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Family Budget Busters: Payday and Auto Title Loans Are Getting More Expensive for Texans

A study of 2012-2013 trends in payday and auto title lending in Texas

Don Baylor baylor@cppp.org

Texans who need money to cover basic expenses like rent, utilities, or credit card bills when their income and the timing of their paychecks don't meet their needs often turn to payday or auto title loans, a high-cost extension of consumer credit that uses the borrower's income or car as collateral.

A new data analysis shows Texans paid more in payday and auto title loan fees in 2013 compared to 2012 and remained in debt longer, even though they took out fewer total loans during that same time. With nearly 3,300 storefronts and a growing marketplace of online lenders, Texas' payday and auto title loan industry makes about 3 million loans and collects about \$4 billion from Texas consumers annually in principal, fees, and interest. Unlike most other states with payday lending, Texas law includes no limitations on these transactions, and therefore, no meaningful protections for borrowers, who tend to be very low-income, rely on public benefits, and remain in debt for several months.¹ Both the 2011 and 2013 Texas Legislatures failed to pass statewide consumer protections for Texans taking out payday and auto title loans. That chronic inaction has compelled over 15 Texas municipalities to pass local ordinances regulating these transactions since 2011.² Federal guidelines by the Consumer Financial Protection Bureau are expected soon as well.

This report analyzes data collection and reporting required by state law for payday and auto title lenders, also known as Credit Access Businesses (CABs), under Finance Code Section 393.627. The 2013 CAB Annual Report, published by the Office of Consumer Credit Commissioner (OCCC), marks the second annual report on CAB data, enabling the first year-to-year comparison on Texas payday and auto title loan consumers, fees, and transactions.

What Loan Products Are Offered to Texas Consumers?

Under current state law, Texas payday lenders can make and extend payday and auto title loans an unlimited number of times, for an unlimited amount of time, and charge unlimited fees.

In Texas, two high-cost loan products exist—a single payment loan and a multipayment (MP) installment loan.

For a classic single payment payday loan, the loan is secured through the borrower's next paycheck, and that loan amount plus a fee is due in one lump sum on the date of the borrower's next pay day. In Texas, the average single payment payday loan is \$480 and lasts an average of 19 days. The average fee on a single payment payday loan in Texas is \$23 per \$100 borrowed.

Here's one possible scenario: a Texan borrows \$500, and the lender tacks on a \$120 fee. The consumer now owes \$620 on the next pay day, two weeks later. More often than not, the borrower can't afford to pay back the full \$620, so instead pays just the \$120 fee and rolls over the \$620 until the next pay period. Most single payment loan borrowers roll over on their original loan at least once, paying the \$120 fee every two weeks without reducing the original loan amount. If, for example, the borrower rolls over on the loan five times total, he or she ends up owing \$1,220 to borrow the original \$500.

For the longer installment loans, the lender uses a borrower's upcoming paychecks as collateral, sets up a payment plan based on the borrower's pay cycle that typically lasts for months, and assigns a separate fee for each installment. While this type of loan appears more transparent, the average Texas borrower who takes out this type of loan ends up paying more in fees than the original loan amount. In Texas, the average installment loan is more than \$500 and lasts an average of 20 weeks.

