Texas
APPLESEED

Senate Business and Commerce Committee
April 24, 2025

Senate Bill 1906:
Relating to increasing the interest rate of certain consumer loans.

Introduction

Chairman Schwertner, Vice Chair King, and committee members – thank you for this opportunity to offer written testimony to the Senate Business and Commerce Committee regarding Senate Bill 1906.

My name is Briana Gordley, and I am a senior policy analyst with the Fair Financial Services Project at Texas Appleseed, a nonprofit that promotes social, economic, and racial justice for all Texans. Our Fair Financial Services Project works across several issue areas, such as predatory payday and auto title lending, unjust debt collection practices, financial abuse and coerced debt, and data privacy. Additionally, Texas Appleseed is a part of the Texas Fair Lending Alliance, a coalition of 60+ stakeholders working to transform the Texas payday and auto title loan market from one based on a cycle of debt to one that thrives on a cycle of success. Today, I am submitting written testimony in opposition to Senate Bill 1906.

Why does Texas Appleseed oppose Senate Bill 1906?

As written, Senate Bill 1906 would make the cost of credit more expensive for Texans. Texas Appleseed acknowledges that costs have gone up and things are more expensive – it costs more to do business in Texas and to be a borrower in Texas. We also know that a lot of Texans are struggling financially, and any proposal to make certain finance company loans more expensive will only exacerbate the financial burden and hardship that Texans are facing. As it stands, no compelling data from the finance companies has been presented to show a need to increase the cost of credit for Texans, calling into question the need for these lenders to raise interest rates altogether.

While some advocates of this proposal consider this a consumer protection bill that will protect Texans from a segment of online lending that remains unregulated, **that is not the case**. Unregulated online lending is a problem for consumers in that it allows lenders to partner with out-of-state banks and subject consumers to whatever the interest rate of that state is, even if it's significantly higher than the state of the consumer, which it almost always is. We believe the solution to this problem is to regulate that segment of the market, **not** increase fees for already high-cost loans. Increasing fees doesn't guarantee that these companies would be able to serve more consumers – it only guarantees that Texans will pay even more to access credit.

How would Senate Bill 1906 make credit more expensive for Texans?

Senate Bill 1906 would amend Chapter 342, Subchapter E of the Finance Code, which regulates certain consumer loans offered by finance companies. Finance companies regulated under this section have a three-tiered interest rate structure based on the amount of the loan. Senate Bill 1906 would raise the interest rate for each tier by 6%:

- 30% → 36% for loan amounts up to $4,500
- 24% → 30% for loan amounts of $4,501 to $9,450
- 18% → 24% for loan amounts of $9,451 to $22,500

Because these loans are larger and longer-term, a 6% interest rate increase for each tier would make them meaningfully more expensive. Under current law, a 5-year, $4,500 loan that does not refinance would cost Texans $8,735 to repay. Under Senate Bill 1906, that same loan would cost $9,756, adding about $1,000 to the full cost of the loan.

Cost of a $4,500 Loan in Texas

Under SB 1906, a typical $4,500, 5-year loan would cost **$1,000+** more compared to current law.

	Under Current Law	**Under SB 1906**
Amount Financed	$4,500	$4,500
Term	5 years	5 years
Administrative Fee	$125	$125
Interest Rate %	30%	36%
Interest Paid	$4,235	$5,255
Total Cost	$8,735	$9,756
Total Increase	**$1,021**	

For a larger loan size of $10,000 at 5 years, **Texan would pay $2,000 more compared to current rates.**

Data Analysis of 342-E Companies

Texas Appleseed opposes any increase in the cost of credit for Texans, and we strongly oppose unjustified increases without compelling data to support the need for an increase. Based on an analysis of 342-E Finance Companies that operate across the U.S., we found that:

- Texas falls either at or slightly above the median for interest rate charges for both a $2,000 and $10,000 loan compared to other states, sitting at 35% APR and 27%APR respectively.

