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The State of Payday and Auto Title Lending in Texas

2012 Report

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Payday and auto title loans are the highest-cost products in the Texas consumer financial marketplace. With annual interest rates typically ranging from 250 percent to 800 percent APR, many consumers struggle to repay these loans, whether they are initially designed as single payment or multiple payment transactions. In Texas, payday and auto title loans are high-cost, shorter term loans either obtained through an unsecured cash advance or secured through a borrower's vehicle. Texas consumers obtain payday and auto title loans from credit access businesses (CABs). Under current state law, Texas has no limits on CAB fees, interest rates, loan amount size, refinances or ability to repay based upon income. Other states with payday lending typically have some "rules of the road" to govern these products and transactions. As such, the absence of any statewide limits on loan transactions makes Texas a natural case study on how an unregulated payday and auto title loan marketplace operates.

The 2011 Texas Legislature passed HB 2594, requiring that a "credit services organization must obtain a license...for each location at which the organization operates as a credit access business in performing services" and that CABs "shall file a quarterly report with the commissioner on a form prescribed by the commissioner."¹ This new law went into effect on January 1, 2012 and, along with Finance Commission rule, requires individual CAB storefronts to report quarterly and annually on loan volumes, amounts, fees, refinances, auto repossessions and "any related information the commissioner determines necessary." Unless noted, the following analysis is based on the "Credit Access Business (CAB) Annual Data Report, CY 2012" published by the Office of Consumer Credit Commissioner (OCCC).

Payday and Auto Title Loan Market Overview

Generally, the Texas market has four major types of payday and auto title loans: single payment payday (deferred presentment), installment payday (deferred presentment), single payment auto title and installment auto title. For single payment products, CABs charge an "origination fee," typically ranging from \$22 to \$25 per \$100 borrowed. If a consumer is unable to repay the loan when due, the CAB charges a "refinance fee," which is typically the same amount as the origination fee. Through the third-party model, CABs also charge consumers up to 10 percent annual interest while the loan is in repayment.

True Cost of a Payday Loan

Loan Amount: **\$470**
Origination Fee of \$22.85 per \$100 borrowed: **\$107.39**
10% interest: **\$47**
Total cost of a payday loan: **\$649.39**

Table 1	
Structural Features of Payday and Auto Title Loans	
Loan Type	Features
Single payment payday (deferred presentment)	<ul style="list-style-type: none"> • loan is secured through a borrower's next paycheck • one lump sum payment of the loan principal and loan fee is due, usually on the date of the borrower's next payday
Installment payday (deferred presentment)	<ul style="list-style-type: none"> • loan is secured through a borrower's upcoming paychecks • loan is repaid in installments (i.e., multiple payments) • each installment payment due includes a separate fee
Single payment auto title	<ul style="list-style-type: none"> • loan is secured through the title of a borrower's automobile • one lump sum payment of the loan principal and loan fee is due, usually 2 to 3 weeks after the loan is issued
Installment auto title	<ul style="list-style-type: none"> • loan is secured through the title of a borrower's automobile • loan is repaid in installments (i.e., multiple payments) • each installment payment due includes a separate fee

Table 2									
Texas Payday and Auto Title Loans At A Glance									
Loan Type	Avg. Loan Size	Avg. Loan Fee (per \$100 borrowed)	Avg. Loan Term (days)	Collateral	Effective APR	No. of Consumers	No. of New Loans	No. of Refinances	No. Locations Reporting
Single Payment Payday	\$468	\$22.85	19	next paycheck	439%	1,080,644	2,238,938	3,622,957	2,617
Installment Payday	\$575	\$137.89*	98	next series of paychecks	514%	290,139	421,332	171,608	1,054
Single Payment Auto Title	\$1,003	\$22.58	29.5	auto title	279%	297,948	395,199	649,620	2,258
Installment Auto Title	\$1,188	\$91.79	146.5	auto title	229%	67,691	80,482	40,154	1,301

