# 2016 Report on Availability, Quality, and Pricing of Certain Financial Services and Consumer Loan Products

12/1/2016

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# Introduction

The Office of Consumer Credit Commissioner (OCCC) maintains regulatory oversight over segments of the consumer lending marketplace in Texas. Most non-depository lenders, non-real estate and segments of the home equity industry are supervised by the OCCC. Exempt lenders (e.g. banks) and exempt transactions (*e.g.* loans at rates lower than 10%) contribute to the remaining marketplace.

Several types of credit products are available and range from those heavily used by Texas consumers to niche offerings. This report highlights five of the most common loans that Texas consumers received from OCCC licensed lenders in 2015 and lists general lower-cost alternatives to those products. The report is organized as follows:

Home Equity Loans
Consumer Loans: Personal/Secured Loans
Consumer Loans: Small Installment/Signature Loans
Credit Access Businesses (Payday and Title Loans)
Pawn Loans
Alternatives to High-Cost Lending

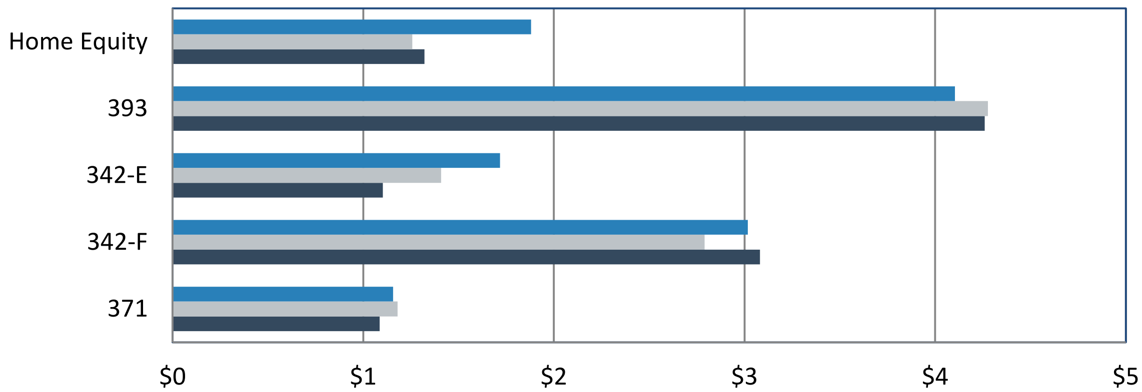
Of the five types of consumer credit listed above, the OCCC possesses exclusive jurisdiction over pawn loans, and annual report data should reflect trends in the entire industry. Home equity loans are common products offered by depository institutions and trends in OCCC licensed lenders may not be indicative of the entire marketplace. In addition, this report does not include consumer lending transactions that are made by non-depository institutions secured by real estate or regulated by other federal or state agencies.

As shown in Table 1, the OCCC licensed lenders and financial service providers profiled in this report made 20,389,935 loans in 2015. This number does not reflect the number of borrowers as they may take out several loans during a year refinancing an original loan.

## *Table 1: Number of Consumer Loans*

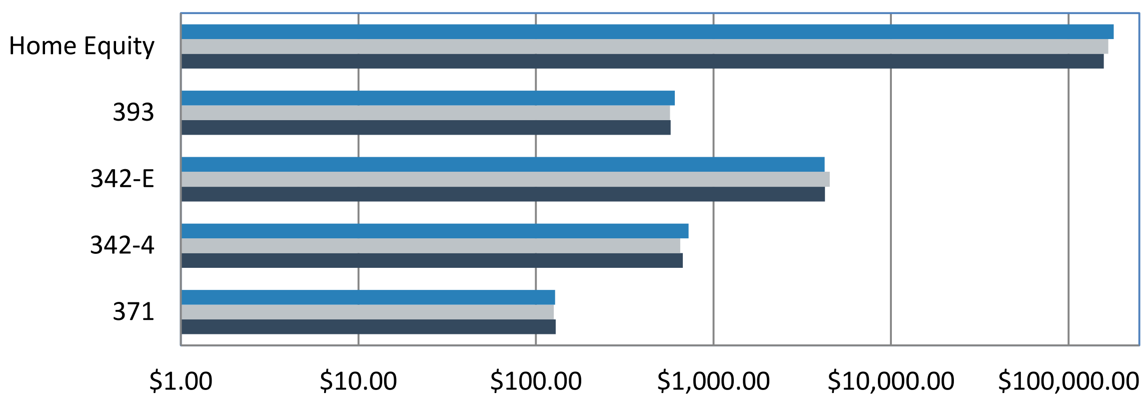
| **Consumer Loans Made** | **2015** | **2014** | **2013** |
|---|---|---|---|
| Personal/Secured Loans (342-E) | 407,244 | 331,915 | 244,644 |
| Small Installment/Signature Loans (342-F) | 4,167,450 | 4,150,111 | 4,750,605 |
| Pawn Loans (371) | 9,027,201 | 9,137,483 | 8,626,594 |
| Credit Access Businesses (393) | 6,786,025 | 7,470,141 | 7,482,992 |
| **Total** | **20,389,935** | **21,089,650** | **21,104,835** |

## Consumer Loans Made (in billions)




| | 371 | 342-F | 342-E | 393 | Home Equity |
|---|---|---|---|---|---|
| 2015 | $1,156,123,635 | $3,016,541,921 | $1,717,205,663 | $4,104,203,472 | $1,880,161,381 |
| 2014 | $1,179,475,740 | $2,789,951,607 | $1,409,105,386 | $4,276,997,526 | $1,257,494,471 |
| 2013 | $1,085,850,793 | $3,081,180,289 | $1,102,489,956 | $4,260,376,175 | $1,321,926,472 |