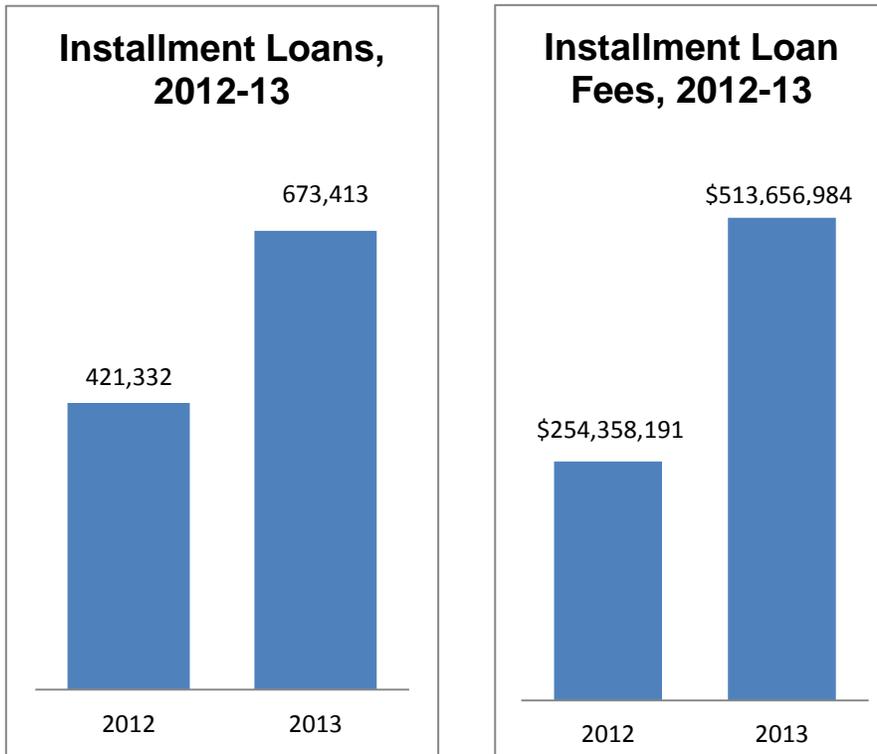
Here's one possible scenario: a Texan borrows \$1,000, and the lender creates a 168-day payment plan. Every two weeks for six months approximately \$245 is due. That \$245 includes part of the original loan amount, a fee, and interest. In the end, the borrower ends up paying about \$4,000 to borrow the original \$1,000.

Lenders also offer single and installment payment auto title loans, which use the borrower's car title as collateral and tend to be larger and last longer than their payday counterparts. On top of the expensive fees, auto title borrowers are also at risk of losing their vehicle.

Analysis of 2012 and 2013 Payday and Auto Title Loan Data

Our analysis of the 2013 lending data compared to 2012 yields several notable findings, including:

1. Multi-payment loans and fees are on the sharp rise.
 - In 2012, 1 in 7 payday loans were installment loans; in 2013, 1 in 4 loans were installment loans.
 - In 2013, the number of multiple payment loans rose by 60 percent, while the total fees charged on those loans rose 102 percent, to over \$500 million.



Source: CPPP analysis of OCCC CAB annual data report, 2012-2013

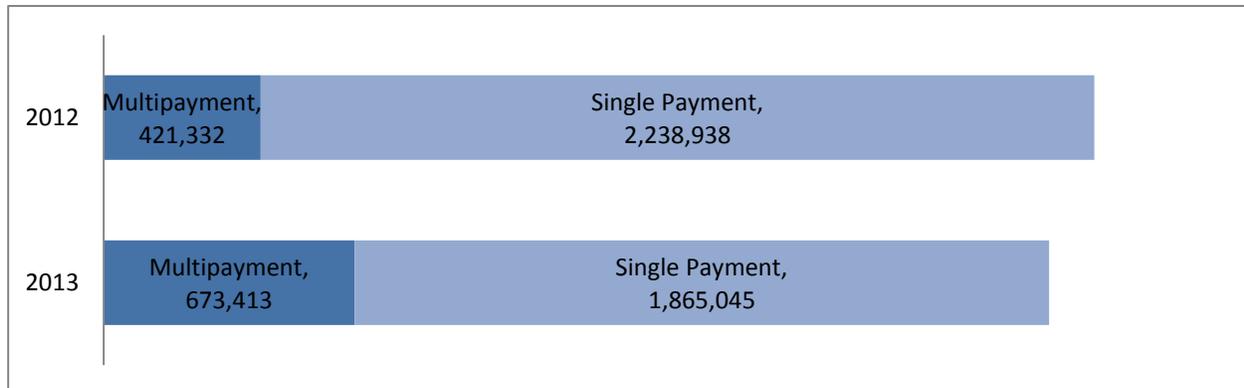
While the number of single payment loans declined by 21 percent and total fees decreased by 17 percent compared to 2012, the amount of overall payday loan fees paid by Texas consumers climbed by 12.5 percent. Not only did the number of installment payday loans, the average total fees paid by consumers jumped from about \$877 to \$1,062 per loan, even though the average loan amount declined from \$558 to \$511.