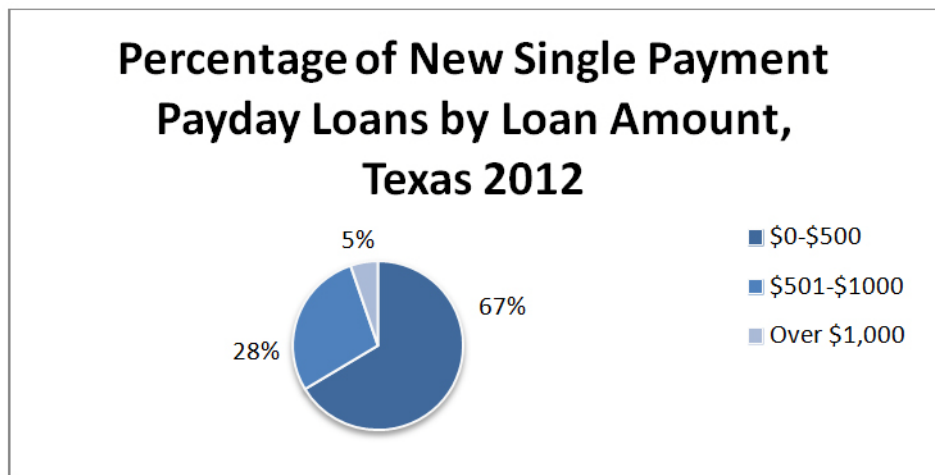
Source: CPPP analysis of Office of Consumer Credit Commissioner 2012 quarterly Credit Access Business reports, OCCC "Credit Access Business (CAB) Annual Data Report, CY 2012." "In the "Credit Access Business Update" to the House Pensions, Investments and Financial Services Committee, dated February 18, 2013, the OCCC states "There is a low level of confidence in these figures due to suspected inaccurate, and unverifiable, reporting of average CAB fee per \$100 borrowed."

Because Texas has no limits on the size of loans or guidelines to limit loan size based upon income or ability to repay, the average Texas loan is much larger with a bigger fee than the average loan in other states with payday lending.

How Texas Compares With Other States (single payment payday loans) ²					
	Texas	Florida	Oklahoma	Washington	Colorado
Loans per working adult	0.2	0.89	0.62	0.27	0.18
Avg. Loan Amount	\$468.38	\$391.82	\$396.71	\$381.70	\$393.77 ³
Avg. Fee per \$100 borrowed	\$22.85	10.77 percent of loan amount	\$13.66	\$14.29 ⁴	\$30.63 ⁵
Refinances	3,622,957	None ⁶	n/a	566,009 ⁷	0 ⁸

*Source: * Table is based on 2012 data for Texas and Colorado, June 2011-May 2012 data for Florida, and 2011 data for Oklahoma and Washington. See endnotes for chart sources.*

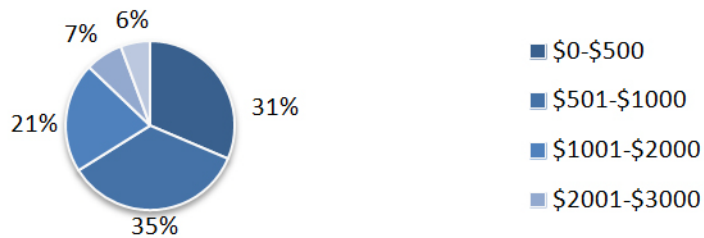
Although the majority of single payment payday loans had a loan principal of \$500 or less, a third of these loans exceeded \$500.



Source: "Credit Access Business (CAB) Annual Data Report, CY 2012," Office of Consumer Credit Commissioner, May 2013.

The majority of single payment auto title loans had loan principals of \$1,000 or less, but just over a third of these loans exceeded \$1000.