## Average Loan Amounts




| | 371 | 342-4 | 342-E | 393 | Home Equity |
|---|---|---|---|---|---|
| 2015 | $128.00 | $724.00 | $4,217.00 | $605.00 | $179,302.00 |
| 2014 | $126.00 | $649.00 | $4,507.00 | $569.00 | $166,916.00 |
| 2013 | $129.00 | $672.00 | $4,245.00 | $573.00 | $157,617.00 |

# Home Equity Loan[1]

## Overview

Home equity loans allow borrowers to use the equity accumulated in their homestead as collateral for a loan. The loan amount is determined by the value of the property, and may not exceed 80% of the fair market value of the home. The fair market value of the homestead must be determined and agreed to, in writing, by both the borrower and lender. A borrower may opt to have the loan set up as a revolving line of credit instead of a lump sum payment. With a home equity line of credit (HELOC), the borrower is provided a draw period and a credit limit.

Borrowers may not take out a home equity loan before the first anniversary (minimum of 365 days) of the closing date of any existing home equity loan that is secured by the same homestead property. Borrowers may only have one home equity loan against an existing homestead at any given time. Borrowers must wait at least 12 days before closing the home equity loan.

## Type of Customer

Borrowers generally need to own their homestead and have accumulated enough equity to borrow against it. Lenders typically will not lend based solely on the value of the home. Credit scores and debt-to-income ratios are also considered to ensure borrowers have enough stable income to repay the home equity loan.

## Typical Rates

Home equity loans are generally the least expensive loan option offered by OCCC regulated lenders. Lenders are able to offer lower interest rates because the borrower's home is used as security. Home equity loans typically have a fixed rate whereas HELOC use adjustable interest rates. Lenders may charge up to 18% in interest, but the rates are generally set similar to other mortgage products. Non-interest closing costs are limited to 3% of the original principal balance of the home equity loan. In addition to interest, lenders may charge fees, including but not limited to a credit report fee and an appraisal fee. These fees add to the overall cost of the home equity loan.

| | |
|---|---|
| Allowable Charges | Interest Rates: up to 18% (current market rates **4.81%)** |
| | Closing costs may not exceed 3% of the loan |
| | Late fees may apply |
| | Discount points are optional |
| Loan Terms | 1-year prohibition on renewals |
| | Total loans may not exceed 80% of fair market value |
| | 12-day waiting period on closing |
| | 15-30 year repayment options |
| | May be provided as a line of credit (HELOC) |

[1] Bankrate, Current Home Equity Interest Rates, available at http://www.bankrate.com/finance/home-equity/current-interest-rates.aspx Retrieved 10/13/2016.

## Default

The greatest risk the borrower faces is the foreclosure and loss of their homestead. The foreclosure must be performed through a judicial process or an expedited foreclosure procedure (Rule 736 Texas Rules of Civil Procedure). After foreclosure, the borrower does not face any recourse if the lender fails to recover the loan balance.

## Alternatives

Low interest rates and flexible repayment terms make home equity loans advantageous to other types of borrowing. However, defaulting on this type of loan could end up in foreclosure posing a high risk to borrowers. Unsecured options such as personal loans, unsecured bank loans, credit cards, and peer-to-peer lending typically include higher interest rates, but are considered less risk for borrowers. Another alternative is a reverse mortgage available to homeowners 62 years and older.

# 2016 Home Equity Lending Report

*Data contained in this report is reported on a calendar year basis and reflects data through CY 2015. Data in this report only includes information reported by OCCC licensees and may not reflect data or trends for the mortgage industry as a whole.*

Section 50(s), Article XVI of the Texas Constitution requires that home equity lending data be reported. Additionally, Texas Finance Code §11.305 creates a responsibility for research on the availability, quality, and prices of financial services. Mortgage activity has long been used by economists as an economic indicator. This section presents data on mortgage activity conducted by lenders licensed by the Office of Consumer Credit Commissioner (OCCC), including information about home equity and Texas Finance Code Chapter 342, Subchapter G (second-lien mortgage) loans. Home equity loans fall into two broad categories: second mortgage and first mortgage. A first-lien home equity loan allows a consumer to refinance an existing mortgage and receive cash (commonly called a 'Cash Out Refinance'). A second-lien home equity loan typically is made at a higher interest rate than a first-lien transaction. Most 342.G loans are typically home improvement or purchase money loans. 342.G may also include second lien-loans with a cash advance made to or on the behalf of the borrower.

Section 342.559 of the Texas Finance Code requires lenders to annually submit key financial information to the OCCC regarding home equity and 342.G loans. The information reported reflects activity at the company level and is not location specific; therefore, the data can be presented only on a statewide basis. Upon receiving the information, the OCCC enters the information into a database and reviews it for reasonableness.

The data reported to the OCCC is placed within three categories: loans made, loans brokered, and loans receivable. Information on each of these categories is provided in the following data tables. Senate Bill 1124 in 2011 provided that a person who holds a mortgage loan originator license under Chapter 156 or a mortgage banker license registration under Chapter 157 is no longer required to hold a license under Chapter 342 to make, arrange, or service secondary mortgage loans. Consequently, many of these entities are no longer licensed under Chapter 342 and no longer report activity that may have been previously reported. Other home equity lenders are regulated by different regulatory agencies, such as Texas Department of Savings and Mortgage Lending.

