TEXAS OFFICE OF CONSUMER CREDIT COMMISSIONER

2022 Report on Availability, Quality, and Pricing of Certain Financial Services and Consumer Loan Products

12/1/2022

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Introduction

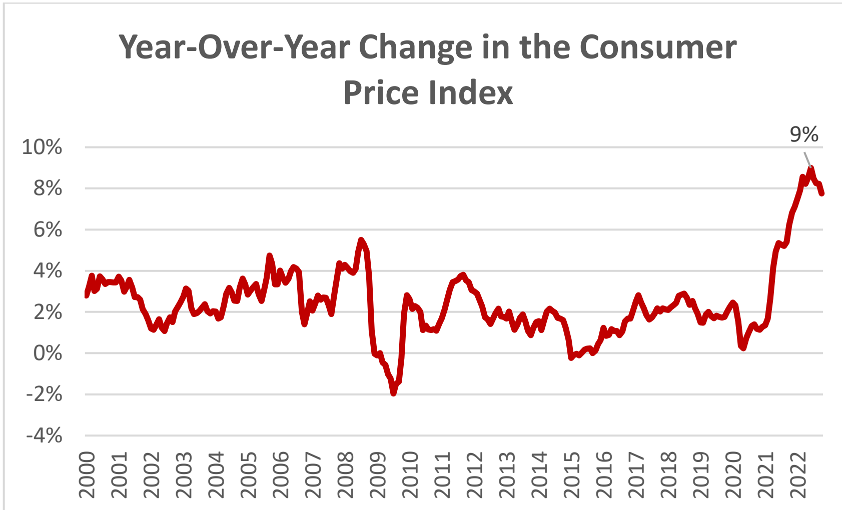
Since Texas's establishment as an independent republic, some form of consumer credit regulation has existed in the state. The Office of Consumer Credit Commissioner (OCCC), established in 1963, has seen the depth and breadth of its regulatory oversight increase to encompass the expanding financial marketplace in Texas. Each industry has its own unique and specific consumer benefits as well as unique compliance concerns. The agency works to ensure that the non-depository financial services industry that it regulates provides compliant financial products. Participants within this dynamic and diverse industry range from small independent providers to international publicly-traded corporations engaging in extensive financial transactions. Most non-depository lenders, non-real estate lenders, and small segments of real property loans are supervised by the OCCC. Exempt lenders (authorized lenders that are exempt from OCCC licensing, *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 frequently used by Texas consumers to niche offerings. Most of these industries must file annual reports for the preceding year that detail the growth or decline in their transactions. This report highlights seven of the most common credit transactions that Texas consumers received from OCCC licensees in 2021 and lists general alternatives to those products.

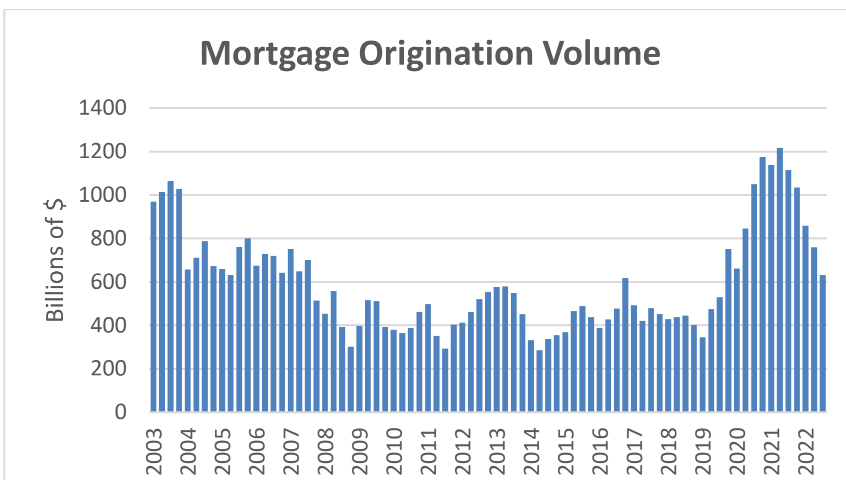
Industry (Statutory Provision)
Home Equity Loans - *Section 50(a)(6), Article XVI of the Texas Constitution*
Regulated Lenders -*Texas Finance Code (TFC) ch. 342*
Large Installment Loans - *TFC ch. 342 subch. E*
Small Installment Loans - *TFC ch. 342 subch. F*
Property Tax Loans – *TFC ch. 351*
Credit Access Businesses/*Payday and Title Loans - TFC ch. 393*
Pawn Loans - *TFC ch. 371*
Motor Vehicle Sales Finance - *TFC ch. 348*

Of the seven types of consumer credit listed above, the OCCC possesses exclusive jurisdiction over pawn loans, property tax loans, and credit access business transactions. The annual report data for those two loan types should reflect trends in the entire industry. Home equity loans are common products offered by depository institutions and other mortgage lenders not regulated by the OCCC; trends in OCCC licensed lenders may not be indicative of the entire marketplace. Motor Vehicle Sales Finance dealers and holders of motor vehicle retail installment contracts are the OCCC's largest licensee base and originate or hold retail installment transactions, not loans. In addition, this report does not include consumer lending transactions that are made by depository institutions, most loans secured by real estate, or credit exempt by other laws.

