GONE TO TEXAS COALITION*

Oppose CSHB 846 (Flynn): Protect the Public from Predatory Payday Lenders

Texas has a longstanding tradition of fighting usury – in fact, specific interest rate caps were written into the original Texas Constitution. CSHB 846 substantially weakens these consumer protections and ***authorizes interest rates on loans as high as 780 %!***

What would CSHB 846 do?
Texas payday lenders are currently allowed to loan up to $500 at up to 222% APR on a typical seven day loan. CSHB 846 would raise the maximum loan amount to $1,000 and allow up to an unconscionable 780% on a typical seven day loan. The interest rates that would result under these limits are shown below.

Interest Rates (APR) on a $300 Payday Loan		
	Current Law	Proposed (CSHB 846)
7-day loan	222%	780%
10-day loan	170%	548%
14-day loan	135%	390%

CSHB 846 offers inadequate protection to consumers. Proponents of the legislation claim the bill will protect consumers through regulation. But, what kind of protection is a law that allows lenders to charge 780% interest and make loans borrowers may not reasonably be expected to repay?

Why would the industry want this legislation? ***Federal banking regulators have started to crack down*** on payday lending. Most federal regulators have recognized that payday loans are bad for business and no longer permit their banks to "rent their charters" for payday lending. Although the Federal Deposit Insurance Corporation (FDIC) still permits its banks to partner with payday lenders, it is in the process of tightening regulations on the practice. According to the Austin American-Statesman, "if Texas lenders can make their own loans without going through banks in other states, they don't have to abide by the FDIC guidelines."

What should the 79th legislature do? First, don't adopt this payday lender-backed legislation. In order to rein in the usurious practices of the payday loan industry, the Texas Legislature should close the loophole that allows them to evade state law by partnering with out-of-state banks to charge rates as high as 900%. Georgia, Colorado, Virginia, Massachusetts and North Carolina have taken this step to protect their residents and Texas should too. CSHB 846 will just perpetuate the debt trap for Texas families.

What is a payday loan?
A payday loan is a short-term, high-interest loan that some low-income Texans rely on when they have trouble paying their bills between paychecks. These storefront lenders charge interest rates as high as 900% in addition to high "rollover" fees that extend the loan when borrowers can't repay it on time. Payday loans take advantage of low-income families desperate for fast cash and can trap borrowers in a spiral of debt. Borrowers, on average, take out between 8 and 13 loans per year. Lenders prey, in particular, on military families who are a safe and easy target— they get paid without fail by U.S. government check and are often strapped for cash.

**Many early American settlers struggling with debt etched "Gone to Texas" on their doors when they moved to the Republic for the chance to escape lenders and rehabilitate.*

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