# Home Equity Lending Data

| LOANS MADE | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| 1st Lien Home Equity Loans | 10,486 | 7,916 | 7,902 | 7,860 | 9,713 |
| Total Dollar Amount Loaned | $1,880,161,381 | $1,247,699,984 | $1,318,968,869 | $1,404,503,607 | $1,433,514,284 |
| Average Loan Amount | $179,302 | $157,617 | $166,916 | $178,690 | $147,587 |
| 2nd Lien Home Equity Loans | 69 | 84 | 99 | 38 | 145 |
| Total Dollar Amount Loaned | $7,278,703 | $9,794,487 | $2,957,603 | $1,619,976 | $5,016,922 |
| Average Loan Amount | $105,488 | $116,601 | $29,875 | $42,631 | $34,600 |
| 342.G Loans | 86 | 83 | 2,244 | 2,603 | 2,091 |
| Total Dollar Amount Loaned | $8,258,489 | $5,726,317 | $121,924,122 | $223,211,896 | $142,683,555 |
| Average Loan Amount | $96,029 | $68,992 | $54,175 | $85,752 | $68,237 |

| LOANS BROKERED | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| 1st Lien Home Equity Loans | 36 | 38 | 118 | 175 | 253 |
| Total Dollar Amount Loaned | $6,695,767 | $15,198,621 | $29,861,758 | $39,799,179 | $57,000,193 |
| Average Loan Amount | $185,994 | $399,964 | $253,066 | $227,424 | $225,297 |
| 2nd Lien Home Equity Loans[2] | - | - | - | - | - |
| Total Dollar Amount Loaned | - | - | - | - | - |
| Average Loan Amount | - | - | - | - | - |
| 342.G Loans[2] | - | 482 | 603 | 278 | 225 |
| Total Dollar Amount Loaned | - | $28,726,643 | $40,801,887 | $15,018,586 | $8,794,323 |
| Average Loan Amount | - | $59,599 | $67,665 | $54,024 | $39,086 |

| LOANS RECEIVABLE | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| 1st Lien Home Equity Loans | 35,818 | 23,787 | 29,216 | 65,290 | 57,121 |
| Total Dollar Amount Loaned | $1,924,839,808 | $1,380,126,187 | $1,989,944,193 | $5,114,918,729 | $4,111,521,042 |
| Average Loan Amount | $53,739 | $58,020 | $68,111 | $78,342 | $71,979 |
| 2nd Lien Home Equity Loans | 4,202 | 4,252 | 4,931 | 27,567 | 13,393 |
| Total Dollar Amount Loaned | $90,021,578 | $93,698,291 | $110,595,057 | $851,592,516 | $310,790,804 |
| Average Loan Amount | $21,424 | $22,036 | $22,429 | $30,892 | $23,205 |
| 342.G Loans | 8,835 | 3,122 | 6,877 | 3,745 | 4,756 |
| Total Dollar Amount Loaned | $230,200,880 | $107,701,710 | $208,361,139 | $189,346,091 | $157,184,202 |
| Average Loan Amount | $26,056 | $34,498 | $30,298 | $50,560 | $33,050 |
| **Number of Companies Reporting** | **778** | **777** | **778** | **812** | **786** |

[2] Certain brokered transactions were reported by less than five locations. Data was withheld to protect confidentiality of reporting businesses.

# Consumer Loans: Personal/Secured Loans (342-E)

## Overview

In 2015, 407,244 personal or secured loans were issued under Chapter 342-E. Chapter 342-E loans offer higher loan amounts and lower annual interest rates compared to signature and small installment loans. The cost to refinance these obligations is also typically lower than alternative products. Collateral for 342-E loans is not required; however, lenders may choose to request security from borrowers. Loan applications are normally processed and closed in the same day. Subchapter E loans are typically more affordable than subchapter F or payday loans. Lenders are typically located in business districts and suburban areas.

## Type of Customer

Borrowers of small consumer loans made under Chapter 342-E typically have better credit profiles than unsecured/signature loan borrowers. A 342-E borrower will need sufficient disposable income to demonstrate to the lender they can afford the loan.

## Typical Rates

The maximum allowable rates for Chapter 342-E loans are determined in statute and depend on the amount loaned. Some borrowers may receive a lower-than-maximum interest rate, and the lender may offer additional products and services such as credit insurance or automobile club memberships. Fees common to these loans are filing liens (perfecting a security interest), and prepaid administrative fees.

| | |
|---|---|
| Allowable Charges | Rates are typically 18% - 31% |
| | A prepaid Administrative Fee of up to $100 may be included |
| | A late charge of 5% of the missed payment may be assessed 10 days after the due date |
| | $30 fee for dishonored payments by check |
| Loan Terms | No maximum loan amount. Typically $3,000 - $5,000. |
| | Loan term can be 60 months or more |
| | Typically, no more than one outstanding loan per borrower per company |
| | Prepayment allowed and interest is normally calculated on a simple annual basis |

## Default

Borrowers with secured loans risk losing their personal property, motor vehicle, or other security to the lender. The lender or third-party debt collector may pursue the remaining deficiency balance after the collateral has been disposed of or the entire remaining balance of unsecured loans. A lender may file suit against the borrower, and most report the repayment history to consumer reporting agencies. A borrower may also face attorney fees, repossession fees, and court costs added to the loan balance.

## Alternatives

Chapter 342-E borrowers could potentially qualify for more traditional and lower cost methods of credit such as: credit cards for purchases or cash advances; personal loans from credit unions and community banks; loans from online peer-to-peer lending platforms, or home equity loans.