Special Note on Economic Outlook of 2023



OCCC data from annual reports reflect licensee activity through December 31, 2021. The inflation rate increased to a high of 9% year-over-year, but recently showed signs of easing. As expected, interest rates on home and auto loans have increased significantly in response to the inflationary spike. Rising loan rates and high prices are expected to weaken demand in the near future. These factors have already caused a significant decline in mortgage originations as the New York Fed reported a 43% decrease from Q3 2021 to Q3 2022. (Federal Reserve Bank of New York, 2022)



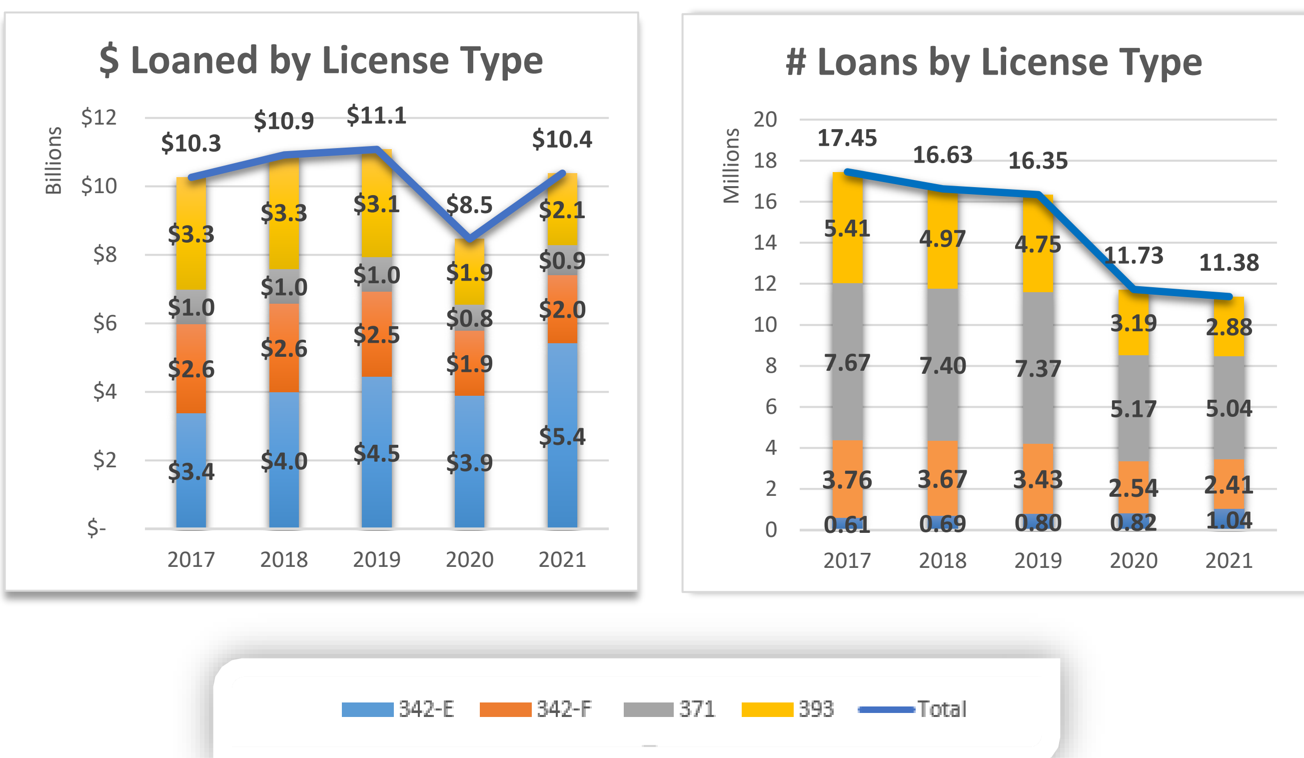
There are several popular economic indicators that have shown worrying signs this year. Last month, the 10-yr treasury minus the 3-month treasury yield spread went negative, a hallmark event in prior recessions. Real GDP has had small expansions and contractions in consecutive quarters of 2022. These signs are reflected in the Consumer Confidence Index, which was lower this year than it was during the 2008 financial crisis. These are only a handful of economic indicators and are by no means a guarantee of an impending recession. They are, however, worth noting in the context of this report.

Lending Volumes

Non-real estate loans account for most consumer loans (Installment Loans, Pawn Loans, and Payday/Title Loans). OCCC licensed lenders and financial service providers profiled in this report made **11,380,000**[1] loans for **$10.4 billion** in 2021. This number does not reflect the number of borrowers as they may take out several loans during a year by refinancing a loan or receiving multiple loans throughout the year.

Loan originations in dollar volumes increased by approximately 22% in 2021, a year that featured reopening and many activities returning to normal after the peak of the Covid-19 pandemic. Large installment loans (342-E) represent over 50% of the total dollar of loans originated and increased 38% from 2020 explaining why the number of loans remained relatively unchanged from the previous year.

Small consumer loans (342-F), Pawn Loans (371), and CAB loans (393 *Payday and Title*) were all experiencing year-over-year declines before 2020. These three industries were especially affected by the pandemic of 2020 as their operations are less convertible to mobile and internet loans. Pawnshops require an in-person evaluation of goods and title loans work in a similar fashion. Small installment lenders typically do not yet have the infrastructure to make loans over the internet and due to the size of the loans could face origination cost hurdles. It will be more revealing how these companies are able to rebound after reporting data in 2023.



[1] *Data submitted by OCCC licensees is aggregated and published on the OCCC website by industry.* *https://occc.texas.gov/publications/activity-reports*

Home Equity Loan 50(a)(6)

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; this is known as a home equity line of credit (HELOC).

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. Under certain conditions, a rate & term-only refinance is allowed and the loan would then lose its status as a Home Equity Loan.[2]

Type of Customer

Borrowers need to own their homestead and must 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 HELOCs use adjustable interest rates. Interest rates are generally set similarly to other mortgage products. Non-interest closing costs are limited to 2% of the original principal balance of the home equity loan.[3] 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 rate 7.44%) (Bank Rate, 2022)
	Closing costs may not exceed 2% 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 common
	May be provided as a line of credit (HELOC)

[2] Preamble for 7 TAC §153.45

[3] Effective 1/01/2018 closing costs (with some exclusions) are limited to 2%.

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 a less risky alternative for borrowers. Another alternative is a reverse mortgage available to homeowners 62 years and older.

2021 Home Equity Lending Report

Data contained in this report is reported on a calendar year basis and reflects data through CY 2021. 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.

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 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. Secondary mortgage loans (Texas Finance Code 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 reviews it for reasonableness.

The data reported to the OCCC is placed within three categories: loans made, loans brokered, and loans receivable. In 2011, Texas Finance Code §342.051 (c-1) was added and provided that a person who holds a residential mortgage loan company license under Chapter 156 or a mortgage banker license registration under Chapter 157 is not required to hold a license under Chapter 342 to make, arrange, or service secondary mortgage loans. Other home equity lenders are regulated by different regulatory agencies, such as the Texas Department of Savings and Mortgage Lending.

