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Loopholes Allow Loan Sharks to Prey on Hardworking Texans

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Loan sharks are preying on families across the nation, especially in Texas. At the federal level, Congress is helping to protect military families. But millions of other families remain vulnerable. Families in San Antonio are among the hardest hit.

Many workers are falling victim to "payday" loans—short-term loans designed to give workers a cash advance on their paychecks. Large numbers of military families use these loans to help make ends meet between pay periods. So do millions of low- and middle-income people across the country.

The problem is that these loans come with a major catch—exorbitant interest rates. These rates begin at 400 percent Annual Percentage Rate (APR) and can surpass 1,000%. It is typical for a worker to pay \$180 in interest on a 10-day, \$700 loan.

High interest rates make it nearly impossible for workers to repay the loan on time. In fact, workers often have to borrow again just to pay off the interest on the first loan. One emergency can lead to a debt spiral, as payday borrowers take out an average of nine loans per year. The result? More loans, more debt and more bankruptcies.

Congress concluded that military indebtedness is a threat to national security, and last September, it passed legislation to protect military families from predatory lenders. It put a 36 percent cap on the interest rates military families can be charged on most products and services. This rate limit is scheduled to go into effect in October 2007.

While this is a good protection for the tens of thousands of active military families who are stationed here in Texas, it won't affect the millions of civilian families who have few protections from payday lending abuses.

Payday lending is big business in Texas. In 2003 alone, Texas workers took out 1.8 million payday loans.

San Antonio is a hotbed of payday lending. The city has the highest ratio of payday lenders to banks of all urban counties in Texas. For every two banks in Bexar County, there is about one payday lender. Statewide, there are five banks for every payday lender.

In addition, the San Antonio area is home to two of the 12 ZIP codes in Texas with the highest saturation of payday lenders and lowest access to banks. Not surprisingly, these areas are adjacent to such major military bases as Fort Sam Houston and Lackland-Kelly Air Force Base.

Despite rampant predatory lending, Texas has not gotten serious about cracking down on payday lenders.

While the state technically has payday lending laws on the books, major payday lenders have used a loophole to brazenly ignore these state laws.

Since July 2005, all major payday lenders have taken cover under the broad definition of a Credit Services Organization (CSO). By law, these entities can not be monitored. Payday lenders are left without a watchdog, and consumers are left without a defender.

The state is unable to enforce rate limits, keep tabs on business practices or collect loan data.

As a result, Texas payday lenders charge among the highest interest rates in the nation. They also offer much bigger loans than the rest of the country. Most states limit payday loans to \$500 or less, but in Texas, single loan amounts can be \$2,500 and above. Payday loans cost Texas workers \$280 million in lost earnings in 2005, according to the Center for Responsible Lending.

This legislative session, Texas needs to close the loopholes that let predatory lenders get away with charging sky- high interest rates.

At the same time, Texas lawmakers need to promote low-cost, short-term lending products. Many credit unions and some banks offer payday loan alternatives at much lower interest rates, usually ranging between 12 percent and 60 percent APR for short-term loans. The El Paso Affordable Housing Credit Union Service Organization, for example, offers short-term loans at 18%.

Texas should encourage and reward these types of institutions that offer short-term loans at reasonable rates.

After all, all hardworking Texans—military and civilian—deserve fair loans at a fair price.

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