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PRESS RELEASE

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New CPPP report shows payday and auto title loans are getting more expensive and continue to trap Texans in a cycle of debt

Texas consumers paid $1.4 billion in loan fees in 2013, a 12 percent increase from 2012

A first-of-its-kind data analysis by the Center for Public Policy Priorities shows payday and auto title lenders charged Texans more in loan fees and trapped them in debt longer in 2013 compared to 2012, even as consumers took out fewer loans during that same time. The largely unregulated lending industry continues to run amok and take advantage of consumers.

Texans take out payday and auto title loans when they can't meet basic expenses, and unlike a simple bank loan, these financial products use paychecks or auto titles as collateral. And because state law offers virtually no protections, including no cap on the fees a lender can charge and no loan term limits, consumers end up being charged cripplingly high fees that prevent them from paying back the loan in a reasonable amount of time.

While the number of overall loans made in 2013 decreased by four percent, consumers actually paid $1.4 billion in fees, a 12 percent increase from 2012.

"When Texans can borrow, they are able to contribute to their local economies and provide for their families, and they should be able to borrow small amounts of money without being taken advantage of," said Don Baylor, senior policy analyst at the Center for Public Policy Priorities. "But as the data show, lenders continue to prey on very low-income borrowers, who often end up paying obscenely more than their original loan."

While the number of overall loans made in 2013 decreased, the number of installment loans, which work essentially like mini-mortgages and tend to be costlier with longer terms, increased by 60 percent in one year, and fees on these jumbo loans doubled. For every $1 borrowed through an installment payday loan, Texas consumers paid at least $2 in fees, plus the original loan amount.

The data, which Texas now requires lenders to collect thanks to a 2011 state law, also indicate that Texans are handcuffed by these costlier installment loans for longer periods of time. The average term for payday installment loans grew from 14 weeks in 2012 to 20 weeks in 2013. Auto title installment loan terms grew from 21 weeks in 2012 to 25 weeks in 2013.

"These budget-busting loans only make the cycle of debt longer and more expensive," Baylor said. "The data indicate a clear shift on the part of the industry to shrink the single payment loan market share and make more long-term loans to guarantee that Texas consumers remain in debt for most of the year."

Chronic state inaction on consumer protections against these predatory lending practices have forced more than 15 Texas cities to pass local ordinances to address the problem, and federal action is pending.

Based on the data analysis, CPPP recommends the state Office of Consumer Credit Commissioner improve on local and regional data collection, as well as enforce disclosure requirements and strengthen pricing transparency. The federal Consumer Financial Protection Bureau should limit the types of loan products offered and for how long, as well as require lenders to determine a borrower’s ability to repay the loan before granting it.

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