Home Equity Lending Data

Figure 4:

LOANS MADE	2021	2020	2019	2018	2017
1st Lien Home Equity Loans	34,432	24,639	15,840	15,612	14,326
Total Dollar Amount Loaned	$7,708,880,666	$5,334,114,525	$3,144,035,892	$2,783,790,222	$2,642,734,493
Average Loan Amount	$223,887	$216,491	$198,487	$178,311	$184,471
2nd Lien Home Equity Loans[4]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-
342-G Loans[4]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-

Figure 5:

LOANS BROKERED	2021	2020	2019	2018	2017
1st Lien Home Equity Loans[4]	-	-	58	36	66
Total Dollar Amount Loaned	-	-	$13,631,906	$7,330,620	$15,164,997
Average Loan Amount	-	-	$235,033	$203,628	$229,773
2nd Lien Home Equity Loans[4]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-
342-G Loans[4]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-

Figure 6:

LOANS RECEIVABLE	2021	2020	2019	2018	2017
1st Lien Home Equity Loans	9658	9,824	10,093	15,472	16,494
Total Dollar Amount Loaned	$829,759,690	$669,234,312	$692,430,754	$1,279,891,075	$1,266,599,503
Average Loan Amount	$85,914	$68,122	$71,230	$82,723	$76,792
2nd Lien Home Equity Loans	487	673	1,027	1,579	1,016
Total Dollar Amount Loaned	$11,731,572	$14,899,211	$66,964,593	$43,989,976	$23,464,395
Average Loan Amount	$24,089	$22,139	$65,204	$27,859	$23,095
342-G Loans	1,075	1,663	2,616	5,332	6,278
Total Dollar Amount Loaned	$103,136,949	$60,155,317	$294,665,056	$271,577,094	$290,702,903
Average Loan Amount	$95,941	$36,172	$112,640	$50,933	$46,305
Number of Companies Reporting[5]	**813**	**801**	**772**	**794**	**810**

[4] *Certain transactions were reported by five or less locations. Data was withheld to protect confidentiality of reporting businesses. All brokered loans since 2021, secondary home equity loans since 2017, and 342.G loans since 2017 were reported by five or less companies.*

[5] *Includes all regulated lender submissions. The number of mortgage companies reporting is smaller.*

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

Overview

In 2021, 1,038,327 personal/secured loans were issued under Chapter 342-E. These loans offer higher advance 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 loans or payday loans. Lenders are typically located in business districts and suburban areas. An increasing amount of loans are offered online.

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 with these loans are filing liens (perfecting a security interest) and prepaid administrative fees.

Allowable Charges	Interest Rates: typically 18% - 30%
	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 (if the rate is 18% or less). General Purpose loans average around $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 2021, 2,413,613 small installment loans averaging $822 were issued under Chapter 342-F. Due to these loans' higher-cost nature, the cash advance amounts are limited by law. Borrowers can obtain Chapter 342-F loans with minimal to no security or credit references. Lenders may require collateral such as personal property, including holding 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 a 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%
	10% non-refundable Acquisition Charge (limited to $100)
	$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: $1,600*
	Limited loan terms. Usually 9 - 24 months
	Typically, no more than one outstanding loan per borrower per company
	Prepayment is allowed (without penalty) and interest is normally calculated on a simple or precomputed basis

*Finance charge brackets and maximum effective rates as of July 1, 2022. Loan ceilings adjust each July 1 based upon the Consumer Price Index.

Default

Borrowers utilizing 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.

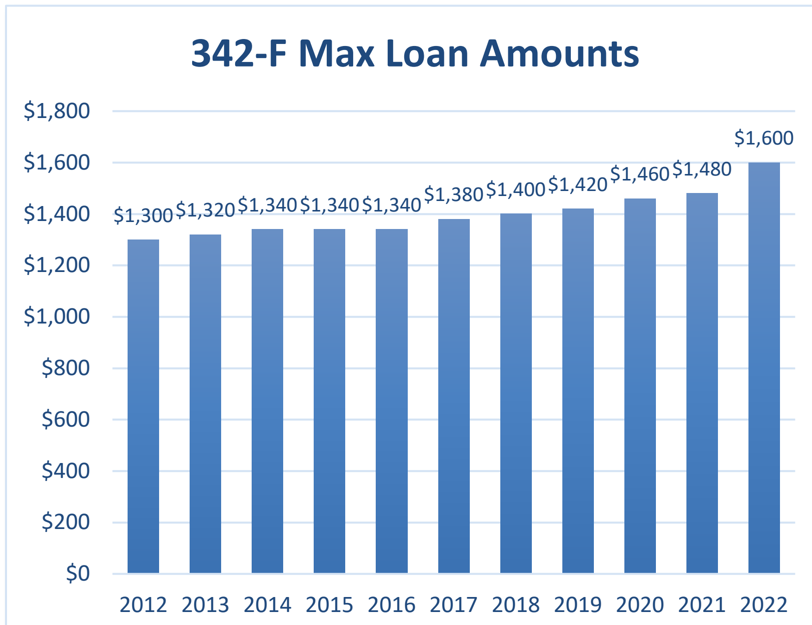
Alternatives

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

Factors Affecting Consumer Loans

The amount a consumer may borrow is limited on a 342-F loan. The 2022 loan ceiling is $1,600, reflecting a large increase in the Consumer Price Index (CPI) from December 2020 to December 2021. During periods of low inflation, the loan ceiling has not changed. For the three consecutive years of 2014-2016, the loan ceiling remained at $1,340. In other typical years, the maximum loan amount has risen $20 - $40 per year.

