

Memorandum



DATE December 9, 2010

TO Honorable Members of the Quality of Life Committee: Pauline Medrano (Chair),
Vonciel Jones Hill (Vice Chair), Carolyn R. Davis, Sheffie Kadane, David A.
Neumann, Steve Salazar

SUBJECT Closing the Loophole – Anti-Poverty Coalition of Greater Dallas Briefing

On Monday, December 13, 2010, you will be briefed on Closing the Loophole – Anti-Poverty Coalition of Greater Dallas. The briefing will be presented by Gary Godsey, President & CEO of United Way of Metropolitan Dallas, Rev. Gerald Britt, Vice President of Public Policy & Community Program Development, Danielle Ayers, Minister of Social Justice, Friendship-West Baptist Church and Tim Morstad, Associate State Director of Advocacy, AARP Texas. The material is attached for your review.

If you have questions or need additional information, please let me know.



Forest E. Turner
Assistant City Manager

cc: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah A. Watkins, City Secretary
Thomas P. Perkins, Jr., City Attorney
Craig D. Kinton, City Auditor
C. Victor Lander, Administrative Judge
Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Frank Libro, Public Information Office
Helena Stevens-Thompson, Assistant to the City Manager

Closing the Loophole



**Anti-Poverty Coalition of Greater Dallas
Presented to the Quality of Life Committee
December 13, 2010**



United Way
of Metropolitan Dallas

Gary Godsey
President & CEO
United Way of Metropolitan Dallas

What is a Payday or Auto-Title Loan?



- A **payday loan** is a small cash advance—typically ranging from \$300 to \$500—due in full plus interest and fees, in two weeks, with a post-dated check or electronic access to a debit account as collateral.
- An **auto-title loan** is similar except that a car title is used as collateral. These loans (which can be several thousand dollars) are due in full, plus interest and fees, at the end of a short term, typically one-month. If the borrower cannot pay the full amount at the end of a month, the loan company can take the car.

The Payday Loan Debt Treadmill by the numbers

\$300 Payday Loan made on March 22nd	Date	Fees and Interest Charged	Amount Due
	12/13/2010	\$61.07	\$361.07
1 Rollover	12/27/2010	\$61.07	\$422.14
2 Rollovers	1/10/2011	\$61.07	\$483.21
3 Rollovers	1/24/2011	\$61.07	\$544.28
4 Rollovers	2/7/2011	\$61.07	\$605.35
5 Rollovers	2/21/2011	\$61.07	\$666.42
6 Rollovers	3/7/2011	\$61.07	\$727.49
7 Rollovers	3/21/2011	\$61.07	\$788.56
8 Rollovers	4/4/2011	\$61.07	\$849.63
9 Rollovers	4/18/2011	\$61.07	\$910.70
10 Rollovers	5/2/2011	\$61.07	\$971.77

The Auto-Title Loan Debt Treadmill by the numbers

\$4,000 Auto-Title loan made on March 22nd	Date	Fees and Interest Charged	Amount Due
	12/13/2010	\$1,269	\$5,269
1 Rollover	12/27/2010	\$1,269	\$6,538
2 Rollovers	1/10/2011	\$1,269	\$7,807
3 Rollovers	1/24/2011	\$1,269	\$9,076
4 Rollovers	2/7/2011	\$1,269	\$10,345
5 Rollovers	2/21/2011	\$1,269	\$11,614

Failure to make an entire payment or “rollover” fees and interest payments by the due date will jeopardize your car or truck.