# Consumer Loans: Signature/Small Installment Loans (342-F)

## Overview

In 2015, 4,167,480 small installment loans were issued under Chapter 342-F. Due to the higher-cost nature of these loans, cash advance amounts are limited by law. Borrowers are available to obtain Chapter 342-F loans with minimal to no security or credit references. Lenders may require collateral such as personal property including the holding of a vehicle title; however, lenders rarely file liens (or perfect a security interest) as the costs of filing such liens cannot be recouped from the consumer.

The industry is very homogeneous: storefronts of different companies may be clustered within a specific region or location, and different lenders may have common borrowers. Lenders depend on repeat business, and many customers end up refinancing their loans several times.

Small installment lenders are located in high traffic areas such as strip malls. Some lenders may offer loans through the mail where the offer in the form of a live check can be accepted and cashed outside of a store. In most cases, borrowers can expect to receive their funds the same day they apply. Loan proceeds are typically provided by check.

## Type of Customer

Small Consumer loans made under Chapter 342-F rates are available to customers with below average credit scores. A Chapter 342-F borrower needs employment income or some other source of steady income in order to qualify for the loan and the borrower must be able to repay the loan and all other known obligations concurrently.

## Typical Rates

The maximum allowable rates for Chapter 342-F loans are determined by statute. Most lenders charge the maximum interest rates (installment account handling charge), but some may compete with a lower Acquisition Charge. The current maximum rates are as follows:

| | |
|---|---|
| Allowable Charges | Fee structure for loans > $100: |
| | APR 80% - 113% |
| | Up to $100 non-refundable Acquisition Charge |
| | $4 per $100/month Installment Account Handling Charge |
| | A late charge of $10 or 5% of the scheduled installment (whichever is greater) is typically assessed 10 days after the due date |
| | $30 fee for dishonored payment by check |
| Loan Terms | Maximum loan amount: $1,340 |
| | Limited loan terms. Usually 9 - 18 months |
| | Typically, no more than one outstanding loan per borrower per company |
| | Prepayment allowed (without penalty) and interest is normally calculated on a simple or precomputed basis |

## Default

Borrowers with secured loans risk losing their personal property, motor vehicle, or other security to the lender. The lender or third-party debt collector may pursue the remaining deficiency balance after the collateral has been disposed of or the entire remaining outstanding balance of unsecured loans. A lender may file suit against the borrower or repossess the collateral, and some lenders report the repayment history to consumer reporting agencies.

## Alternatives

Small consumer loan borrowers typically run into eligibility issues with other credit products. Possible alternatives are pawn loans, credit card advances, and payday loans.

# Regulated Lender
# Consolidated Volume Report
# Calendar Year 2015

| Loans Made | Number of Loans | Dollar Value of Loans |
|---|---|---|
| Chapter 342-E | 407,244 | $1,717,205,663 |
| Chapter 342-F | 4,167,450 | $3,016,541,921 |
| Chapter 342 G – Secondary Mortgages | 86 | $8,258,489 |
| Home Equity Loans – 1st Lien | 10,486 | $1,880,161,381 |
| Home Equity Loans – 2nd Lien | 69 | $7,278,703 |
| Chapter 346 – Revolving Credit Accounts | 6,932 | $13,308,566 |
| Chapter 348 – Motor Vehicle Sales Finance | 232,670 | $6,133,839,921 |
| Chapter 345 – Retail Installment | 664,959 | $303,879,683 |
| Chapter 347 Loans – Manufactured | 6,547 | $380,422,260 |

| Loans Receivables | Number of Loans | Dollar Value of Loans |
|---|---|---|
| Chapter 342-E | 412,882 | $1,566,409,312 |
| Chapter 342-F | 1,959,424 | $1,254,645,884 |
| Chapter 342 G – Secondary Mortgages | 8,835 | $230,200,880 |
| Home Equity Loans – 1st Lien | 35,818 | $1,924,839,808 |
| Home Equity Loans – 2nd Lien | 4,202 | $90,021,578 |
| Chapter 346 – Revolving Credit Accounts | 70,696 | $1,227,308,374 |
| Chapter 348 – Motor Vehicle Sales Finance | 421,597 | $8,510,918,616 |
| Chapter 345 – Retail Installment | 2,294,696 | $682,639,851 |
| Chapter 347 Loans – Manufactured | 30,615 | $1,326,107,778 |

**Number of Companies Reporting: 778**

# Credit Access Businesses (Payday and Title Loans)

## Overview

Credit access businesses (CABs) obtain credit for a consumer from an independent third-party lender in the form of a deferred presentment transaction or a motor vehicle title loan, more commonly referred to as "payday loans" or "title loans." In Texas, the actual third-party lender is not licensed; rather, the credit access business that serves as the broker is the licensee in this regulated industry.

Credit access businesses charge a fee to the consumer for obtaining the third-party loan. Fees are usually calculated as a percentage of the loan amount, either paid at the inception of the loan or accrued daily while the loan is outstanding. All payments are made directly to the CAB, and the borrower will generally not have any direct contact with the lender. Normally, the CAB provides the borrower a proceeds check issued from the lender's account. Borrowers can obtain these loans in high traffic areas and increasingly online.

## Type of Customer

Payday loan customers need an active bank account, and lenders will advance money to the consumer based on the expectation that money is regularly deposited in that bank account. Title loan customers are required to have an unencumbered motor vehicle title to offer as security. Both types of customers could have anywhere from average to poor credit scores and choose these loans out of convenience or eligibility reasons.