Percentage of New Single Payment Auto Title Loans by Loan Amount, Texas 2012

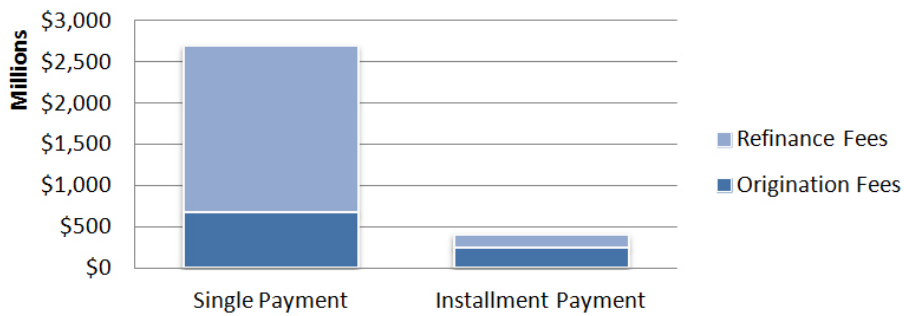


Source: "Credit Access Business (CAB) Annual Data Report, CY 2012," Office of Consumer Credit Commissioner, May 2013.

Fees

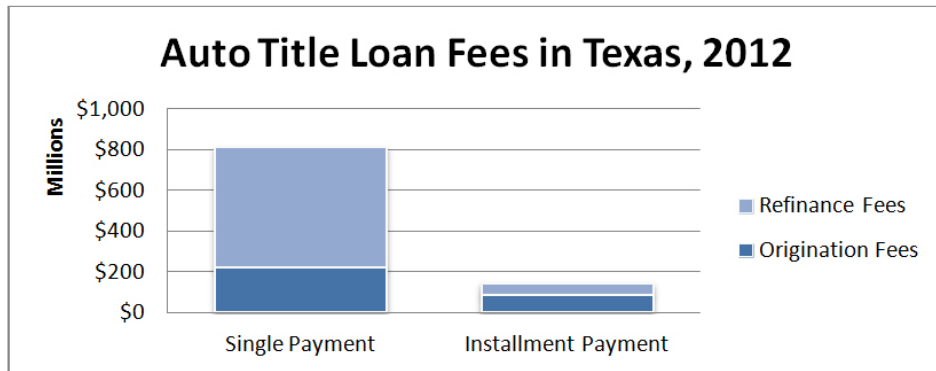
In 2012, single payment products dominated the market for payday and auto title loans. Last year, single payment payday loans alone comprised 75 percent of all payday and auto title loans originated in 2012, while single payment auto title loans account for 83 percent of all auto title loans. As shown below, single payment payday loan fees were more than six times that of installment payday loans.

Payday Loan Fees in Texas, 2012



Source: "Credit Access Business (CAB) Annual Data Report, CY 2012," Office of Consumer Credit Commissioner, May 2013.

A similar dynamic holds for auto title loans as well, with fees generated by single payment loans significantly outstripping fees for multiple payment auto title loans, as shown on the next page.



Source: "Credit Access Business (CAB) Annual Data Report, CY 2012," Office of Consumer Credit Commissioner, May 2013.

How Does A Texas Payday Loan Stack Up Against The Rest of the U.S.?

The prevalence of single payment payday loans in the Texas payday and auto title loan market reflects the dominance of these loans in the national market and the demand for small dollar loan products in general. The Consumer Financial Protection Bureau's (CFPB) 2012 review of small dollar loan products focused specifically on only two products, one of which was single payment payday loans.

In April 2013, CFPB released a white paper on its review of payday and deposit advance loans, which covered a majority of U.S. storefront single payment payday loan transactions over a 12-month period. The CFPB found the average annual income of consumers of these loans to be just over \$26,000,⁹ and over 65 percent of consumers had annual incomes of \$30,000 or less. Other major findings from the paper include:

- Although 75 percent of payday loan borrowers reported employment as a source of income, the most common income sources for borrowers making less than \$20,000 annually were "public assistance/benefits," "other" or "retirement."
- Almost one-fifth (18 percent) of borrowers reported "public assistance/benefits" as a source of income.
- Borrowers with more than 10 transactions over the 12-month period paid 75 percent of all loan transaction fees.

Compared to national data on single payment payday loans compiled and analyzed by the CFPB, Texas consumers take out larger loans and pay significantly higher fees.