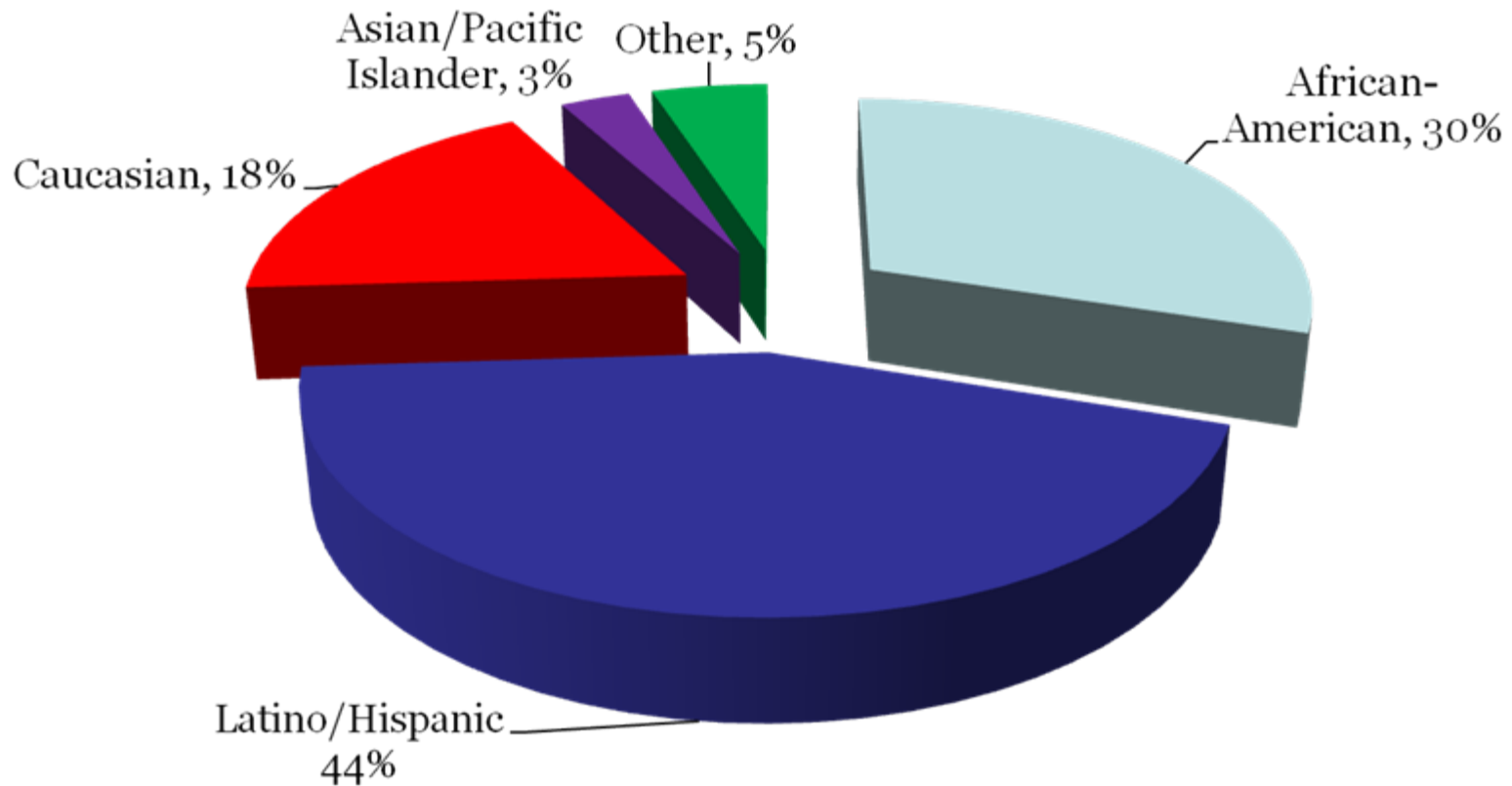
Proliferating in Texas

- There are more than 3,000 payday and auto-title loan locations in Texas.
- Storefronts are popping up in neighborhoods across the state – almost tripling in number in the last four years alone.
- Texas has more payday and auto-title loan stores than McDonald's and Whataburgers combined.



Payday and Auto-Title Lenders Hurt All Ethnic Groups

Texas Payday Borrowers



Payday and Auto-Title Lenders Hurt Women

- 59% of payday borrowers in Texas are women.
- Most are single women and single mothers.