The legislative and CPI adjustments have resulted in the maximum 342-F loan amount increasing by 23% since 2012 and 8.11% in the past year. An analysis of Transunion credit data found that the average balance of all new unsecured personal loans increased 13.4% nationwide from Q2 2021 to Q2 2022. (Transunion, 2022)



Regulated Lender Consolidated Volume Report
Calendar Year 2021

Figure 7:

Loans Made	Number of Loans	Dollar Value of Loans
Chapter 342-E	1,038,327	$5,432,916,497
Chapter 342-F	2,413,613	$1,984,799,279
Chapter 342 G – Secondary Mortgages[6]		
Home Equity Loans – 1st Lien	34,432	$7,708,880,666
Home Equity Loans – 2nd Lien[7]		
Chapter 346 – Revolving Credit Accounts	21,450	$56,434,599
Chapter 348 – Motor Vehicle Sales Finance	421,721	$13,857,244,094
Chapter 345 – Retail Installment Sales/Contracts	2,012,349	$1,372,442,946
Chapter 347 Loans – Manufactured Housing	9,046	$799,399,398

Number of Companies Reporting: 809

[6] Volume below reportable activity

Property Tax Loans (351)

Overview

In 2021, 6,216 property tax loans averaging $17,624 were made under Chapter 351 on residential properties. With the consent of the property owner, a property tax lender is allowed to transfer and assume the special lien generated by taxing units of the property by paying delinquent taxes. The special lien retains its superior lien position (e.g. priority position in front of a purchase mortgage) after transfer and is foreclosable.

The industry relies on direct mail solicitation, web search results, and repeat customers for the business. Property owner information is generally public record and can be used in mail solicitations; however, specific advertisement rules in 7 Texas Administrative Code §89.208 apply. Property Tax Loans on residential properties must be closed by licensed residential mortgage loan originators.

Type of Customer

Property owners 65 and older claiming a homestead exemption on the property may defer their property taxes and are not eligible for a property tax loan. Property tax loan borrowers either own their house without a mortgage or have at least one mortgage but do not escrow their taxes.

Typical Rates

The maximum allowable rates for Chapter 351 loans are determined by statute. The average rate is lower than the maximum interest rate of 18%. Lenders can also charge closing costs associated with the review and preparation of loan documents.

Allowable Charges	Interest Rate of 18% or less:
	General Closing Cost limit of $900
	Additional Closing Costs of $100 per additional parcel of real property
	Reasonable fee if required to repair a title defect
	A late charge of 5% of the scheduled installment assessed 10 days after the due date
	Additional fees paid to attorneys for foreclosure and bankruptcy actions can be substantial
Loan Terms	Maximum loan amount is based on the definition of Funds Advanced in Texas Tax Code §32.06 and is limited to items on the tax receipt, fees to record the lien, and closing costs
	Loan terms vary from one year to several years
	Notification to any pre-existing lienholders required after transfer and after 90 days of delinquency
	Prepayment is allowed (without penalty on homestead property) and loans that become delinquent by 90+ days are often paid by the borrower's pre-existing mortgage company

Default

Similar to a mortgage or home equity loan, borrowers risk foreclosure for non-payment. After a foreclosure sale, the original residential property owner has a right to redeem by paying 125 percent of the foreclosure sale price during the first year of the redemption period or 150 percent of the foreclosure sale price during the second year of the redemption period with cash or cash equivalent funds.

Alternatives

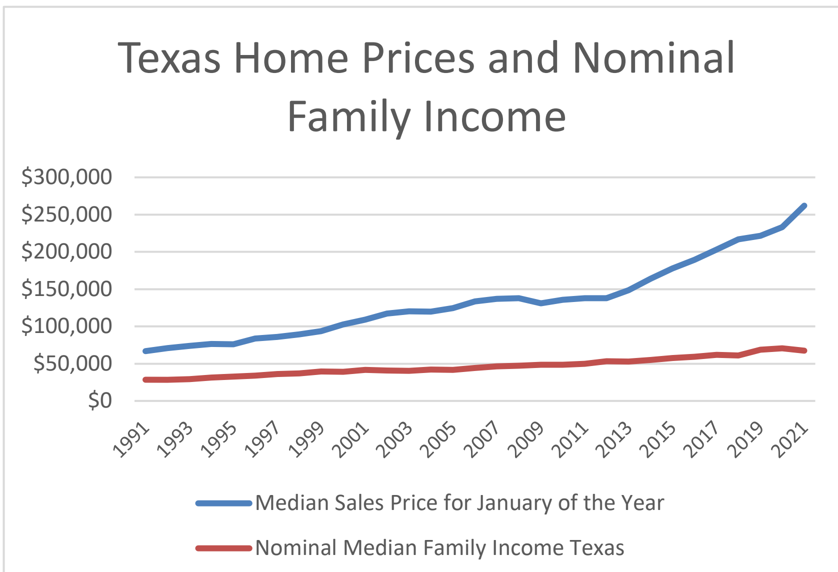
1. Taxing Unit Payment Plan for Residence Homesteads[7]

2. Credit Card with a low-interest rate

3. Home Equity Loan

4. Other options may be offered by individual County Tax Collectors or Texas Tax Code Chapter 31 (some options may have eligibility requirements)

Factors Affecting Property Tax Loans



Texas is in the top 10 states for the highest property tax rates. An analysis of 2019 tax payment data concluded that the median taxes on a median-priced Texas home produced an effective tax rate of 1.80%. (Kiernan, 2021) High tax rates on property and increasing property values would generally raise the cost of home ownership through increasing taxes.

Increased property values represent unrealized gains to Texans maintaining residency. Texas property values have seen a dramatic increase over the last 10 years (Texas Real Estate Research Center - Texas A&M University, 2022) largely outpacing both real and nominal wages. (US. Census Bureau, 2022)

Homestead exemptions are an important tool in mitigating the rise in taxes as they limit assessed value increases from year to year and reduce the property's taxable value. Effective November 3, 2015, Texas voters approved an increase on the homestead exemption from $15,000 to $25,000 on school taxes. In May 2022, Texans voted to increase the homestead exemption on school taxes from $25,000 to $40,000.

Important public policy decisions affecting taxes on homesteads, property owners on fixed incomes (aged 65 and older, disabled, surviving spouses), and payment options at the tax office all impact the amount of taxes owed and the demand for property tax loans.