## Typical Rates

The majority of the loan cost is not capped. Fees charged to borrowers by the CAB typically depend on the amount of the loan and the length of the term. CAB agreement terms are limited to 180 days or less. The entire loan may be due in a matter of days, or the loan may be due over several equal payments. Refinancing or renewing payday and title loans is very common which can add to the cost.

| | |
|---|---|
| Allowable Charges | Fees charged by broker are uncapped (lender interest is 10% or less) |
| | APR can exceed 400% |
| | Late charge is 5% of payment or $7.50 (whichever greater). Late charges may be assessed 10 days after the due date. |
| | Filing fees and non sufficient fund fees |
| | Consumer may have the option to purchase insurance or motor club memberships |
| Loan Terms | No maximum loan amount (typically $400 - $1,200) |
| | Loan terms range from 3 - 180 days |
| | Entire amount may be due in a single payment |
| | Prepayment allowed (without penalty) but fees may be non-refundable |

## Default

Borrowers with title loans risk losing their motor vehicle to the lender or to the CAB. The loan is usually guaranteed by the CAB, and the borrower will be pursued for the deficiency balance. The creditor may file suit against the borrower for non-payment, and some may report the repayment history to consumer reporting agencies. A borrower may also face attorney fees, repossession fees, and court costs added to the loan balance.

## Alternatives

Payday and title loan borrowers generally pay a high rate for their credit and may run into eligibility issues with other products. Possible alternatives are pawn loans, small installment loans, employer loans, or other competitive small-dollar loan products, sometimes offered by credit unions or nonprofit organizations.

# Credit Access Business (CAB)
# Annual Data Report, CY 2015

*Data contained within the below summary represents aggregated statewide annual data reported by credit access businesses (CABs)* ***as of 4/20/2016.*** *The OCCC reviewed the data for reasonableness. The OCCC continues to receive amended or corrected data submissions and periodic revisions are published when significant.* *The OCCC will request verification from the licensee of any data that is found to be questionable or unreasonable.*

Title 7, Section 83.5001 of the Texas Administrative Code requires CABs to file annual data reports with the Office of Consumer Credit Commissioner (OCCC) identifying loan activity associated with

- Single and installment deferred presentment (payday) loans, and
- Single and installment auto title loans.

## *Data Limitations*

Data provided by reporting CABs reflects location-level activity for the identified year. Each licensed location is treated as an individual reporting unit. If data was compiled from individual customers, it could produce different results.

The data presented in the following summary represents CAB submissions via electronic and manual reporting, to include any corrected data, of annual activity as of April 20, 2016.

| Item # | Item Description | Single Payment Deferred Presentment Transactions | Installment Deferred Presentment Transactions | Single Payment Auto Title Loans | Installment Title Loans |
|---|---|---|---|---|---|
| 1 | Number of extensions of consumer credit paid in full or otherwise closed for reduced payoff during 2015 that did not refinance. | 661,266 | 673,848 | 63,103 | 48,564 |
| 2 | Number of refinances of extensions of consumer credit before paid in full or otherwise closed for reduced payoff in the report year.[3] | | | | |
| 2A | Refinancing 1 time | 157,042 | 59,960 | 22,947 | 8,043 |
| 2B | Refinancing 2-4 times | 292,105 | 52,526 | 38,384 | 6,594 |
| 2C | Refinancing 5-6 times | 47,197 | 6,463 | 14,348 | 1,140 |
| 2D | Refinancing 7-10 times | 48,191 | 3,944 | 16,376 | 977 |
| 2E | Refinancing more than 10 times | 30,862 | 11,817 | 18,246 | 821 |
| 3 | Total amount of CAB fees charged by the CAB on all CAB contracts during 2015. | $414,231,672 | $826,886,430 | $265,122,524 | $166,946,411 |
| 4 | Total number of extensions of consumer credit or refinances where the CAB repaid the third-party lender under a contractual obligation, guaranty, or letter of credit. | 1,072,935 | 415,560 | 166,029 | 52,566 |

(Table continued on next page)

[3] Item 2 collects information on the number of time a loan was refinanced before it was ultimately paid off. Data includes all loans paid out in the calendar year that had been refinanced prior to being paid in full, regardless of when the loan was originated.