The effective cost of multiple payment loans increased by almost one third in 2013, compared to 2012. For every \$1 borrowed through a multiple payment payday loan, Texas consumers pays at least \$2 in fees plus the original loan amount to repay the loan.

2. Payday and auto title lenders charged consumers more in fees in 2013 compared to 2012 but made fewer loans.
 - Overall, the number of new loans made to Texas consumers fell by 4 percent, to just under 3 million new loans.
 - The 2013 fees charged to Texas consumers for all products rose by 12 percent, to just under \$1.4 billion.

Multipayment Loans Nearly Double Market Share



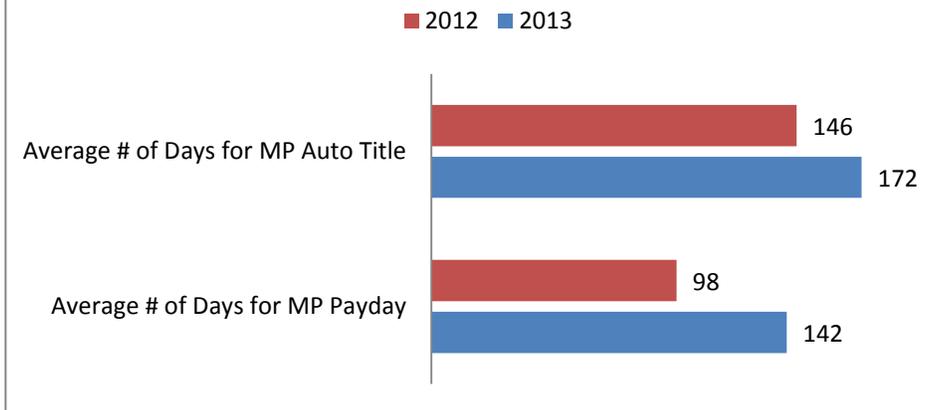
Source: CPPP analysis of OCCC CAB annual data report, 2012-2013

In addition to multiple payment loans, single payment auto title loans were the only other product to see gains in total number of new loans and total payday lending fees charged to Texas consumers. These auto title loans also saw a spike in the average loan amount, and an even higher increase in the effective cost to the average consumer, climbing 17 percent in 2013 compared to 2012.

Single payment auto title loans represent another example of the impact of lenders raising their fees dramatically for the same product when compared to 2012. While the number of new loans climbed by only 2 percent, the amount of fees charged on single-payment auto title loans rose by 26 percent.

3. The average loan term for multiple or installment payment loans increased considerably in 2013 compared to 2012.
 - For installment payday loans, the average loan term grew from 14 weeks in 2012 to 20 weeks in 2013.
 - For installment auto title loans, the average loan term grew from 21 weeks in 2012 to 25 weeks in 2013.
 - The average loan term for single payment products remained constant for single payment payday and auto title loans, remaining at 19 and 30 days respectively.