[7] Texas Tax Code §33.02

Property Tax Lending
Consolidated Volume Report
Calendar Year 2021

Loans Made Statistics	Residential	Non-Residential	Total
Number of Loans	6,216	1,340	7,556
Amount of Loans	$109,552,754	$74,547,488	$184,100,243
Average Loan Amount	$17,624	$55,632	$24,365
Total Closing Costs	$4,176,093	$2,451,829	$6,627,922
Average Closing Costs	$672	$1,830	$877
Average Interest Rate	12.71%	11.45%	

Total Volume Statistics	
Number of Loans Receivable	27,202
Amount of Loans Receivable	$512,728,512
Number of Loans 90+ Delinquent	6,745
Amount of Loans 90+ Delinquent	$174,006,783
Number of Foreclosures	439
Amount of Foreclosures	$15,936,453

Number of Companies Reporting: 73

Data as of 5/5/2022

Credit Access Businesses (Payday and Title Loans) Chapter 393

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 a 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 with 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

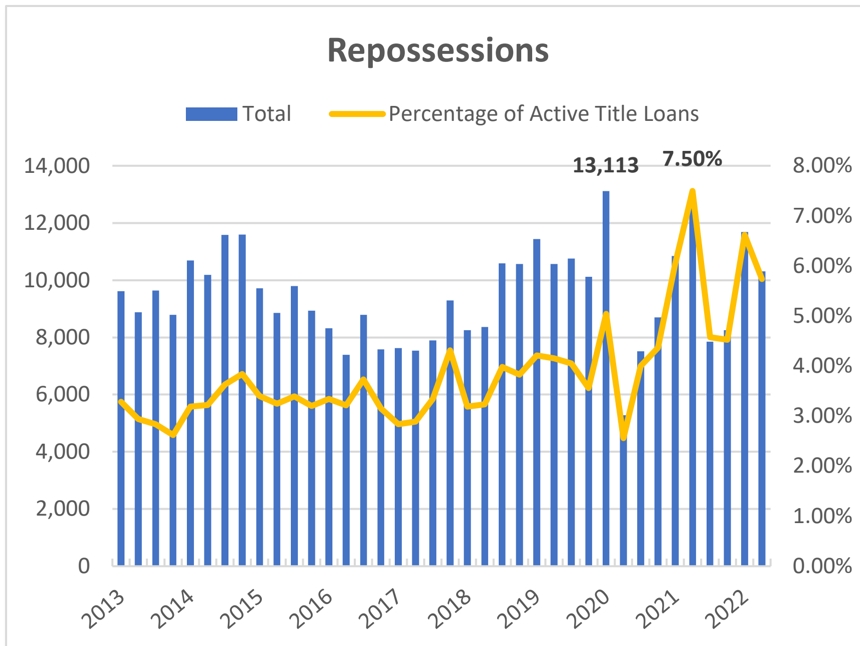
The majority of the loan cost is not capped. Fees charged to borrowers by the CAB typically depend on the amount of the loan and the length of the term. CAB agreement terms are limited to 180 days or less. The entire loan may be due in a matter of days, or the loan may be due over several equal payments.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

The prevalence of motor vehicle repossessions in the CAB industry is reported by quarter and have typically totaled 8,000 to 12,000. However, total repossessions in Q1 2020 peaked at about 13,100. This number then fell significantly in Q2 2020 as lenders worked with borrowers at the height of the coronavirus pandemic. Many people lost their jobs; however federal stimulus and loan forbearance played a large role in limiting Q2 repossessions. Since the beginning of the pandemic, total repossessions have fluctuated from quarter to quarter, and repossessions as a percent of active title loans has continued to remain higher than historical norms.



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.

Data Limitations

CABs are a specific subset of a broader classification of businesses registered as Credit Service Organizations (CSOs) with the Texas Secretary of State. In 2019, the Attorney General of Texas opined that CSOs that are not CABs can still arrange extensions of credit for consumers so long as they are not deferred presentment transactions[8] or motor vehicle title loans. **(**Attorney General of Texas**,** 2019**)** CSOs that arrange non-CAB loans might not: (1) obtain OCCC licenses, (2) receive OCCC compliance exams and (3) report transaction data to the OCCC.

[8] See Texas Finance Code §341.001(6) for definition

Credit Access Business (CAB) Annual Data Report, CY 2021

Data contained within the below summary represents aggregated statewide annual data reported by credit access businesses (CABs) as of 3/3/2022. 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 March 3, 2022.

Figure 9:

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 2021 that did not refinance.	262,011	781,273	12,617	43,840
2	Number of refinances of extensions of consumer credit before paid in full or otherwise closed for reduced payoff in the report year.[9]				
2A	Refinancing 1 time	54,069	53,529	1,616	5,906
2B	Refinancing 2-4 times	66,880	26,517	9,148	9,771
2C	Refinancing 5-6 times	5,135	2,883	4,315	1,430
2D	Refinancing 7-10 times	3,653	1,846	4,314	952
2E	Refinancing more than 10 times	3,408	1,007	9,489	999
3	Total amount of CAB fees charged by the CAB on all CAB contracts during 2021.	$84,235,249	$990,925,002	163,804,726	$250,156,372
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.	172,452	543,187	81,508	47,042

(Table continued on next page)