| Item # | Item Description | Single Payment Deferred Presentment Transactions | Installment Deferred Presentment Transactions | Single Payment Auto Title Loans | Installment Title Loans |
|---|---|---|---|---|---|
| 5 | Number of consumers for whom the CAB obtained or assisted in obtaining an extension of consumer credit during the report year. | 724,273 | 704,985 | 178,613 | 83,682 |
| 6 | Total number of new extensions of consumer credit during the report year for each of the following loan ranges (cash advance amounts). | | | | |
| 6A | $0 - $250 | 439,241 | 271,416 | 12,216 | 7,464 |
| 6B | $251 - $500 | 597,221 | 334,130 | 45,857 | 25,373 |
| 6C | $501 - $750 | 188,573 | 152,249 | 34,525 | 15,235 |
| 6D | $751 - $1000 | 138,155 | 107,467 | 27,652 | 16,807 |
| 6E | $1001 - $1500 | 64,100 | 65,804 | 36,001 | 13,941 |
| 6F | $1501 - $2000 | 13,251 | 25,324 | 20,261 | 7,617 |
| 6G | $2,001 - $2,500 | 1,198 | 4,278 | 17,283 | 3,757 |
| 6H | $2,501 - $3,000 | 4,860 | 3,573 | 9,312 | 2,412 |
| 6I | $3,001 - $5,000 | 1 | 86 | 20,269 | 3,198 |
| 6J | $5,001 - $7,500 | 0 | 8 | 6,245 | 768 |
| 6K | Over $7,500 | 0 | 0 | 1,867 | 473 |
| 7 | Total dollar amount of new extensions of consumer credit during the report year for each of the following loan ranges. | | | | |
| 7A | $0 - $250 | $81,620,971 | $46,497,617 | $2,599,827 | $1,404,827 |
| 7B | $251 - $500 | $246,292,803 | $129,670,168 | $21,251,047 | $10,408,753 |
| 7C | $501 - $750 | $123,958,875 | $96,714,029 | $23,733,756 | $9,561,485 |
| 7D | $751 - $1000 | $128,361,449 | $96,659,885 | $28,519,687 | $15,478,271 |
| 7E | $1001 - $1500 | $84,188,726 | $85,163,112 | $46,679,586 | $17,856,912 |
| 7F | $1501 - $2000 | $24,188,136 | $46,513,712 | $35,342,160 | $13,918,130 |
| 7G | $2,001 - $2,500 | $2,855,467 | $9,797,912 | $37,603,914 | $8,614,990 |
| 7H | $2,501 - $3,000 | $14,465,585 | $10,261,488 | $26,033,401 | $6,825,796 |
| 7I | $3,001 - $5,000 | $4,000 | $306,340 | $76,838,598 | $12,437,195 |
| 7J | $5,001 - $7,500 | $0 | $57,265 | $35,104,082 | $4,598,509 |
| 7K | Over $7,500 | $0 | $0 | $17,685,469 | $4,985,827 |
| 8 | Total number of refinances on extensions of consumer credit originated in 2015. | 1,877,878 | 186,217 | 513,643 | 37,617 |
| 9 | Total dollar amount of extensions of consumer credit for 2015. | $706,477,221 | $521,737,005 | $352,526,925 | $106,036,940 |
| 10 | Total dollar amount of refinances for 2015. | $1,137,055,059 | $193,860,406 | $1,019,013,236 | $67,496,680 |

| | | | | |
|---|---|---|---|---|
| **Number of locations reporting activity in each category** | **1,538** | **1,265** | **1,833** | **1,189** |
| **Total Number of Companies Reporting** | | | | **3,153** |

# Pawn Loans

## Overview

A pawnshop offers short-term credit to customers (pledgors) who pledge their tangible personal property as collateral for a cash advance. This is the only type of consumer loan that involves a possessory interest where the pledgor relinquishes use of the security during the life of the loan.

The majority of pawnshops are storefronts in high traffic areas. Depending on the wait in the pawnshop, the customer could be expected to receive the cash proceeds in a matter of minutes. Recently, companies have begun exploring an internet platform for this lending.

## Type of Customer

A pawn loan is strictly an asset backed loan and no credit application is required. The pledgor is not required to have a job or the ability to repay the loan. The only eligibility requirements are:

1. Age 18 or over
2. Proper form of Identification
3. Legal right to possess and pledge the goods

## Typical Rates

The maximum allowable rates for pawn loans are determined by statute. Most pawnshops charge the maximum rates with occasional promotional offers. The current maximum rates are as follows:

| | |
|---|---|
| Allowable Charges* | 240% for loans up to $201 |
| | 180% for loans up to $1,340 |
| | 30% for loans for up to $2,010 |
| | 12% for loans up to $16,750 |
| | *Finance charge brackets and maximum effective rates. Rates adjust each July 1 based upon the Consumer Price Index. |
| Loan Terms | Cannot exceed one month |
| | Minimum additional 30-day grace period |
| | May be renewed or extended |
| | No personal liability or pledgor |

## Default

In order to reclaim possession of the pledged goods, the pledgor must repay the entire loan. If the customer does not redeem pledged items at the end of the loan term, those items may then become part of the pawnshop's inventory and are offered for sale to the general public. In the event of forfeiture, the pledgor has no further obligations and the pawnshop is prohibited from seeking a deficiency, filing suit, or reporting the default of loan on the pledger’s credit history.

## Alternatives

Generally, pawn loans have the least restrictive eligibility and almost anyone could choose to become a customer. The most direct alternative would be selling the secured goods to the pawn shop, a consignment shop, or a private party.  If the customer qualifies, a small consumer loan (342-F) secured by personal property could be less expensive.

# Pawn Industry Consolidated Volume Report
# Calendar Year 2015

| Loans Made | Number of Loans | Dollar Value of Loans | Average Loan |
|---|---|---|---|
| | 9,027,201 | $1,156,123,635 | $128 |

| Loans Outstanding | Number of Loans | Dollar Value of Loans | Average Loan |
|---|---|---|---|
| | 1,939,976 | $288,680,354 | $149 |

**Number of Companies Reporting: 1,564**

# Alternatives to High-Cost Lending

## Overview

Approximately one-third of Texas consumers have reported using non-bank borrowing such as the credit products profiled in this report (auto title loans, payday loans, pawnshops).[4] Non-bank borrowing typically involves higher interest rates and fees compared to traditional borrowing; however, these high-cost alternatives may seem as the only option to individuals who are unable to obtain traditional forms of credit. In an effort to assist individuals who frequent non-bank borrowing, lower-cost credit products have emerged in the marketplace. Non-profit and for-profit groups alike are providing lower-cost alternatives specifically designed for individuals who are not able to obtain traditional forms of credit. In addition, numerous organizations are promoting financial literacy to increase the financial capability of Texas consumers.

This report does not provide an inclusive list of all the available options instead profiles the more commonly known lower-cost lending models available to users of high-cost lending products.