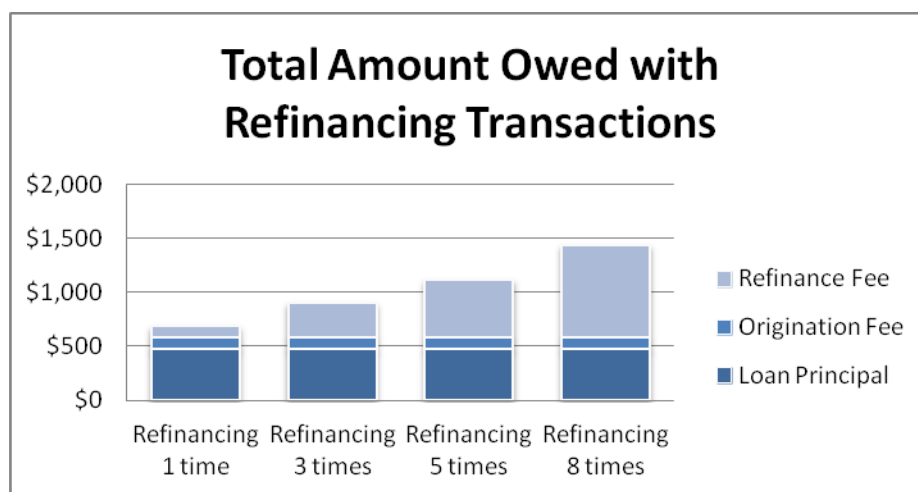
	Nationwide	Texas
Average Loan Amount	\$392	\$468.38
Average Fee	\$14.40	\$22.85
Average Term	18.3 days	19 days
APR	339%	439%
Average Annual Borrower Income	\$26,167	N/A

Source: Consumer Financial Protection Bureau. "Payday Loans and Deposit Advance Products." April 24, 2013. CPPP analysis of Office of Consumer Credit Commissioner 2012 quarterly Credit Access Business reports.

Repayment and Refinances

In 2012, Texas CABs completed nearly 4.5 million refinance transactions on payday and auto title loans, with refinances on single payment payday loans accounting for 81 percent of all refinances. Payday and auto title loan borrowers refinance their loan when they are unable to pay back the full amount by the original due date. Refinancing a payday or auto title loan renews the loan for an additional term but also requires repaying the full CAB fee. The majority of single payment loans are refinanced because these balloon payments are unaffordable for most borrowers to repay on time. In 2012, less than a third (30 percent) of single payment payday loan consumers and less than half (49 percent) of single payment auto title loan consumers repaid their loans on time.¹⁰

The graph below demonstrates how much a single payment payday loan borrower would have to pay if refinancing that loan. If a borrower refinances a loan multiple times, the amount of refinance fees can quickly equal or surpass the original loan amount. Because there is no state regulation on the number of times a borrower can refinance, the total amount a borrower may owe when refinancing one of these loans is unlimited.



Based on average single payment payday loan size and fee per \$100 borrowed in Texas.

Single Payment Payday Loans: In 2012, the large majority of single payment payday loan borrowers refinanced their loans at least once. The OCCC data in the table below reveal that the large majority of consumers of single payment products refinance their loans multiple times. Nearly half (48 percent) of single payment payday consumers refinanced their loan between two and four times.¹¹ Another quarter of these consumers refinanced their loan more than four times.

Single Payment Auto Title Loans: Just over half of single payment auto title loan consumers refinanced their loans at least once. Nearly three quarters (73 percent) of single payment auto title loan consumers that refinanced their loan did so between one and four times. As shown below, a sizable number of Texas consumers refinance their loans as many as five times or more in a calendar year without any pathway out of debt.

	Single Payment Payday	Single Payment Auto Title	Installment Payday	Installment Auto Title
Refinancing 1 time	269,092	45,904	35,501	13,461
Refinancing 2-4 times	500,681	60,874	24,631	2,859
Refinancing 5-6 times	93,654	13,185	3,740	683
Refinancing 7-10 times	89,592	7,258	2,647	694
Refinancing more than 10 times	64,597	17,791	1,440	700
Total reported	1,017,616	145,012	67,959	18,397

Source: "Credit Access Business (CAB) Annual Data Report, CY 2012," Office of Consumer Credit Commissioner, May 2013.

