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Push to Rein in Predatory Payday and Auto Title Lending Gains Momentum

Ordinances limiting usurious loans now cover over 7 million Texans in 18 Texas cities

AUSTIN, Texas — In an effort to rein in abusive practices by payday and auto title loan businesses, Midland is the latest municipality to pass Texas' unified ordinance, which sets basic affordability standards for payday and auto title loans and helps borrowers avoid a never-ending cycle of debt.

“Our state has some of the most lax oversight of payday and auto title lending in the country, and as a result, Texans are paying nearly twice the fees of borrowers in some other states,” said State Rep. Tom Craddick. “I commend the cities that are providing relief to struggling families. My hope is that the efforts of these cities, including my hometown of Midland, will help spur our state to adopt meaningful statewide reform.”

Eighteen cities in Texas have passed the unified ordinance, covering 42 percent of the payday and auto title loan locations in the state. Midland passed their ordinance on June 17. Texas Appleseed, a nonprofit that promotes social and economic justice, has been working in partnership with statewide and community organizations to support the push for payday and auto title lending reform.

“Covering over 7 million Texans, more than a quarter of the population of Texas, is a huge milestone for our state,” said Ann Baddour, senior policy analyst with Texas Appleseed.

“By passing the unified ordinance, cities across the state are boldly saying, we will do what we can to promote prosperity for our citizens and local economies,” said Dallas City Council Member Jerry Allen. “We will no longer stand on the sidelines and allow this abusive lending to proliferate in our communities.”

Long-Term Loans with High Fees

While marketed as short-term loans for unexpected expenses, payday and auto title loans often last longer than anticipated. National and statewide research reveals that payday borrowers are trapped in debt for an average of five months of the year. Borrowers are also more likely to seek a loan to cover recurring expenses, such as food and rent, versus one for unexpected emergencies. In Texas, these loans often carry rates of 500 percent APR or higher.

“These loans set up too many Texans to fail by burdening borrowers with excessive fees and sky-high payments that do little to reduce the total loan amount,” said Baddour. “This kind of lending hurts our economy, hurts Texas families, and drains charitable resources from organizations that help families in need.”

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Families often end up worse off than before taking out the loan. These loans have drained \$2.6 billion in fees alone from Texas families over the past two years. Also, in the past two years, over 70,000 Texans have lost cars to auto title loan businesses, which can affect their ability to get to work.

Main Components of the Unified Ordinance

The unified city ordinance adds basic, common-sense standards to control predatory practices in the payday and auto title lending marketplace. A violation of the ordinance is a criminal act and carries a penalty of \$500.

- Payday and auto title stores operating as credit access businesses (the state licensing designation for these businesses) must register with the city.
- Payday loans are limited to 20 percent of the borrower's gross monthly income. Auto title loans are limited to the lesser of 3 percent of the borrower's gross annual income or 70 percent of the vehicle value.
- Loans cannot have more than four payments: either four installments or three rollovers or renewals.
- The proceeds from each installment or renewal must reduce the loan principal by 25 percent.
- A rollover or renewal is defined as an extension of consumer credit made within seven days of the previous extension of credit.

"We are finding that smaller cities that neighbor larger Texas cities are adopting the ordinance to ensure payday and auto title lending businesses abide by the same standards," said Baddour. "We know that meaningful reform works. Reform is a critical first step toward a marketplace that fosters borrower success."

Texas Cities that Adopted the Unified Ordinance: Date Passed

- Dallas: June 2011
- Austin: August 2011
- San Antonio: Sept. 2012
- El Paso: Jan. 2013
- South Houston: March 2013
- Denton: March 2013
- Balcones Heights: April 2013
- Flower Mound: July 2013
- Somerset: Sept. 2013
- Houston: Dec. 2013
- Universal City: 2013
- Bellaire: Jan. 2014
- Bryan: Feb. 2014
- College Station: Feb. 2014
- West University: March 2014
- Garland: March 2014
- Baytown: May 2014
- Midland: June 2014

Source: Texas Appleseed

For more information, visit www.TexasFairLending.org or www.TexasAppleseed.net.

About Texas Appleseed

Texas Appleseed is a nonprofit organization whose mission is to promote social and economic justice for all Texans by leveraging the skills and resources of volunteer lawyers and other professionals to identify practical solutions to difficult, systemic problems.

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