Texas Fair Lending Alliance

For Immediate Release: March 30, 2015

Texas Better Off Under CFPB Proposal to End Payday Debt Trap

Texas still needs unified ordinance that offers strong consumer protections

AUSTIN, Texas — The Texas Fair Lending Alliance (TFLA) is fighting to end abusive lending. The Consumer Financial Protection Bureau's (CFPB) proposal to rein in payday and auto title loans is bringing Texas and other states a step closer to meaningful reform.

AARP Texas, Center for Public Policy Priorities, Christian Life Commission, Citizens for Responsible Lending (Waco), Lubbock Housing Finance Corporation, RAISE Texas, Texas Appleseed, Texas Catholic Conference, Texas NAACP, United Way of Central Texas, United Way of Greater Houston, United Way of Southern Cameron County, and United Ways of Texas — members and partners of TFLA — urge the CFPB to ensure <u>all</u>loans comply with a meaningful assessment of the borrower's ability to repay the loan, and also stress that Texas' unified ordinance, now adopted by 22 urban and rural Texas cities, remains necessary to protect borrowers.

In Texas, payday loans average over 500 percent APR, and car title loans average 268 percent APR.

The March 26 working proposal by the CFPB addresses abusive small-dollar lending schemes such as payday, auto title, and high-cost installment lending. The broad scope of the proposal is particularly important for Texas, as we are seeing an increase in high-cost installment and auto title lending in addition to short-term payday loans. From 2012 to 2013, the volume of high-cost installment lending increased by 46 percent in Texas, with average fee charges at 1.5 times the original loan principal. Short-term auto title lending increased by 13 percent.

The CFPB proposal includes essential guiding principles, including requirements to assess the borrower's ability to repay the loan and protections to ensure that loan payments do not take precedence over basic necessities, such as rent, utilities and food. Given this industry's history of exploiting loopholes to get around fair lending standards, any final proposal should ensure that fair standards are upheld in the marketplace.

Local Ordinances and State Reforms Still Needed

Texas' unified ordinance adds basic, common-sense standards to control predatory practices in the payday and auto title lending marketplace. Timing for any new federal rules to take effect means Texas cities that adopt the unified ordinance will continue to protect borrowers from egregious payday and auto title loans. Additionally, city-specific measures can remain in place if they are stronger than federal rules.

Approximately 30 bills have been filed in the Texas Legislature to address payday and auto title lending reform. The best comprehensive measures to protect borrowers focus on two strategies — allowing Texas' unified ordinance to become state law and adopting a meaningful rate cap for these high-cost loans.

More than 7 million Texans are protected under the unified ordinance, and the main components of the ordinance include:

- 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.

About the Texas Fair Lending Alliance

The Texas Fair Lending Alliance (TFLA) believes in a Texas market that encourages informed financial choices that are successful for both borrowers and lenders. TFLA is a coalition of over 60 organizations and individuals 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. Our goal is to strive for a market with fair and transparent payday and auto title loans that are a win for lenders, borrowers, and the Texas economy. www.texasfairlending.org

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MEDIA NOTE

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Ohio Policy Centre Coalition -Ohio

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CFPB Proposal to Stop the Payday Lending Debt Trap Is On the Right Track But Contains Dangerous Loophole

(Columbus, Ohio) _ Earlier today the Consumer Financial Protection Bureau released a proposal to rein in abusive low-dollar lending schemes such as payday, auto title and installment lending. The draft, presented at a field hearing in Richmond, VA, would require lenders to verify before making a loan that borrowers can pay it back on time, without re-borrowing, and still cover their basic necessities like rent, food and utilities.

But, lenders could chose to ignore this requirement because of loopholes that still allow for abusive practices. For example, under this rule short-term lenders could make up to six unaffordable loans to the same borrower with interest rates that average 400 percent. Back-to-back loans are a standard business practice of the payday industry. Payday lenders market their products as short-term quick fixes, but the average borrower winds up taking out nine loans, each with a new fee and a triple-digit interest rate.

Policy Matters Ohio, Ohio Poverty Law Center, the Coalition on Homelessness and Housing in Ohio (COHHIO) and Neighborhood Housing Services of Greater Cleveland are a part of the national Stop the Debt Trap Campaign, which is fighting for an end to abusive lending. In Ohio, payday loans typically carry a triple-digit interest rates, including some over 700 percent APR. Ohio advocates made the following statements on the proposal:

“The proposal unveiled today by the Consumer Financial Protection Bureau takes an important step toward restricting in a wide range of abusive lending products,” said Kalitha Williams, policy liaison at Policy Matters Ohio. “Unfortunately, it also includes a gaping loophole that in essence puts a government stamp of approval on unaffordable back-to-back loans with interest rates that average near 400 percent. We urge the CFPB and Director Cordray to reconsider and leave this loophole out of the rule.”

“The scope of the CFPB’s proposals is forward-looking and recognizes that this industry easily morphs into evasive new products,” said Linda Cook, senior staff attorney at the Ohio Poverty Law Center. “I applaud the CFPB for asking this industry to do what any responsible lender should do - consider the borrower’s ability to repay. This should not be an industry choice, rather an industry mandate. “

"We’re glad to finally see action on the federal level to rein in predatory payday lending. There are good points to the recently released proposed CFPB rules, including making sure the borrowers can actually afford to repay these loans, which would prevent payday lenders from knowingly making loans to people who cannot afford to pay them back. It’s the first step to stopping the debt trap,” said Bill Faith, executive director of the Coalition on Homelessness and Housing in Ohio.

“There are points that need to be strengthened, such as making the ability to repay standard mandatory. As we’ve seen in Ohio, payday lenders have found many ways around laws meant to regulate them, so federal rules must have the tightest reins possible. We look forward to working with the CFBP to continue the process of strengthening protection for all small loan borrowers."

“Kudos to the Consumer Financial Protection Bureau for allowing research to be their guide and recognizing that payday lending reform is in desperate need,” said David Rothstein director of resource development and public affairs at Neighborhood Housing Services of Greater Cleveland. “Every day, we see clients being dragged down by the anchor of payday loans. As a lender, we value strict underwriting for our borrowers and our organization. Thus, allowing lenders the choice to opt-out of looking at a borrower’s ability to repay in favor of back-to-back transactions is unacceptable. We know what their choice will be. For 6 years, payday lenders in Ohio took it upon themselves to use every lending law but the one approved by a bi-partisan General Assembly and 2/3 of Ohio voters.”