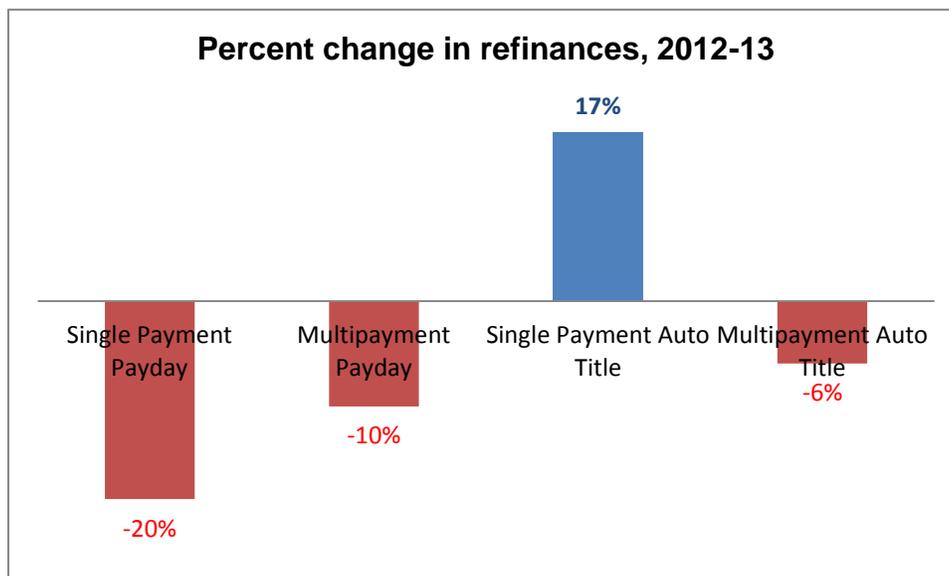
Installment Loans Now Have Much Longer Terms



Source: CPPP analysis of OCCC CAB annual data report, 2012-2013

4. Refinances on existing loans went down in 2013.

- As single payment payday loans declined, the number of overall refinances also went down considerably, by 22 percent.
 - The refinance-to-new loan ratio went down slightly for single payment payday products.
 - The refinance-to-new loan ratio went up considerably, however, for single-payment auto title loans, climbing 14 percent year-over-year.



Source: CPPP analysis of OCCC CAB annual data report, 2012-2013

5. Overall, auto title loans and fees continued to grow in Texas, taking a larger market share of the overall market compared to 2012; however, payday loans still make up at least two-thirds of the overall market.
 - In 2012, all auto title loans made up 29 percent of the total dollar amount of new loans; in 2013, all auto title loans made up 33 percent of the total dollar amount of new loans.
 - In 2012, all auto title loan refinance amounts made up 23 percent of all loan refinance dollar amounts; in 2013, all auto title loan refinance amounts made up 30 percent of all loan amounts refinanced.
 - The market share for all auto title loan fees remained steady at around 25 percent of all fees charged.
 - In 2013, the number of repossessions increased to 37,649 vehicles surrendered, an overall 1.6 percent increase from the total number of vehicles surrendered in 2012 due to auto title loans not fully repaid. In both years, for every 12 loans made, the industry repossessed one vehicle from Texas consumers.

Recommendations for State and Federal Policymakers

Based on this analysis, the Center for Public Policy Priorities recommends that the Office of Consumer Credit Commissioner do the following:

- **Improve local and regional data reporting:** It is difficult to access local data about payday lending in Texas. The OCCC should revise its policy statement on data reporting to be more equitable and meaningful. In particular, OCCC should establish a minimum population threshold (e.g. 100,000 people) and report transactional data for all cities and counties above that threshold;
- **Increase enforcement of disclosure requirements:** Before making a loan to a consumer, payday lenders are required to provide the standard disclosure adopted by the Finance Commission.³ However, recent evidence from consumers, OCCC, and media reports indicate that many payday lenders are not fully complying with this state disclosure law; and
- **Require more transparent pricing:** To encourage more price competition, we recommend that OCCC require payday lenders to post the average effective annual percentage rates and fees for their financial products in a visible and prominent location at the exterior of the storefront.
- **Work closely with the Consumer Financial Protection Bureau:** The Office of Consumer Credit Commissioner should coordinate closely with the CFPB upon final rulemaking to ensure that Texas payday and auto title lenders comply with any federal rules. OCCC should identify any administrative and statutory gaps for rigorous co-enforcement and make recommendations to the Finance Commission and the Texas Legislature.