Installment Products: The majority of installment payday and auto title loan borrowers (68 percent and 74 percent) repaid their loans on time. Although on-time repayment for installment products is higher, the Texas consumer is committed to repaying the CAB fee multiple times through the installment product. Even though the borrower is "successful" in repaying the loan, a typical installment payday consumer is locked into multiple transactions that become the equivalent of 7-9 refinances. With no limits on refinances for installment products either, a sizable share of Texas consumers even refinance those products, effectively repaying the original loan principal more than three times over in CAB fees.

Local Area Trends and Auto Repossessions

In addition to statewide data, the OCCC collected data specific to the state's 16 metropolitan statistical areas (MSAs) or metropolitan statistical divisions (MSDs). To date, public MSA/MSD level data is limited to single payment payday and auto title loans. Although somewhat different from the annual report figures, MSA/MSD quarterly reports provide useful data on loan size, fee, term and refinances rates, while enabling a geographic snapshot of payday and auto title lending activity throughout the state.

MSA/MSD	No. of Transactions	Avg. Loan Size	Fee per \$100 Borrowed	% of Consumers Refinancing
Houston-Sugar Land-Baytown	1,207,820	\$442	\$22.00	63.3%
Dallas-Plano-Irving (MSD)	952,337	\$472	\$24.79	57.1%
Fort Worth-Arlington (MSD)	578,123	\$463	\$21.83	71.6%
San Antonio-New Braunfels	471,373	\$445	\$23.64	62.0%
Austin-Round Rock-San Marcos	217,854	\$437	\$22.59	56.0%

Source: CPPP analysis of OCCC MSA Reports on Single Payment Products for 1Q-4Q 2012.

Table 6					
Top 5 MSA/MSD Single Payment Auto Loans					
MSA/MSD	No. of Transactions	Avg. Loan Size	Fee per \$100 Borrowed	% of Consumers Refinancing	Repossessions (transactions per repossession)
Houston-Sugar Land-Baytown	236,749	\$1,043	\$23.40	49.3%	7,291 (32.5)
Dallas-Plano-Irving (MSD)	190,679	\$1,142	\$20.38	45.4%	5,768 (33)
Fort Worth-Arlington (MSD)	110,703	\$1,022	\$21.24	42.8%	3,671 (30.2)
San Antonio-New Braunfels	106,521	\$1,265	\$19.95	49.3%	3,033 (35.1)
Austin-Round Rock-San Marcos	45,202	\$1,124	\$23.23	39.8%	1,154 (39.2)

Source: CPPP analysis of OCCC MSA Reports on Single Payment Products for 1Q-4Q 2012.

When a borrower is unable repay an auto title loan, a CAB can repossess his or her vehicle. In 2012, CABs repossessed 37,062 automobiles (just over 100 a day) from Texas consumers.¹² Single payment auto title loans account for 78% of auto repossessions.¹³ As shown below, single payment auto title transactions peaked in the second quarter (April-June) and auto repossessions by CABs peaked in the fourth quarter (October-December).

Table 7							
Statewide Single Payment Auto Title Loans and Repossessions							
	No. of New Loan Transactions	Avg. Loan Size	Avg. Fee (per \$100 borrowed)	Avg. Loan Term (days)	Effective APR	Repossessions *	Repossession Rate
Q1	84,229	\$913.12	\$23.10	30	281%	8,802	3.6%
Q2	104,895	\$996.59	\$24.15	30	294%	8,373	3%
Q3	103,105	\$1,009.52	\$21.31	29	268%	9,798	3.1%
Q4	100,503	\$1,092.56	\$21.74	29	274%	10,089	2.9%
Annual Avg. or Total	392,732	\$1,002.95	\$22.58	29.5	279%	37,062	3.1%

*Includes both single payment and installment auto title loans
Source: CPPP analysis of OCCC MSA Reports on Single Payment Products for 1Q-4Q 2012 and 2012 quarterly Credit Access Business reports.

