed to this type of use.

“We provided information on the location of the existing establishments within the city. There are some 43 free standing ones that were identified and they tend to cluster together... that again is perceived to have an impact on property values within the area where they are located.”

Neil Montgomery  
Planning Director  
City of Garland

# Faith

leaders weigh in on the morality of payday and auto title lenders.



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“Payday lenders don’t operate well, or ethically. They’re preying on a particular portion of the society, and the effects of these loans percolate back through the rest of society.

“I think payday lending has been declared acceptable because it has been around long enough that for lots of people, this just isn’t an issue, probably because they’re unaware. People of good conscience who come across the loans, whether through personal experience or through a friend or family member, realize there is a morality question and then start to appeal for higher values to apply.

“There are direct statements in the Bible, particularly in the Old Testament, but picked up again in the New Testament, against usury. The Hebrews, out of their sense of relationship with God, were to extend care to those more vulnerable people in society: Don’t overcharge them, don’t overtax them. At the root of that was a directive to act as a steward of material goods on behalf of God. Usury indicated that the means of exchange became idols to those who practiced it.

“In the New Testament, statements from Jesus continue this theme: You cannot worship both God and mammon, always put material goods subordinate in life, be the steward of your material goods and make sure you are contributing to the kingdom’s work and values.

“Money is not the root of all evil; it is the love of money that is the root of all evil.”

Dr. Bill Tillman<sup>10</sup>  
T.B. Maston Professor of Christian Ethics  
Hardin Simmons University

# Dallas

grassroots support is growing for increased consumer protections.

“We’ve allowed payday lenders to be one of the fastest-growing industries in the United States. We’ve done a bad job in my opinion of working with the asset-poor... We will put the pressure on Austin, and we will make them take note on this thing. And we will continue to put the heat on predators that want to prey on the poor and the weak.”

Jerry Allen  
*Dallas City Council*

“Lured by promises of quick approval for cash and easy payment terms, congregants and neighborhood residents are left dealing with high upfront fees and exorbitant interest that threatens their economic security...

“In auto title lending offices, patrons risk the repossession of their cars; short-term loan customers risk putting their households deeper in debt... It’s critical that the community’s leaders, institutions and elected officials take an aggressive role in stemming the tide of businesses that prey upon the vulnerability of our residents.”

Dr. Gerald Britt  
*Vice President of Public Policy  
CitySquare*

“[High-interest lenders] are economic predators, and they are literally crippling our community... The last five years, this community has grown. It’s been transformed, and so a payday loan store is just like weeds in the midst of a beautiful garden that we’re trying to create...

“We’re going to do everything we can to pressure our state lawmakers into closing those loopholes, because, again, these are predators. They are preying on our community.”

Rev. Frederick Haynes  
*Friendship West Baptist Church*



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“I am a victim of multi payday loans and an auto title loan. Originally, I only planned to take out one and pay it back within 30 days. Every month, I seem to have a new financial emergency. Now I have five payday loans and one auto title loan which cause me to spend most of my disability check on payday loans. When will this ever end?”

Amanda [name withheld]  
*Dallas*

“I had a friend that took out two payday loans to pay for a funeral. The interest was astronomical and she was left with no money to live on after they took out... around \$800 per pay period. Once you pay the loan off, you have paid more than double of what was borrowed... This should be illegal.”

Cindy [name withheld]  
*Dallas*

“My daughter has almost lost everything trying to keep up payments on her payday loans. She’s moved into a one bedroom apartment with her three children, almost lost her car, almost got evicted. When she stopped paying them to keep from being evicted, they have gone above and beyond the law harassing her and her children and may cause her to ultimately lose her job by harassing her at work, along with her supervisors and co-workers...

“I think when people are desperate, they think this is an easy way out, but they should know before hand what a horrible mistake these really are! And how much they make your life a living hell.”

Shelia [name withheld]  
*Dallas*



# Arlington

residents are finding that payday and auto title loans aren't the answer.

I have a young friend who lost his job. His unemployment benefits did not cover his bills... so he took out a payday loan... He needed the money immediately, doctor bills and car repairs.

“Then he took a second one to pay off the first, but the interest rate had taken his balance due to a point that the second loan wouldn't cover the first. Then he took out a third...

“By the time he finished paying off all the loans, he had paid back nearly five times the amount he had borrowed, all in less than a year. I told him this is usury and should be prosecuted, but he said he was told that it was all legal. If it is legal, then the ones who made it so should be the ones prosecuted...

“To charge as much as these payday loan companies do clearly puts them in the category of loan sharking, which is a criminal offense.”

Mary Sue Sagor  
Arlington

“I saw alluring ads about getting a loan to help me between paychecks, so I applied and received multiple payday loans. Well, between paydays issues came up, and I could no longer afford the inflated interest or the full loan amount. So I defaulted with the payday loans and can't afford to pay them... My credit report is not in good standing.

“Payday loans weren't the solution.”

Jared [name withheld]  
Arlington



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# Texans

across the state share their personal struggles to make ends meet.

“It started out to help me over a temporary cash flow shortage and has turned into a five year nightmare. I am a single mother who is also a teacher... I am currently using three different payday loan companies in my hometown... Each time you roll it over, the interest increases. Another sad part of this whole scenario is the number of teachers... that I see coming in to make a payment to these places...

“It seems bankruptcy might be the only solution at times and I really do not want to do that... It is definitely a dark hole that I am in with no light at the end of the tunnel.”

Nancy Oliver  
Denton

“A couple of years ago, I fell behind in my bills because of an illness and had to borrow money from [a payday lender] for several months as I ‘played catch-up.’ For every \$100 I borrowed, I had to pay back \$18 in 30 days or less! ...I thank God that I caught up after 7 months. However, I paid \$630 in ‘interest’ during that period. Annualized, that comes to... 216%!”

