

# One Voice Texas

## A Collaborative for Health & Human Services



### Basic Needs: Payday and Auto Title Lending

Position Statement Approved by One Voice Texas: December 13, 2012

#### Issue/Concern:

The damaging effects of payday and auto title loans have attracted the attention of state legislatures and local governments throughout the nation. There is growing concern, because these high cost loans are draining community wealth and trapping consumers in a destructive cycle of debt. Payday and auto title lenders operate a multi-billion dollar lending business in Texas, yet, unlike most other lenders, they are not regulated or subject to any meaningful consumer protections.

**Specific Policy Recommendation(s):** Set standards for payday and auto title loan products that make access to short term credit affordable for all Texans including:

- Limits on rates and/or fees
- Limits on number of times a loan can be rolled over
- Assessment of borrower's capacity to repay the loan
- Create payment plans that allow payments towards loan principal.

#### How Will This Impact State Funding? What Can Be Accomplished?

Families struggling with payday and auto title loan debt are draining the limited resources of faith communities and local charities/nonprofits. The demand is exceeding organizations' capacity to help families cover rent, utilities, or medical bills. On average, borrowers rollover their loans nine times and are in debt an average of 212 days during the first year of a loan. Additionally, they are about 88% more likely than the general population to file for Chapter 13 bankruptcy within two years of borrowing.

#### Others That Support These Recommendations:

Texas Network of Youth Services (TNOYS); Texas CASA

#### Supporting Facts/Research Resources:

1. **Limits on rates and fees are needed.** The average borrower pays \$840 or more for a \$300 loan and approximately \$1,000 per month in *fees alone* for a \$4,000 auto title loan. Borrowers often pay these fees month after month *without reducing the loan principal*.
2. **Unlimited loan rollovers compound the problem.** Payday and auto title loans are structured to require full repayment of the loan principal *within two to four weeks*. As a result, borrowers roll over these loans an average of nine times. Loan rollovers account for 76% of all payday loan volume—inflating industry profits by more than \$20 billion annually.
3. **It is critical that Texas enforce basic standards for affordable credit.** The current regulatory climate makes it difficult for lower-cost products to compete on the same scale with heavily-marketed, high-cost payday and auto title loans saturating low-income neighborhoods.
4. **Capping rates and fees would not put payday and auto title lenders out of business.** There is a need for a range of small-dollar loan products, but allowing high-cost lenders to dominate is not *free market* and hurts consumers. The payday and auto title industry continues to offer loans in other states at lower rates and fees.
5. **Payday and auto title loans help in the short-term, but create a long-term debt trap.** On average, borrowers are in debt an average of 212 days during the first year of a loan and are approximately 88% more likely than the general population to file for Chapter 13 bankruptcy within two years of borrowing.
6. **Inflated fees on payday and auto title loans undermine local economies—this is money not spent in the community on goods and services.** Bankruptcies, loss of bank accounts, and bill paying delinquencies further contribute to a drain on the local economy.

7. **Payday and auto title businesses do offer loans at lower cost in other states.** Texas consumers should not continue to underwrite 60% of the annual profits of this industry's largest publicly traded companies.

**\*Supporting facts and research provided by the Texas Fair Lending Alliance**

**Contact:**

Frances Rosebush, MSW, MBA

Senior Manager

Community Investment - United Way of Greater Houston

(713) 685-2423

[frosebush@unitedwayhouston.org](mailto:frosebush@unitedwayhouston.org)