An Austin woman took out a \$1000 payday loan from a registered credit service organization. Her payments were so high she had to take on a second job just to keep up. “I’ve paid so much money into it and it’s not going anywhere. It hurts.”

Texas Appleseed Interview—December 2008



Rev. Gerald Britt
**Vice President of Public Policy &
Community Program Development**
CitySquare (formerly “Central Dallas Ministries”)



Danielle Ayers
Minister of Social Justice
Friendship-West Baptist Church

Doniele Wilson
Recipient of Pay Day Lending Services

500% Interest
is Wrong

It hurts communities. Texas needs a law.

www.StopPaydayAbuse.org

Tim Morstad

Associate State Director of Advocacy

AARP Texas

How Do These Loans Hurt Communities?

- In Texas, payday and auto title loan outfits often charge upwards of 500% APR for loans.
- High fees, short terms, and no partial payments, mean that borrowers often must borrow again at 500% APR to fill the gap in their family budget
- The average payday borrower in Texas pays \$840 for a \$300 loan.
- The average auto title borrower pays over \$1250 in monthly fees for a \$4,000 loan.
- Cities are increasingly concerned that payday and auto title loan outfits depress property values, become magnets for crime and give our communities a look of economic decline. These loans hurt economic development.

Permissible Rates Under Texas Licensing Standards

- **Payday Loans (14 Day):**

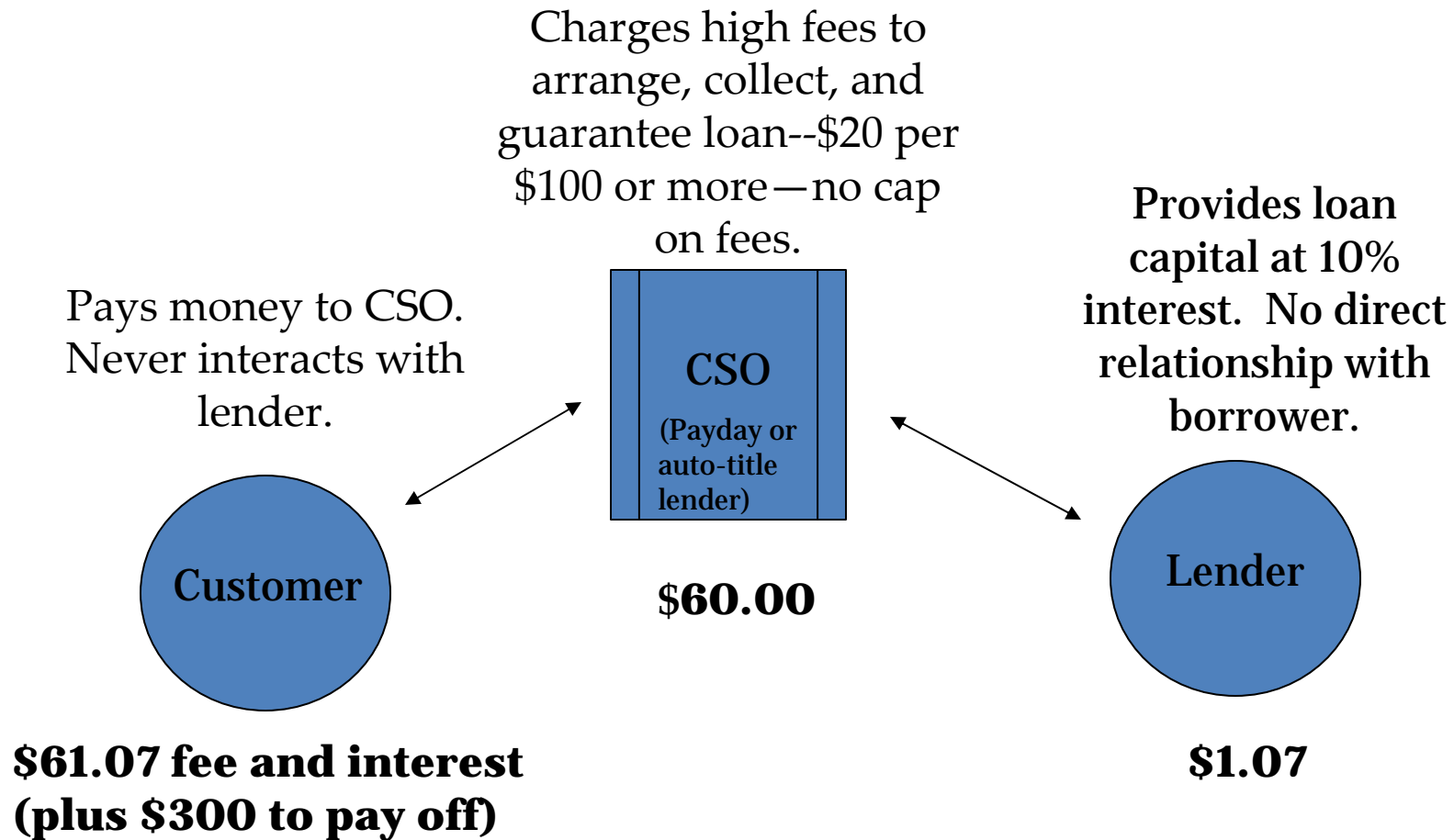
Amount Borrowed	APR
\$100	310%
\$300	136%
\$500	101%