[9] Item 2 collects information on the number of times 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 2021.	154,593	803,267	65,703	77,468
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	112,923	272,643	7,017	3,260
6B	$251 - $500	189,088	399,500	16,032	14,437
6C	$501 - $750	50,801	191,135	11,406	11,778
6D	$751 - $1000	34,832	176,850	15,514	14,257
6E	$1001 - $1500	17,792	80,992	16,064	15,453
6F	$1501 - $2000	7,224	21,425	12,058	10,315
6G	$2,001 - $2,500	15	6,854	6,837	6,392
6H	$2,501 - $3,000	6	1,943	6,130	4,818
6I	$3,001 - $5,000	0	182	9,859	8,350
6J	$5,001 - $7,500	0	12	3,790	2,281
6K	Over $7,500	0	3	2,993	1,372
7	Total dollar amount of new extensions of consumer credit during the report year for each of the following loan ranges.				
7A	$0 - $250	$18,815,483	$43,776,124	$1,107,572	$583,740
7B	$251 - $500	$57,900,051	$154,924,678	$6,537,157	$6,004,553
7C	$501 - $750	$31,854,591	$123,231,417	$7,240,991	$7,443,328
7D	$751 - $1000	$31,700,579	$162,428,493	$14,448,239	$13,192,494
7E	$1001 - $1500	$22,482,750	$102,084,142	$20,930,321	$19,741,521
7F	$1501 - $2000	$13,139,295	$39,701,347	$22,202,876	$18,746,112
7G	$2,001 - $2,500	$35,044	$15,948,376	$15,833,946	$14,705,715
7H	$2,501 - $3,000	$17,418	$5,581,345	$17,530,450	$13,709,679
7I	$3,001 - $5,000	$0	$627,899	$39,273,926	$33,270,034
7J	$5,001 - $7,500	$0	$73,602	$23,125,290	$13,689,350
7K	Over $7,500	$0	$26,500	$28,065,892	$13,599,249
8	Total number of refinances on extensions of consumer credit originated in 2021.	276,677	191,046	135,290	48,326
9	Total dollar amount of extensions of consumer credit for 2021.	$175,945,259	$648,402,284	$196,296,621	$154,685,777
10	Total dollar amount of refinances for 2021.	$187,615,991	$218,311,314	$393,188,758	$113,770,944

Number of locations reporting activity in each category:	**498**	**630**	**662**	**749**

Total Number of Companies Reporting: 1,801

Pawn Loans (371)

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.

Most pawnshops are storefronts in high-traffic areas. Depending on the wait in the pawnshop, the customer could expect to receive the cash proceeds in a matter of minutes.

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 $240
	180% for loans up to $1,600
	30% for loans for up to $2,400
	12% for loans up to $20,000
Loan Terms	Cannot exceed one month
	Minimum additional 30-day grace period
	May be renewed or extended
	No personal liability for pledgor

*Finance charge brackets and maximum effective rates as of July 1, 2022. Rates adjust each July 1 based upon the Consumer Price Index.

Default

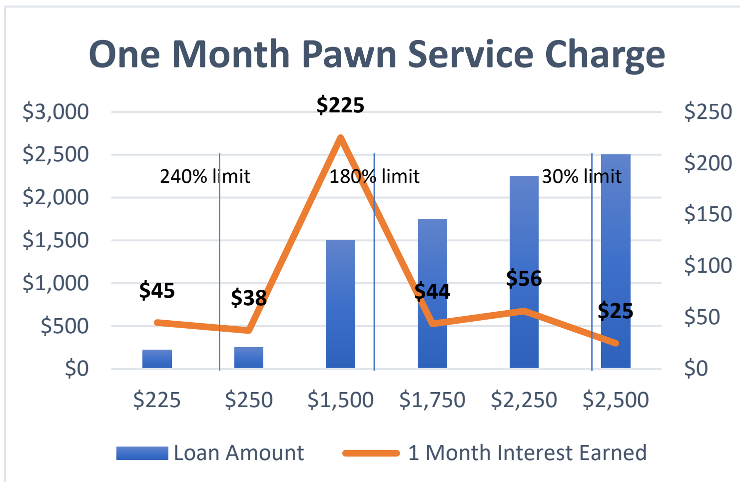
To reclaim possession of the pledged goods the pledgor must repay the entire loan. If the customer does not redeem pledged items at the end of the loan term those items may then become part of the pawnshop's inventory and are offered for sale to the public. In the event of forfeiture, the pledgor has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

Factors Affecting the Pawn Loan Amount

The second half of 2021 saw inflation in prices rise to 40-year highs which continues into 2022. (Guilford, 2022) Inflation erodes purchasing power and raises the prices of most goods both new and used. For example, used car prices rose 40.5% from January 2021 to January 2022. (Shen, 2022)



Example Item	Loan Amount	1 Month Interest Earned
Power Tools	$225	$45.00
	$250	$37.50
Gold Jewelry	$1,500	$225.00
	$1,750	$43.75
Motorcycle	$2,250	$56.25
	$2,500	$25.00

When prices rise consumers need to borrow more and in the case of a pawn loan their collateral for the loan should also be worth more. In Texas, there are additional factors affecting the amount loaned on items due to the allowable rate structure. The One Month Pawn Service Charge graph illustrates three examples of similar loan amounts and how the pawn service charge declines after the loan amount surpasses the next rate threshold. The hypothetical decision on how much to loan on an item is influenced by the maximum interest that a pawnbroker can earn. The largest difference is seen at the rate ceiling between 15% (180% APR) and 2.5% (30% APR) per month which currently occurs at $1,600. Despite the fact that the consumer desires a larger loan and the consumer's goods have a greater value, the consumer may be artificially limited to a loan size due to the structure of the pawn service charge rate brackets delineated by statute.

Pawn Industry Consolidated Volume Report by Calendar Year

Figure 10:

Loans Made	Number of Loans	Dollar Value of Loans	Average Loan
2021	5,041,993	$875,583,907	$174
2020	5,174,572	$761,250,480	$147
2019	7,373,149	$1,012,421,749	$137

Figure 11:

Loans Outstanding	Number of Loans	Dollar Value of Loans	Average Loan
2021	1,277,783	$252,223,573	$197
2020	1,258,157	$221,982,276	$176
2019	1,691,458	$275,993,630	$163

Number of Companies Reporting in CY 2021: 1,382

Number of Companies Reporting in CY 2020: 1,374

Number of Companies Reporting in CY 2019: 1,381

Motor Vehicle Sales Finance (348)
Overview

Many motor vehicle dealers offer financing directly at their dealership. These retail installment transactions involve two parties: (1) a retail seller and (2) a retail buyer. The retail installment contract is either immediately assigned to a separate holder or serviced by the selling dealer.

Franchised dealers are authorized to sell new cars and maintain an affiliation with a specific auto manufacturer. Financing arranged through a franchised dealership is usually assigned to a captive finance company of the manufacturer or an independent acceptance company. These dealers are usually found on frontage roads of major highways.

Independent dealers exclusively sell used cars. Financing is often in-house or referred to as "buy-here pay-here." Size and location vary but many are very small businesses located throughout cities and towns.