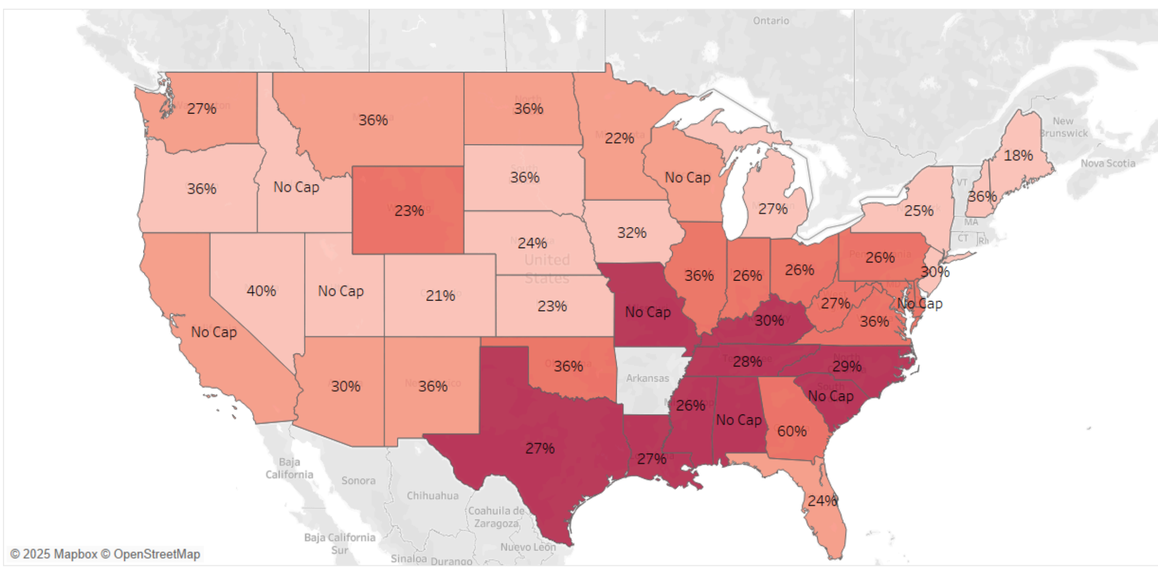
Looking at the eight loan companies that are members of the Texas Consumer Credit Coalition, the group advocating for this bill:

- Texas has one of the highest concentrations (locations per 100,000 population) of lending branches for those lenders compared to other states, indicating that current rates in Texas support a thriving market.

This data suggests that the current rate structure supports the availability of credit for Texans.

Branch Locations per 100,000 Residents

Maximum APRs as of March 2024



Sources: Branches of 342-E lending institutions for 8 major companies; American Comunity Survey; National Consumer Law Center
Author: John Laycock, Texas Appleseed Date: April 21, 2025

- Less than .5 locations per 100,000 people
- .5 to 1 locations per 100,000 people
- 1 to 1.75 locations per 100,000 people
- More than 1.75 Locations per 100,000 people

Additionally, we are seeing a trend in 342-E finance companies continuing to request an increase in their rates and fees. In 2024, the Texas Finance Commission approved a 25% increase in their administrative fee ($100 to $125), which will continue to increase as the Consumer Price Index (CPI) goes up. This means that the administrative fee charged would continue to increase based on the CPI without requiring 342E lenders to conduct cost assessments or provide any substantive data that clearly shows that the costs specific to administering these types of loans have increased.

Oppose Senate Bill 1906 – Texans Deserve Fair and Low-Cost Lending Options

With Texans under financial strain, we are concerned about raising costs for already expensive loans. Senate Bill 1906 is not a consumer protection bill – it is an effort to raise interest rates and make credit more expensive for Texans. We strongly urge the Committee to reject any proposal that unjustifiably raises interest rates for Texans. Thank you for your consideration.

Briana Gordley, Senior Policy Analyst, Texas Appleseed
bgordley@texasappleseed.org