Senator Eliot Shapleigh

District 29

Texas Press Release

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For Immediate Release
May 7, 2009

"THE OWNER'S BOX"

"Go back to the election cycle in 2008. The predatory lending industry spent hundreds of thousands of dollars in political contributions to state legislators and to pay lobbyists knowing that laws to regulate interest rates and help struggling families were on the way. These dollars had one goal—to kill any bills that regulate predatory lending and cap interest rates on predatory loans."

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Why do payday loans run 1100 percent interest on the streets of Texas?

Why is it that from 2001 to 2005, Texas families saw their health insurance premiums soar 86 percent—six times faster than their Medicaid incomes increased?

Why is it that Texans breathe more carcinogens than citizens of any other state in America?

Why do Texans still pay the nation's highest homeowner insurance premiums, almost twice the national average?

Why is Texas government failing Texans?

Here's why—in Austin, the "Owners' Box" runs the show.

During sessions, on the floor of the Texas Senate and House, lawmakers half-jokingly refer to the owner's box as those high-paid lobbyists and corporate owners who sit in the gallery to watch pet legislation. What you don't know back home is that these lobbyists and corporate interests run state government— they impact your wallet and your lives every day.

The clearest example in Texas is predatory lending, where failed regulatory agencies let predatory lenders operate on every corner in towns across Texas.

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Advertising for payday loans in El Paso - November 14, 2008

Here's how that works:

Go back to the election cycle in 2008. The predatory lending industry spent hundreds of thousands of dollars in political contributions to state legislators and to pay lobbyists knowing that laws to regulate interest rates and help struggling families were on the way. These dollars had one goal—to kill any bills that regulate predatory lending and cap interest rates on predatory loans.

What's the result? 1,100 percent interest on the streets and the vice president for Cash America now chairs the Finance Commission of Texas. In Austin, the fox is not in the henhouse— the fox owns the henhouse.

In 2008 alone, payday lenders donated more than $400,000 to Governor Rick Perry, Lt. Governor David Dewhurst and members of the Texas Senate and House. Lenders also spent thousands more to hire lobbyists. So, profits from 1,100 percent interest on predatory loans pay Austin lobbyists who then kill bills to keep consumers paying 1,100 percent interest.

In March 2009, Governor Rick Perry appointed William J. White as chair of the Texas Finance Commission, a commission established to ensure that consumer loan companies, banks, and savings and loans operate responsibly. Before assuming his role as a regulator, White served since 1988 as the vice president for governmental affairs for lender Cash America International. Between the years 2000 and 2006, Cash America International spent more than $700,000 in political contributions in Texas. White's term as commission chair is not set to expire until February 2010.

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This week, five bills filed by Texas Senators to regulate predatory payday lending were only just heard by the Senate Committee on Business and Commerce— with less than a month left in the legislative session.

Click here to watch video from The Senate Committee on Business and Commerce, May 5, 2009.

Closing remarks by Senators Davis and Shapleigh begin at 54:18

Several sessions ago, predatory lenders created a loophole to escape regulation. Now, nearly all Texas payday lenders have registered as Credit Services Organizations (CSOs), enabling them through a loophole in state law to no longer be subject to Texas' small loan law or regulation by the Office of the Consumer Credit Commissioner (OCCC). Because payday lenders operating as CSOs are no longer obligated to submit data to OCCC, Texas regulators have no official data regarding an industry that based on Securities and Exchange Commission (SEC) filings makes at least $3 billion in loans from more than 3,000 storefronts across Texas. Our bills were designed to close the predatory lender's loophole.

Annually, interest rates on payday loans can reach 1,100 percent APR. Here's a chart that shows just how much Texas families pay in fees and interest on a $300 dollar loan:

Fees and Interest Rates (APR) on a $300 Payday Loan

	Annual Interest Rate	What you pay to borrow $300
8-day loan	**1153%**	$75.82
10-day loan	**925%**	$76.03
15-day loan	**621%**	$76.54

Predatory payday loans are very often a last resort for Texans struggling to provide for their families. With the Texas economy following the rest of the nation into recession, demand for these predatory loans will increase dramatically, subjecting thousands more to the vicious cycle of debt that comes with predatory loans.

Because predatory lenders routinely kill good legislation, cities all across Texas are stepping in to regulate on their own. Mesquite, Richardson and San Antonio already have ordinances on the books. In late April 2009, Irving also passed two ordinances limiting predatory payday lenders and is having hearings right now to consider a third ordinance relating to exorbitant fees.

Increasingly, lenders are spreading their predatory loans online. For example, according to a transcript of Cash America's first quarter investor call last month, about 40 percent of Cash America's online revenue comes from making loans using the credit services organization model.

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Payday loan companies have made millions of dollars in profits because of the CSO loophole. According to a recent Dallas Morning News article:

- Cash America recorded a net income of $81 million last year – a 132 percent increase in just four years – on total revenue of $1.03 billion;
- Advance America last year made $4.2 billion in payday loans and charged $676 million in interest and fees; and
- EZCORP payday lending stores and pawn shops made a net income of $52 million on revenue of $457 million last year.

Across the country, states like Maine, Massachusetts, New York, New Jersey, West Virginia, Maryland and Connecticut fought back and banned payday lending.

Other states permit loans based on checks held for deposit but at a much lower rate than typical payday lending:

- Maine caps interest at 30 percent for small loan.
- Oregon permits a one-month minimum term payday loan at 36 percent interest plus a $10 per $100 borrowed initial loan fee. As a result a $250 one-month loan costs 154 percent APR for the initial loan, and 36 percent APR for any subsequent loans.
- New Hampshire capped payday loan rates at 36 percent APR.
- in 2008, Ohio caped rates at 28 percent APR, after a state-wide vote.
- The Arkansas attorney general ruled that payday lenders had to abide by their constitutional usury limit of 17 percent.
- Arizona's payday lenders will lose their exemption to the 36 percent rate cap in July 2010, also through a ballot initiative in the fall.

In Texas, similar reforms have been killed in the last two sessions by the scores of predatory lending lobbyists who ply the halls of Austin. The lending industry has spent hundred of thousands of dollars on campaigns and lobbyists to keep their industry unregulated and to keep interest rates sky high.

This session, our office filed several bills to address predatory payday lending. SB 189 would establish a 36 percent interest rate cap on military borrowers and dependents; SB 244 would make CSOs subject to interest rates set by the OCCC; SB 248 would limit interest to 36 percent APR; SB 242 would require the OCCC to establish a database to which all payday lenders must each week submit information on amount of loans made and rates charged for those loans; and SB 243 would amend the state's Finance Code to prohibit CSOs from facilitating credit to consumers if they are affiliated with the lender, collect fees on behalf of the lender or receive an economic interest in the loan revenue, among other prohibitions.

This week, only SB 248, SB 244, SB 243 and SB 242 were quickly heard and then left pending in the Senate Committee on Business and Commerce. More than a score of predatory lending lobbyists watched, knowing that with less than a month left in session, these bills have virtually no chance to pass.

If you want change, call Rick Perry now—let him know. And if you wonder why interest rates are sky high in Texas—here's your answer, in Austin, the Owner's Box runs the show.

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