Type of Customer

Franchised and independent dealers attract customers based on their type of inventory. A franchised customer is in the market for a new or certified pre-owned car, has disposable income to cover monthly payments, and has an average to great credit score. There is usually more underwriting involved at a dealer that assigns contracts than one that collects payments themselves. Buyers at franchised dealerships can often negotiate lower rates, sometimes as low as 0%. Independent dealers often do not perform credit checks and rely on current income or down payment affordability to underwrite the transaction.

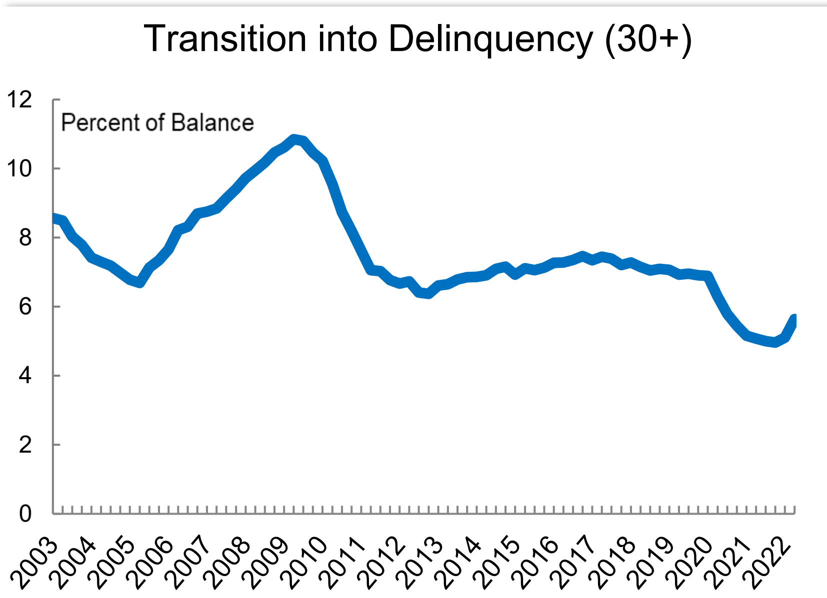
Typical Rates

The maximum allowable rates for motor vehicle sales finance are determined by statute as add-on rates (e.g. $15 of finance charge per $100 financed per year). Most dealerships convert the add-on rates to equivalent rates that depend on term of the contract and age of the vehicle. The current maximum rates are as follows:

Maximum Rates	18% for New Cars
	~ 18% for cars one to two years old
	~ 22% for cars three to four years old
	~ 26% for cars five years and older
Example Other Charges	5% late fee for payments more than 15 days late
	Actual government official fees for taxes, title, license, inspection
	Reasonable Documentary Fee (normally $150)
	Ancillary products may be purchased
	Out-of-pocket expenses are required the for repossession of the vehicle

Default

A buyer risks repossession for late payment, failing to maintain insurance, filing for bankruptcy, or any other provisions of default as listed in the contract. In addition to losing the vehicle, a repossession can negatively impact a consumer's credit history. The buyer might be required to pay the entire amount owed and not just the past due amount to redeem their vehicle.



Source: New York Fed Consumer Credit Panel/Equifax

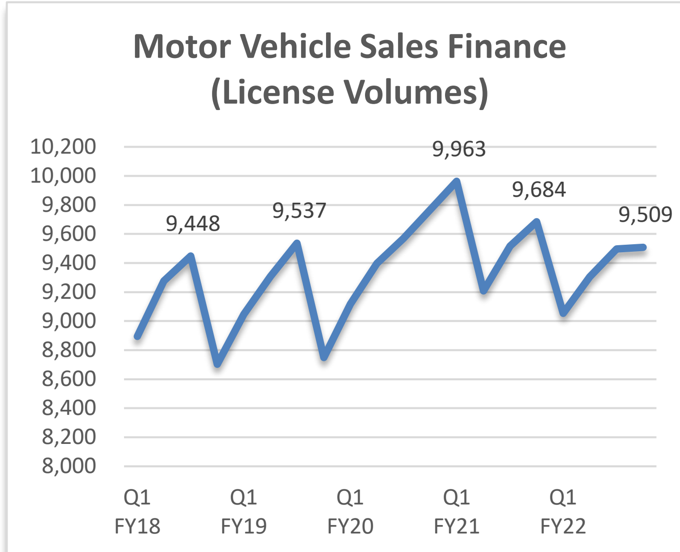
Initial delinquencies generally rise during times of economic stress. However, after the recovery of the "great recession", auto financing that was 30+ days delinquent remained relatively stable. According to the most recent data (Q2 2022), new delinquencies have risen 11% since Q2 of 2021. The recent increase in delinquencies can be attributed to increasing interest rates on car loans as well as waning Covid-related economic relief programs.

Alternatives

Instead of obtaining financing through a dealership, prospective buyers can first shop for car loans at banks and credit unions. If their application is approved by an outside financial institution, rates can then be negotiated at the dealership. If the buyer's outside financing is more favorable the buyer can provide the loan approval to the dealer for up to the approved amount.