Conclusion

The OCCC's 2012 annual report on CABs provides the first official, yearly glimpse into the Texas payday and auto title loan marketplace. The data show that most Texas consumers are unable to repay their loans on-time and as a result, convert short-term loans into long-term liabilities. Although single payment products currently dominate the marketplace, high-cost, unregulated installment products pose a similar threat to Texas family budgets, locking in the consumer to monthly payments that can exceed a family's budget for basic expenses.¹⁴

Under HB 2594, the OCCC has the authority and opportunity to request any information from CABs through quarterly and annual reports that it deems necessary. The following recommendations address ways the OCCC could improve the accuracy and utility of CAB data in future reports:

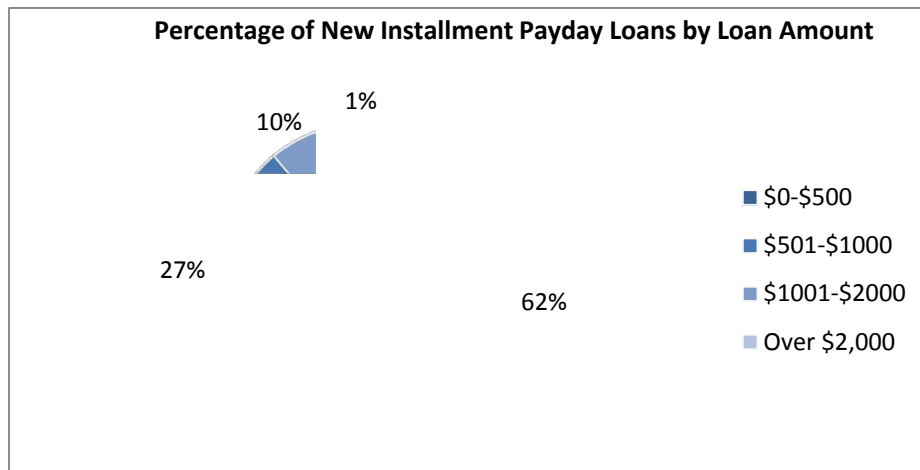
- Collect and report the similar data measures for quarterly statewide and quarterly MSA/MSD reports;
- Issue an annual report on MSA/MSD data;
- Include data on installment payday and auto title loans in quarterly MSA/MSD reports;
- Collect and include more extensive data by county for quarterly and annual reports;
- Include number of unique consumers for each loan type in statewide quarterly and annual reports;
- Ensure data on refinances corresponds to loans that were originated in the report year;
- Include the average number of times a borrower refinances a loan originating in the report year;
- Include borrower income in quarterly and annual reports; and
- For data measures on CAB fees, distinguish between origination fees and refinance fees.

Improved data collection and reporting will provide Texas policymakers a better roadmap for promulgating rules for credit access businesses offering payday and auto title loans.

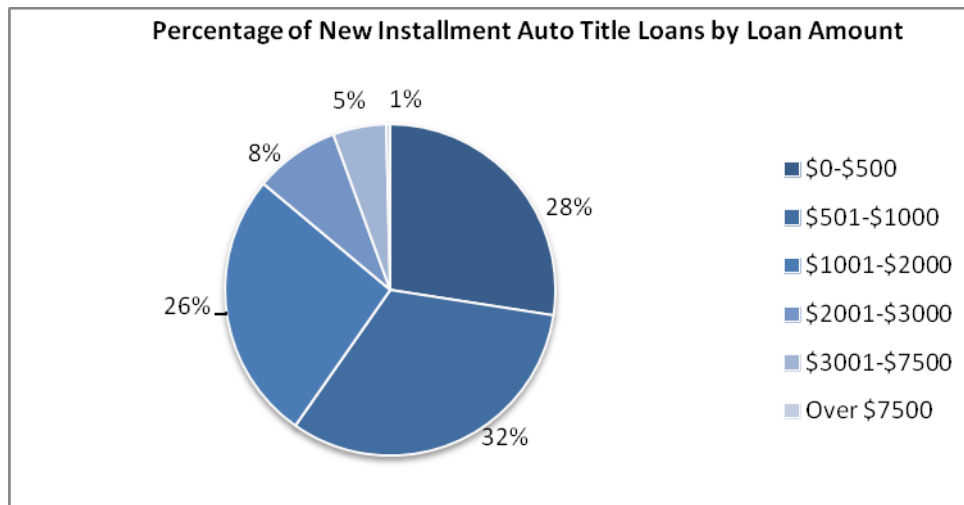
Appendix

Additional Statewide and MSA/MSD Level Data

Significant percentages of installment loans also have large loan principals. Nearly 40% percent of installment payday loans have loan principals exceeding \$500. For installment auto title loans, 40% have loan principals that exceed \$1000. Consumers of these products pay off their loan in installments however, higher loan principals translate into higher sets of fees that must be paid for each installment.