The Consumer Financial Protection Bureau should:

- **Create a two-tiered regulatory framework:** To protect consumers and encourage lower-cost products in the marketplace, the CFPB should establish a “HOEPA-style” APR threshold that places additional restrictions for loans made above that fee and interest rate level.
- **Limit product offerings:** To promote true compliance with any potential federal guidelines governing payday or auto title loans, the CFPB should clearly define the types of products allowed in the marketplace, and likewise prohibit unapproved products;
- **Establish a strong ability to repay standard:** As one of the pillars of consumer protection, the CFPB should establish a verifiable and quantifiable ability to repay standard that decreases loan renewals and shortens loan sequences;
- **Develop a national consumer registry:** Given the common scenario of consumers juggling multiple payday loans simultaneously, a meaningful “ability to repay” standard would need to apply across multiple lenders, and not just confined to a single lender. As many states with similar platforms have recognized, a consumer registry not only assists with consumer protection, it also provides an effective way to enforce guidelines in the marketplace; and
- **Set minimum and maximum loan terms:** Working together with the above recommendations, it is important that borrowers have enough time to repay their loans without being subject to longer, installment loans that simply extract more fees and interest from borrowers.

For more information or to request an interview, please contact Alexa Garcia-Ditta at garciaditta@cphp.org or 512.823.2873.

About CPPP

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ENDNOTES

² Office of Consumer Credit Commissioner, *Credit Access Business Annual Data Report*, CY 2013.

³ Texas Finance Code, Section 392.223

APPENDIX

Table 1: Summary of 2013 Payday & Auto Title Data (% Change from 2012), by Product

Item	SPP (% CHANGE)	MPP (% CHANGE)	SPAT (% CHANGE)	MPAT (% CHANGE)
# of Consumers	1,034,188 (-4%)	485,855 (67%)	321,832 (8%)	57,812 (-15%)
# of New Loans	1,865,045 (-17%)	673,413 (60%)	403,902 (8%)	69,027 (-14%)
# of Refinances	2,911,469 (-20%)	153,695 (-10%)	758,003 (17%)	37,667 (-6%)
Original Loan Amount (\$)	\$883,473,148 (-18%)	\$339,837,361 (45%)	\$507,857,600 (13%)	\$78,455,273 (-18%)
CAB Fees Charged (\$)	\$538,012,282 (-21%)	\$513,656,984 (102%)	\$278,554,908 (26%)	\$69,039,856 (-21%)
Vehicles Repossessed	N/A	N/A	33,226 (16%)	4,423 (-47%)
Average Loan Amount (\$)	\$473.70 (-2%)	\$504.65 (-10%)	\$1,257.38 (11%)	\$1,136.59 (-4%)
Average Fee Per Consumer (\$)	\$520.23 (-18%)	\$1,057.22 (21%)	\$865.53 (17%)	\$1,194.21 (-7%)

Source: CPPP Analysis of CY 2013 CAB Annual and Quarterly Data Reports published by Office of Consumer Credit Commissioner.

Table 2: Summary of 2013 Payday & Auto Title Data (% Change from 2013), by All Payday & All Auto Title

Item	All Payday Loans (% Change)	All Auto Title Loans (% Change)	All CAB Loans (% Change)
# of Consumers	1,520,043 (11%)	379,644 (4%)	1,899,687 (9%)
# of New Loans	2,538,458 (-5%)	472,929 (-1%)	3,011,387 (-4%)
# of Refinances	3,065,164 (-19%)	795,670 (15%)	3,860,834 (-14%)
Original Loan Amount (\$)	\$1,223,310,509 (-7%)	\$586,312,873 (8%)	\$1,809,623,382 (-3%)
CAB Fees Charged (\$)	\$1,051,669,266 (12%)	\$347,594,764 (13%)	\$1,399,264,030 (12%)

Source: CPPP Analysis of CY 2013 CAB Annual and Quarterly Data Reports published by Office of Consumer Credit Commissioner.