- **Term Loan secured by Auto Title (One month):**

Amount Borrowed	APR
\$110	157%
\$302	88%
\$519	71%

Source : Texas Office of Consumer Credit Commissioner

How Does the CSO Loophole Work?



\$300 two-week loan transaction

Growing Local Action to Curb Abuses

- Cities and towns across Texas are showing support for reigning in abusive payday and auto-title lending.

- Brownsville
- El Paso
- Irving
- Mesquite
- Midland
- Sasche
- Little Elm
- Richardson
- San Antonio



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Costly Cash: In Texas, Towns Try Zoning Out Payday Lenders

By PALLAVI GOGOI

Posted 9:00 AM 03/10/10 | [Company News, Economy, Credit](#)

Brownsville, Texas, a city in the state's southernmost part, is taking on [payday lenders](#). In December, it placed a six-month moratorium barring these lenders -- which specialize in short-term loans backed by collateral and with interest rates equivalent to 300% to 400% or more annually -- from opening any new "money stores" in town. "Our most vulnerable citizens are easy prey for these legal loan sharks, and we want to protect our citizens by regulating them," says Mayor Pat Ahumada. Located on the Mexican border, Brownsville has a population of 140,000.



[Bloomberg/Getty Images](#)

With this measure, Brownsville joined at least six other towns and cities in Texas -- including Irving, Mesquite, Sachse, Richardson, Garland and Little Elm -- that have taken it upon themselves to wage war against money stores. Most of these municipalities have passed zoning laws that prevent payday lenders from expanding into new locations in their city without a special permit.

BROWNSVILLE The Herald

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City places six-month moratorium on permitting new moneylenders

By [EMMA PEREZ-TREVINO, The Brownsville Herald](#)
2009-12-15 20:47:46

The City Commission on Tuesday placed a six-month moratorium on permitting new moneylenders -- that charge high interest rates and fees -- in order to study the feasibility of requiring the lenders to register and to locate within specific areas of the city.

The moratorium does not apply to established and regulated financial institutions.

Money-lending practices under scrutiny are commonly referred to as payday loans, check cashing and car-title loans that result in consumers' checking accounts "held hostage," according to a resolution that the commission approved Tuesday.

Texas Legislature Needs to Act

- Texas has a law capping rates and fees for payday loans. To avoid the complying with the caps payday and auto title loan outfits have found a loophole in Texas law.
- They claim to be “Credit Services Organizations” (CSOs). Instead of making loans, they get around the law by charging excessive fees to broker and guarantee loans.

We Need Your Help!

- Please vote in favor of adopting the resolution
- Talk to your constituents about this issue
- Let us know if you like more information