## Employer-based loan programs

Select employers provide financial assistance in the form of low-interest loans or lines of credit. Loan payments are generally paid in installments and are deducted automatically from employee's paycheck. Loan rates and terms vary by employer. In some lending models, employers partner with an outside entity to manage the loans.

A current licensed loan program operating in Texas allows employees to apply for low-interest loans from $400 to $1,000, to be repaid in 12 months with 18% interest, and a $20 administrative fee. This lending model is designed to be replicated and loan centers are located throughout Texas serving their geographic region.

## Low-cost lending programs

Small-dollar lending through financial institutions is not widespread; however, federal and state credit unions have implemented initiatives to provide more affordable small-dollar loan products. These loans may be marketed as Payday Alternative Loans with quick approvals and no credit checks similar to payday lenders. A Texas credit union is offering a similar product providing loans from $200 to $1,000 at 28% APR. Loans with interest rates below 36% APR meet financial institution regulators affordability standards.

Nonprofits and credit unions are working together to provide low-cost alternatives to their patrons. These partnerships enable participants to receive comprehensive financial education and individual counseling in conjunction with their loan.

## Financial literacy

Financial literacy programs enable individuals to make informed financial decisions, and select financial products that best fit the individual's circumstances. These programs heavily emphasize the importance of savings to prepare for emergency expenses. Financial education is provided by numerous nonprofits, schools and social service programs.

The Texas Financial Education Endowment Fund, reward organizations supporting financial capability and consumer credit building activities and programs. The program in its second award cycle has awarded approximately $500,000 in grant funding to date. Between 2014 -2015, grantees provided financial education to

[4] Texas Survey Data. Finra Investor Education Foundation. Usfinancialcapability.org

more than 200,000 individuals. The programs heavily focused on financial counseling and youth-based education. Participants are provided the skills that lead to long-term, tangible improvements to financial health.

## Reporting requirements

The report has been prepared in response to and fulfills certain constitutional, statutory, and administrative regulation requirements.

- **Texas Finance Code, Sec. 11.305.** RESEARCH. (a) The finance commission shall instruct the consumer credit commissioner to establish a program to address alternatives to high-cost lending in this state. The program shall:

(1) study and report on the problem of high-cost lending, including without limitation the availability, quality, and prices of financial services, including lending and depository services, offered in this state to agricultural businesses, small businesses, and individual consumers in this state;

(2) evaluate alternatives to high-cost lending and the practices of business entities in this state that provide financial services to agricultural businesses, small businesses, and individual consumers in this state;

(3) develop models to provide lower-cost alternatives to assist borrowers who contract for high-cost loans; and

(4) track the location of lenders who enter into loan contracts providing for an interest charge authorized by Section 342.201, map the location of the lenders by senatorial district and by any other appropriate areas, provide other demographic information relating to the loans and the location of the lenders, and provide information on the changes in the distribution of the lenders from 1997 through the date of the report.