Source: "Credit Access Business (CAB) Annual Data Report, CY 2012,"
Office of Consumer Credit Commissioner, May 2013.



Source: "Credit Access Business (CAB) Annual Data Report, CY 2012,"
Office of Consumer Credit Commissioner, May 2013.

Statewide Installment Auto Title Loans					
	No. of New Loan Transactions	Avg. Loan Size	Avg. Fee (per \$100 borrowed)	Avg. Loan Term (days)	Effective APR
Q1	13,362	\$1,125.33	\$115.83	129	328%
Q2	23,512	\$1,150.63	\$97.25	152	233%
Q3	21,074	\$1,247.76	\$94.37	154	223%
Q4	22,853	\$1,226.59	\$59.72	151	144%
Annual Avg. or Total	81,075	\$1,187.58	\$91.79	146.5	229%

Source: CPPP analysis of OCCC 2012 quarterly Credit Access Business reports.

2012 MSA/MSD Level Data on Single Payment Payday and Auto Title Loans									
MSA/MSD	2012 Payday Transactions	2012 Auto-Title Transactions	Payday Fee per \$100	Auto-Title Fee per \$100	% of Payday Consumers Re-fi	% of Auto-Title Re-fi	Avg. Payday Loan Size	Avg. Auto Title Loan Size	Repossession Rate 2012
Amarillo	31,552	8,274	\$22.59	\$26.39	61.77%	31.99%	\$423	\$782	5.25%
Austin-Round Rock-San Marcos	217,854	45,202	\$22.59	\$23.23	56.04%	39.83%	\$437	\$1,124	2.74%
Beaumont-Port Arthur	66,418	23,293	\$21.63	\$25.91	65.58%	38.52%	\$433	\$850	3.91%
Brownsville-Harlingen	82,936	23,092	\$22.07	\$23.60	61.17%	43.49%	\$427	\$858	2.48%
College Station-Bryan	27,497	4,456	\$21.95	\$25.39	57.81%	38.14%	\$427	\$864	3.34%
Corpus Christi	89,192	24,912	\$21.62	\$23.39	58.22%	41.55%	\$456	\$847	2.30%
Dallas-Plano-Irving (MSD)	952,337	190,679	\$24.79	\$20.38	57.12%	45.41%	\$472	\$1,142	2.88%
El Paso	162,487	46,857	\$22.81	\$19.11	58.77%	38.12%	\$407	\$925	2.15%
Fort Worth-Arlington (MSD)	578,123	110,703	\$21.83	\$21.24	71.63%	42.82%	\$463	\$1,022	3.45%
Houston-Sugar Land-Baytown	1,207,820	236,749	\$22.00	\$23.40	63.31%	49.27%	\$442	\$1,043	2.82%
Killeen-Temple-Fort Hood	60,402	17,959	\$23.78	\$25.06	58.14%	36.15%	\$429	\$777	4.86%
Laredo	32,627	9,968	\$23.04	\$24.31	56.33%	39.08%	\$516	\$987	4.24%
Lubbock	38,460	11,237	\$22.10	\$23.42	60.97%	36.78%	\$458	\$751	3.24%
McAllen-Edinburg-Mission	128,130	30,380	\$22.23	\$22.24	62.09%	38.85%	\$518	\$978	2.91%
San Antonio-New Braunfels	471,373	106,521	\$23.64	\$19.95	61.96%	49.31%	\$445	\$1,265	2.89%
Waco	36486	15817	\$22.48	\$25.37	54.61%	35.78%	\$438	\$715	4.74%

For more information or to request an interview, please contact Alexa Garcia-Ditta at garciaditta@cphp.org or 512.823.2871.

