



Summary of Texas Payday and Auto Title Lending City Ordinances

June 2011-January 2015

Twenty-two Texas cities have passed local ordinances limited payday and auto title lending: Amarillo, Austin, Balcones Heights, Baytown, Bellaire, Brownsville, Bryan, College Station, Dallas, Denton, Dickinson, El Paso, Flower Mound, Galveston, Garland, Houston, Midland, San Antonio, Somerset, South Houston, Universal City, and West University. These cities include 7.6 million Texans and over 40% of the licensed payday and auto title store locations in the state. The city ordinances are designed to address the cycle of debt often caused by these loans, within a framework that is not preempted by state law. A violation of the ordinances is a criminal act and carries a penalty of \$500.

The ordinances focus on creating parameters to ensure that the loan is not so large that it is impossible for the borrowers to repay it. They limit the number of times a loan can be rolled over or paid in installments and require that the proceeds of any renewal payment reduce the original loan amount by 25%. If this provision is followed, then the loan should be fully re-paid after four installments or three rollovers.

The ordinances define renewal as a loan taken out within seven days of the previous loan. The purpose of the renewal definition is to capture back to back transactions and to avoid evasion of the renewal limit by requiring people to pay in full and then immediately re-borrow, or come back in the next few days for a new loan.

The Texas Municipal League (TML) has produced an informational website to provide background and legal resources to cities interested protecting their citizens from predatory financial products and supporting the statewide movement for reform. See: <http://www.tml.org/payday-updates>. The TML resources include the text of the model ordinance: <http://www.tml.org/payday-example-ordinance>.

Main Components of the Ordinances

- Payday and auto title stores operating as a credit access businesses (the new state licensing designation for these businesses) must register with the city.
- Payday loans, including all charges, are limited to 20% of the borrower's gross monthly income. Auto title loans are limited to the lesser of 3% of the borrower's gross annual income or 70% of the vehicle value.
- Loans cannot have more than 4 installments or 3 rollovers or renewals.
- The proceeds from each installment or renewal must reduce the loan principal by 25%.
- A rollover or renewal is defined as an extension of consumer credit made within seven days of the previous extension of credit.