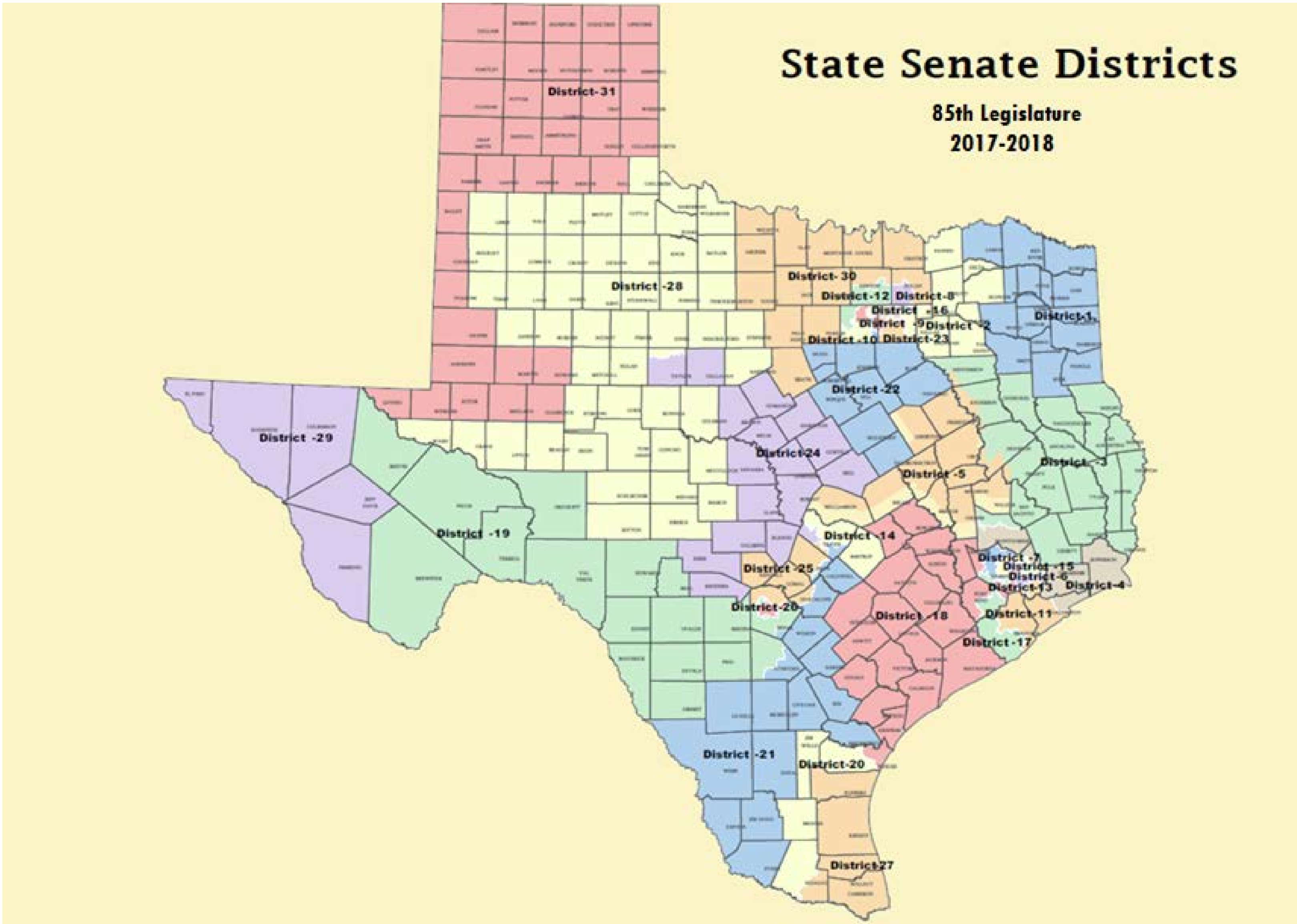
(b)…

(c) Not later than December 1 of each year, the consumer credit commissioner shall provide to the legislature a report detailing its findings and making recommendations to improve the availability, quality, and prices of financial services.

## Distribution of Licensed Locations by Senate District

The distribution of licensed financial service providers by senatorial district is provided below pursuant to Texas Finance Code, Sec. 11.305. The table shows the number of licensed locations with the primary business designation. They are ordered from left to right: Small Consumer Loans (342-F), Personal Installment Loans (342-E), Pawn Loans (371), Secondary Mortgage Loans (342-G) & Home Equity Loans (A6), Motor Vehicle Sales Finance (348), Credit Access Businesses (393), and Property Tax Loans (351). Data as of 9/30/2016.

| Senate District | 342-F | 342-E | 371 | 342-G/A6 | 348 | 393 | 351 | Total By District |
|---|---|---|---|---|---|---|---|---|
| 1 | 124 | 25 | 51 | 3 | 303 | 126 | 0 | 632 |
| 2 | 43 | 26 | 40 | 1 | 245 | 62 | 0 | 417 |
| 3 | 93 | 12 | 48 | 0 | 230 | 76 | 0 | 459 |
| 4 | 34 | 20 | 30 | 2 | 226 | 51 | 2 | 365 |
| 5 | 69 | 9 | 34 | 3 | 190 | 57 | 0 | 362 |
| 6 | 72 | 56 | 75 | 0 | 503 | 84 | 0 | 790 |
| 7 | 16 | 13 | 30 | 4 | 168 | 56 | 2 | 289 |
| 8 | 12 | 17 | 8 | 16 | 160 | 45 | 2 | 260 |
| 9 | 28 | 16 | 52 | 5 | 353 | 86 | 1 | 541 |
| 10 | 31 | 15 | 37 | 3 | 288 | 73 | 4 | 451 |
| 11 | 48 | 16 | 47 | 2 | 156 | 72 | 0 | 341 |
| 12 | 11 | 14 | 22 | 8 | 176 | 61 | 5 | 297 |
| 13 | 33 | 26 | 48 | 4 | 232 | 59 | 3 | 405 |
| 14 | 27 | 29 | 38 | 5 | 190 | 63 | 18 | 370 |
| 15 | 35 | 30 | 54 | 2 | 291 | 75 | 3 | 490 |
| 16 | 16 | 41 | 32 | 19 | 402 | 77 | 16 | 603 |
| 17 | 22 | 26 | 35 | 11 | 209 | 56 | 1 | 360 |
| 18 | 91 | 7 | 30 | 1 | 185 | 47 | 1 | 362 |
| 19 | 149 | 25 | 40 | 0 | 260 | 54 | 1 | 529 |
| 20 | 172 | 25 | 63 | 4 | 318 | 99 | 2 | 683 |
| 21 | 172 | 31 | 62 | 2 | 278 | 62 | 1 | 608 |
| 22 | 85 | 16 | 46 | 2 | 309 | 69 | 0 | 527 |
| 23 | 46 | 37 | 52 | 3 | 413 | 66 | 0 | 617 |
| 24 | 65 | 13 | 51 | 3 | 236 | 59 | 0 | 427 |
| 25 | 29 | 18 | 27 | 5 | 189 | 52 | 1 | 321 |
| 26 | 99 | 28 | 62 | 3 | 323 | 84 | 15 | 614 |
| 27 | 224 | 35 | 49 | 3 | 340 | 82 | 2 | 735 |
| 28 | 105 | 21 | 33 | 0 | 283 | 60 | 1 | 503 |
| 29 | 122 | 38 | 43 | 4 | 274 | 92 | 1 | 574 |
| 30 | 76 | 14 | 44 | 0 | 273 | 65 | 0 | 472 |
| 31 | 84 | 13 | 36 | 1 | 306 | 54 | 0 | 494 |
| Total by Type | 2,233 | 712 | 1,319 | 119 | 8,309 | 2,124 | 82 | 14,898 |


State Senate Districts
85th Legislature
2017-2018
District-31
District -28
District- 30
District-12
District-8
District -16
District -9
District -2
District-1
District -10
District-23
District -22
District -29
District-24
District -5
District -3
District -19
District -14
District -25
District -7
District -15
District -6
District-13
District-4
District-26
District -18
District-11
District -17
District -21
District-20
District-27