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Endnotes

¹ Text of HB 2594, <http://www.capitol.state.tx.us/tlodocs/82R/billtext/html/HB02594F.htm>.

² Data Sources: "Table 617, Employed Civilians by Occupation--States: 2010." U.S. Census Bureau. "Credit Access Business (CAB) Annual Data Report, CY 2012," Office of Consumer Credit Commissioner, May 2013. CPPP analysis of Office of Consumer Credit Commissioner 2012 quarterly Credit Access Business reports and the annual Credit Access Business report, <http://www.occ.state.tx.us/pages/publications/index.html>. "Florida Trends in Deferred Presentment," State of Florida Deferred Presentment Program. Florida Department of Financial Regulation, <http://www.flofr.com/staticpages/paydaylenders.htm>. "Deferred Deposit Lender: Composite Annual Report for calendar year ending in December 31, 2011," State of Oklahoma Department of Consumer Credit. "2011 Payday Lending Report," The Washington State Department of Financial Institutions. August 8, 2013 phone conversation with the Washington State Department of Financial Institutions. "2011 Deferred Deposit/Payday Lenders Annual Report." State of Colorado Department of Law, Office of the Attorney General. August 13, 2013 phone Conversation with Colorado Department of Law, Consumer Protection Section.

³ Actual, not contracted, loan amount and fee.

⁴ Based on an average payday loan fee of \$54.53.

⁵ Includes interest and based on an average loan term of 104.48 days. A monthly maintenance fee can be charged for each month the loan is outstanding past 30 days of the original loan transaction.

⁶ Florida payday loan borrowers must repay a loan in full and wait 24 hours before being able to take out another payday loan. Borrowers are limited to one outstanding payday loan at a time.

⁷ Number of additional loans taken out by borrowers. Borrowers in Washington cannot technically refinance a payday loan, but instead can take out a new payday loan to repay an old payday loan.

⁸ Colorado statute (Sec. 5-3.1-108) enables payday lenders to charge an origination fee, 45% interest and a monthly maintenance fee for payday loans, which have a term of no less than six months. The statute requires that payday lenders only charge 45 percent interest if a borrower refinances a payday loan, therefore some lenders do not allow consumers to refinance.

⁹ Consumer Financial Protection Bureau. Consumer Financial Protection Bureau. "Payday Loans and Deposit Advance Products." April 24, 2013. http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf.

¹⁰ Data Sources: "Table 617, Employed Civilians by Occupation--States: 2010." U.S. Census Bureau.

"Credit Access Business (CAB) Annual Data Report, CY 2012," Office of Consumer Credit Commissioner, May 2013. CPPP analysis of Office of Consumer Credit Commissioner 2012 quarterly Credit Access Business reports and the annual Credit Access Business report, <http://www.occ.state.tx.us/pages/publications/index.html>.

"Florida Trends in Deferred Presentment," State of Florida Deferred Presentment Program. Florida Department of Financial Regulation, <http://www.flofr.com/staticpages/paydaylenders.htm>. "Deferred Deposit Lender: Composite Annual Report for calendar year ending in December 31, 2011," State of Oklahoma Department of Consumer Credit. "2011 Payday Lending Report," The Washington State Department of Financial Institutions. August 8, 2013 phone conversation with the Washington State Department of Financial Institutions. "2011 Deferred Deposit/Payday Lenders Annual Report." State of Colorado Department of Law, Office of the Attorney General. August 13, 2013 phone Conversation with Colorado Department of Law, Consumer Protection Section.

¹¹ Numbers in the refinancing categories do not add up to the total number of refinances for each type of loan product. These numbers reflect the limited availability of data for these categories.

¹² CPPP analysis of OCCC MSA Reports on Single Payment Products for 1Q-4Q 2012.

¹³ CPPP analysis of OCCC 2012 quarterly statewide Credit Access Business reports, www.occ.state.tx.us/pages/publications/FinSvcActivityRpts.html#CABRpts.

¹⁴ Based on calculations of monthly household expenses through CPPP's family budget tool, <http://familybudgets.org/>.