

500% Interest *is Wrong*

It hurts communities. Texas needs a law.

www.StopPaydayAbuse.org

Pass Local Resolutions Calling for an End to 500% Loans in Texas

City Councils, City Commissioners, or County Government can adopt resolutions calling on the state legislature and the governor to enact legislation to protect borrowers from excessive interest rates and to enact meaningful consumer protections. Local governments can also include payday and auto title lending reform in their legislative agendas that form the basis for state-level advocacy by the local government. This approach shines a local spotlight on the case for lending reform, and brings influential local governments to work with reformers at the state legislature.

Below are steps to pass a resolution at the local level and a sample resolution.

1. Make sure you have read through the Toolkit for Local Action and have a good understanding of the debt-trap caused by 500% APR payday and auto title loans in Texas and the loophole in state law that makes these abusive loans possible.

Have a few state facts and figures ready. For instance:

- In Texas, there are over 3,000 payday and auto title loan storefronts. This number has more than doubled since January 2007.
- This unaccountable lending industry is estimated at \$3 billion annually in Texas.
- Because of the debt trap, in Texas an average payday borrower pays \$840 for a \$300 loan.
- In Texas, payday loans typically range from 500-700% APR.
- Auto title lenders charge similar rates, but can repossess a family car if the borrower cannot pay the loan in full in one month.
- Several states have taken action to limit interest rates on these types of loans, with 16 capping rates at 36% APR or lower.
- In 2001, Texas passed a law that effectively capped interest rates and fees for payday loans, but payday lenders and auto title lenders are exploiting a **loophole** that allows them to register as a Credit Services Organization to avoid any APR cap and regulatory oversight.
- Texas cities are taking local action to limit payday and auto title loan operations, including San Antonio, Richardson, Mesquite, Irving, and Sachse.
- Cities are increasingly concerned that these high-cost lending outfits depress property values and become magnets for crime.

2. Learn about payday and auto title lenders in your area.

As you prepare to meet with your local elected officials, it is helpful to take note of the growth and reach of payday and auto title lenders in your area. Are there payday and auto title lenders near your home? In what areas of your city are most payday lenders located? What types of businesses surround payday and auto title lenders? How many outlets are there within your city limits (partner organizations in this campaign can help you find out the total number of storefronts in your area)?

3. Talk to your local city council representative, alderman, or person who represents your neighborhood on the board of supervisors.

Call your local city government office to get a list of council/board members and their contact information. Call or email your local elected official(s) and ask for a meeting at which you can present an idea for a new city resolution. If you have a choice of city officials to approach, approach the one you think would be most likely to support you first.

Ask if your local elected official is aware of the number of payday and auto title lenders in town. Present the information you have gathered. Find out if they are sympathetic to your cause. Ask if they would be willing to sponsor a resolution for the city and present the facts you have gathered.

If your specific local official is not supportive, identify the person who represents a low-income neighborhood or other neighborhood where a large number of payday and auto title loan stores are located.

Ask your sponsor who else in the body would be supportive of the resolution. Talk to those members well in advance of any hearing and give them talking points that will support your position.

In other Texas cities, city staff has taken an active role in documenting the problem of unregulated payday and auto title lending in the community. These individuals may be helpful in your local campaign.

4. Find other advocates and people who have had difficult experiences with payday or auto title loans to testify at your council hearing.

Presenting a variety of views at a public hearing will give more credence to the issue than testimony from your group alone. Seek out other groups in your town who support your position. Sympathetic groups may include those who work with minority, low income, elderly or refugee populations, church or other religious groups, neighborhood associations, and business people. Places where you might find allies are through your local legal services office or through organizations that provide social services in your community.

Schedule a meeting with the mayor and see about getting him/her to offer support to you. If you are in a metropolitan area, find out if adjacent cities have passed similar resolutions or even ordinances. Perhaps you can get one of their government officials to come speak on your behalf.

5. Be prepared to counter payday loan industry and council member arguments.

Some of the most common arguments and myths can be found in the Toolkit.

6. If a resolution is passed write thank you letters to all those that supported the resolution and let them know you are a resource for future efforts.

Additionally, write a public thank you letter in the form of an op-ed or letter to the editor in your local paper. This provides public praise for leaders seeking to do the right thing, and sends a clear message to state officials.

Sample Resolution

RESOLUTION
OF
LOCAL GOVERNMENT NAME
TO REQUEST THAT THE
TEXAS STATE LEGISLATURE
AND
GOVERNOR OF TEXAS
TAKE ACTION TO COMPEL PAYDAY AND AUTO TITLE LENDERS
TO STOP USURIOUS LENDING AND COMPLY WITH THE SAME STANDARDS AS
LICENSED CONSUMER LENDERS IN TEXAS

WHEREAS, the Council/Board of Commissioners of the (local entity), represents the citizens of the (local entity);

WHEREAS, citizens of the (local entity) are deeply concerned about harmful effects of payday and auto title lending practices in the (local entity) and elsewhere in the state of Texas;

WHEREAS, in the state of Texas there are over 2,800 of these unlicensed and unregulated lending storefronts, making an estimated \$3 billion in high-cost loans to Texas families each year;

WHEREAS, there are **X** of these loan outfits in our local community promising “easy credit” only to hurt people with annual percentage rates upwards of 500%, and loan terms that often pull people deeper into debt;

WHEREAS, 15 states and the District of Columbia have adopted a 36% or lower annual percentage rate cap for these small loans and the federal government has adopted a similar rate cap for payday and auto title loans to the military based on a Department of Defense finding that these loans, “undermine military readiness, harm the morale of troops and their families, and add to the cost of fielding an all-volunteer fighting force.”;

WHEREAS, we see a crisis in our community and we need action at the state level to enforce fair consumer lending standards in Texas;

NOW, THEREFORE, BE IT RESOLVED that the **(local entity)** urges the Texas State Legislature and the Governor of Texas to take action in the next regular session of the State Legislature in 2011 to enact laws that will:

1. Close the **loophole** in state law that allows payday, auto title, and other consumer loans to carry annual percentage rates upwards of 500%.
2. Provides a level playing field by requiring all lenders and brokers of payday, auto title, or other consumer loans to be licensed and to comply with the same standards and consumer protection laws of licensed lenders under Chapter 342 of the Texas Finance Code.
3. Create a system to collect consumer loan data from lenders and brokers of consumer loans to ensure that these outfits engage in fiscally sound lending that supports the well-being of our communities.