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**New Analysis of Ownership and Structure of Payday and Auto Title Loan
Businesses Finds Questionable Practices**

Some Payday and Auto Title Businesses May Violate Laws Requiring Independence from
Third-Party Lenders

AUSTIN, Texas – An analysis released today suggests that while Payday and auto title businesses in Texas have few standards to comply with when it comes to loan charges, they may be failing to heed the one requirement mandated by the state: independence from their third-party lenders. This new analysis of the business structure and ownership of these high-cost loan businesses exposes evidence that many are using technicalities to evade the intent of the law, while others appear to be in outright violation of the statutory and legal decisions that allow them to operate outside Texas' usury caps.

The payday and auto title industry engaged in two years of litigation to keep the names of their third-party lenders away from the public eye. The industry tried to block access to the information despite an attorney general ruling that the information should be made public.

Texas Appleseed's newly issued white paper, *Pulling Back the Curtain: Shining a Light on Payday and Auto Title Loan Businesses in Texas*, analyzes ownership information and data for payday and auto title loan businesses in Texas and their third-party financing entities. This study concludes that close to a quarter of the third-party lenders that finance Texas payday and auto title loans have overlapping ownership with payday and auto title companies, calling into question their compliance with the Texas CSO Act and the state's caps on usury.

"Our analysis raises significant concerns about whether there is truly independence between the third-party entities and the payday and auto title companies they finance, despite statutory requirements that forbid a relationship between the two," said Ann Baddour, director of Appleseed's Fair Financial Services Project. "The law was created to ensure a competitive marketplace that protects consumer interests – but our research suggests that neither goal is being accomplished."

Among the key findings of the report:

- **22 percent** of the 135 Texas-based third-party lenders have some form of overlapping ownership with a payday or auto title lender, operating on the edge of the law requiring independence.
- Of these, five third-party lenders appear to have a **direct ownership connection** with the payday and auto title loan companies that they finance.

The report also calls into question claims that an unregulated market encourages competition between third-party lenders, finding **86% of payday and auto title lenders work only with one third-party lender**, with the **top five third-party lenders serving 77%** of all licensed payday and auto title loan locations.

The report concludes by recommending:

- The Texas Legislature act to require all consumer loan businesses – including payday and auto title businesses – to comply with the same rate and fee structures for consumer lenders currently set out in the state’s finance code.
- A deeper study of the source of capital that drives the third-party lender model, since the report’s results point to a concentration of capital that undermines competition and transparency.
- Enforceable standards of true independence to ensure payday and auto title businesses do not evade the letter or spirit of the law.

Payday and auto title businesses began relying on the CSO Act as the legal structure for high-cost loans that would otherwise run afoul of usury caps after the federal government began placing limits around out-of-state bank partnerships with payday loan businesses in 2005. Under the CSO model, the third-party lender must comply with caps mandated by Texas usury laws, but it places no limits around the fees that the payday and auto title companies may charge as the “loan broker” for their services. This results in the equivalent of interest rates averaging around 500% for payday loans made in Texas – some of the highest rates in the nation.

“In 2006, the Texas Attorney General’s office theorized that ‘if the CSO and the lender are truly independent actors, there would be nothing patently illegal about the model.’ This report calls into question whether that is truly the case,” said Deborah Fowler, executive director for Texas Appleseed. “We need better transparency and a deeper study of the CSO Act’s model to ensure that Texas families have access to fair and responsible short-term loans.”

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About Texas Appleseed

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