Lawrence [name withheld]  
Carrollton

“I went to [an auto title lender] to get \$500 on my title to a 1985 Ford pickup that I use for a work truck. I have paid off the loan twice and the last time I got behind by a week as I had not gotten paid from a customer – I am self employed in landscaping. I called the store to let them know... They added \$100 to my payment for being late and had called a repo company to pick up my truck. I offered to pay something – not the total payment, just something to show I wanted to pay and would pay the loan off ASAP. No deal.

“This is a real ripoff. I have no credit cards and have gone to banks for loans before and have been turned down. How can someone get out of a hole if a company like this... makes money off of people like me that would like to get credit, pay and build a good credit rating?”

Mark Jenks  
Marble Falls

End Notes

<sup>1</sup> Article 16, Sec. 11, Texas Constitution. “USURY; RATE OF INTEREST IN ABSENCE OF LEGISLATION. The Legislature shall have authority to define interest and fix maximum rates of interest; provided, however, in the absence of legislation fixing maximum rates of interest all contracts for a greater rate of interest than ten per centum (10%) per annum shall be deemed usurious; provided, further, that in contracts where no rate of interest is agreed upon, the rate shall not exceed six per centum (6%) per annum.”

See also: Paul Krugman, “Georgia on My Mind,” New York Times (April 11,2010) citing the important role consumer protections in Texas played in avoiding a more severe foreclosure crisis. Available at: <http://www.nytimes.com>.

<sup>2</sup> Chapter 393, Texas Finance Code.

<sup>3</sup> See Chapter 342, Texas Finance Code.

<sup>4</sup> Because payday and auto title lenders are unregulated, there is no Texas data on loan volume or transactions. Based on data from Oklahoma, the average payday borrower uses 9 loan transactions per year. The estimate for the cost of a payday loan is based on an average of 9 loans per borrower using the lower end of Texas payday lender charges, \$20 per \$100 for a two-week period plus 10% annualized interest, as the basis. The higher end, \$30 per \$100 and more, would lead to a total cost of \$1110 to borrow \$300.

See: Oklahoma Trends in Deferred Deposit Lending, Veritec (June 2010) at 8.

According to that same study, only 1.3% of payday loans are paid back within two weeks and over 60% of the loans are made to borrowers taking out 12 or more payday loans.

The auto title lending cost estimate is based on an average of 4 30-day loan renewals (a total of 5 loan transactions) and a cost of \$25 per \$100 borrowed plus 10% annualized interest. The average renewals is derived from data from the Tennessee Department of Financial Institutions, which regulates auto title lending and collects data on auto title transactions. The March 2010 industry analysis reflects a weighted average of 4 renewals per new auto title loan transaction. 16% of the loans were renewed 10 or more times.

See: The 2010 Report on the Title Pledge Industry, Tennessee Department of Financial Institutions (March 2010) at 7.

<sup>5</sup> The 2010 Report on the Title Pledge Industry, Tennessee Department of Financial Institutions (March 2010) at 8. The report indicates that 14, 832 vehicles were repossessed in 2008. There were 161,417 new loans for the same year.

<sup>6</sup> Short-term Credit, Long-Term Debt: The Impact of Unregulated Lending in Texas, Texas Appleseed (April 2009) at 14 and 15.

<sup>7</sup> A Portrait of Older Underbanked and Unbanked Consumers: Findings from a National Survey, AARP Public Policy Institute (September 2010) at 57.

<sup>8</sup> There is no centralized source of data on payday or auto title lending in Texas, because the industry operates

outside of the sphere of regulation. The economic estimate of the cost to Texas families reflects the charges by CSO loan stores that exceed the rates permitted for the same loans under Chapter 342 of the Texas Finance Code. The economic loss estimate does not include Internet lending, which is a substantial segment of the market and could exceed storefront lending in total volume. It also does not include non sufficient funds fees and other penalty fees associated with the loans. A Texas Appleseed and LBJ School analysis of the April 2010 list of registered credit services organization locations in Texas identified 2678 locations offering payday loans and 1776 locations offering auto title loans. Included in these numbers are locations that offer both types of loans. The estimate of average number of payday loan transactions per location and the average amount of a transaction (an average of 2067 transactions per location and an average amount of \$555) is based on information in the 2009 annual reports of two publicly traded companies offering CSO loans in Texas, EZ Corp and Cash America.

See: FORM 10-K ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, For the fiscal year ended December 31, 2009, Cash America International, Inc. and FORM 10-K ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, For the fiscal year ended September 30, 2009, EZ Corp, Inc.

The auto title lending component of the estimate (which reflects an estimate of 1150 loan transactions per location per year with an average loan amount of \$700) is based on data from the EZ Corp. 2009 10K filing referenced above, using loan

volumes and renewal rates reported in the 2010 Report on the Title Pledge Industry, Tennessee Department of Financial Institutions (March 2010).

<sup>9</sup> Office of Consumer Credit Commissioner, List of Licensed Chapter 342 F Lenders (July 26, 2010). For licensing fees applicable to these lenders, see: 7 TAC 83.310.

<sup>10</sup> For more information on faith perspectives on payday lending, please see: Amy Wiles, “Analysis: What does the Bible say about lending practices?” Texas Baptist Standard (Feb. 26, 2010). Available at [www.baptiststandard.com](http://www.baptiststandard.com).



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It's time to support fair competition.

It's time to close the legal loophole for payday and auto title lending in Texas.

For more information, visit:  
[www.texasfaithforfairlending.org](http://www.texasfaithforfairlending.org)  
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