Motor Vehicle Sales Industry Data

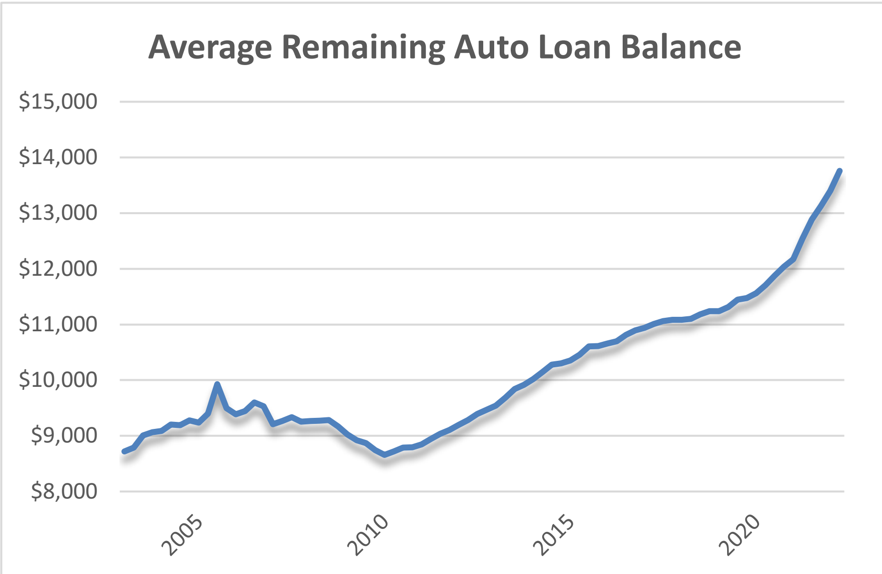
The OCCC does not currently collect annual report data from motor vehicle sales finance dealers who hold a chapter 348 license. Industry monitoring is primarily completed through examinations, stakeholder meetings, and changes in license levels. The highest licensing levels used to occur in the third fiscal quarter of every year. Renewals occurred in the fourth fiscal quarter and there is an anticipated drop for those companies that have closed and do not renew their license. Starting in 2020, renewals were moved to the first quarter of the year and now the highest levels should be in Q4 of each fiscal year. The chart represents the peak licensing levels for the last five years. Despite license volumes increasing in the years before 2020, the most recent fourth quarter (FY22) indicates licenses will not surpass their peak reached in FY21.



National Trends

United States motor vehicle sales increased from 2009 to 2016, but rising vehicle prices may have capped consumer enthusiasm in the ensuing years. Seasonally adjusted sales stagnated from 2016 through 2019, with figures hovering around the 17-18 million vehicles range. Sales dropped off significantly in the early days of the pandemic but began to rebound until supply chain disruptions occurred. Today, these supply chain issues and rising interest rates due to inflation have significantly impacted the number of vehicles sold.

Prices of both new and used vehicles today are still significantly elevated above historical norms, but that may soon change. The rising rate of inflation has pushed up auto loan interest rates, making vehicles even more expensive for consumers. We may see a decline in the prices of motor vehicles as demand weakens in the face of these increasing interest rates.

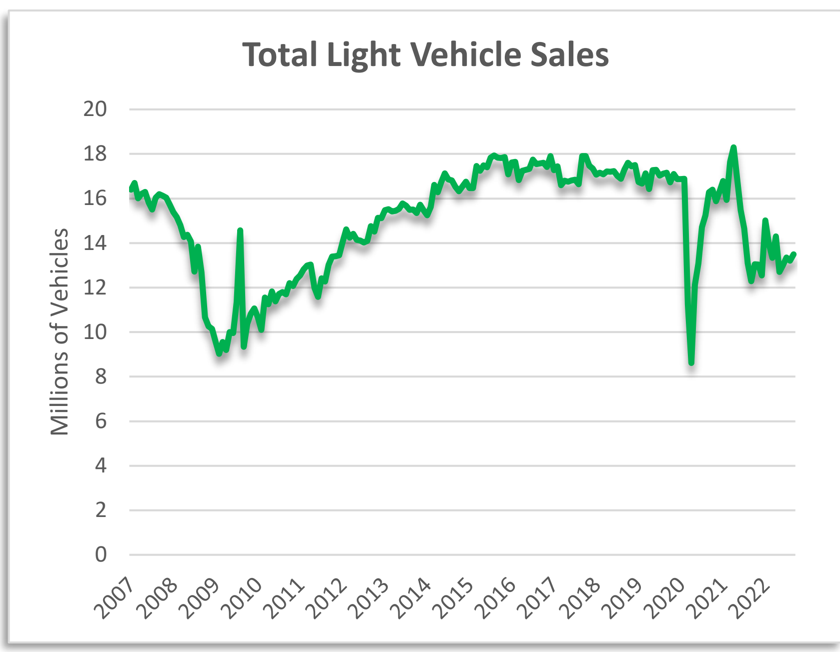


Average Auto Loan Amount

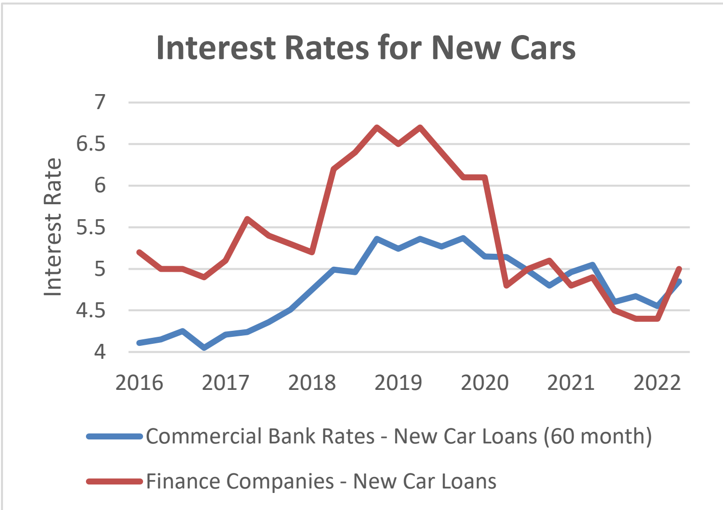
The average auto loan amount increased to $13,759 in 2022 Q2. Since early 2010, the average loan amount has increased from $8,657. General inflation of the dollar over time and longer-term loans have contributed to this jump. This average represents the amount that a person has left to pay on an auto loan, not the amount of a brand-new loan.
(Federal Reserve Bank of New York, 2022)

Motor Vehicle Sales

Motor vehicle sales steadily increased following the great recession before stalling around 2015. After a massive drop in motor vehicle sales in the early months of 2020, sales momentarily climbed back to historical norms. This was only temporary, however, as supply chain issues, material shortages, and geopolitical factors around the globe quickly shrank dealer inventories in 2021 and 2022. Our latest data shows an industry struggling to climb back to pre-pandemic sales. Despite all of this, the low supply of new vehicles and a surge in demand has seen dealers enjoy record earnings for this period. (Haig Partners, 2022)



Interest Rates for New Cars

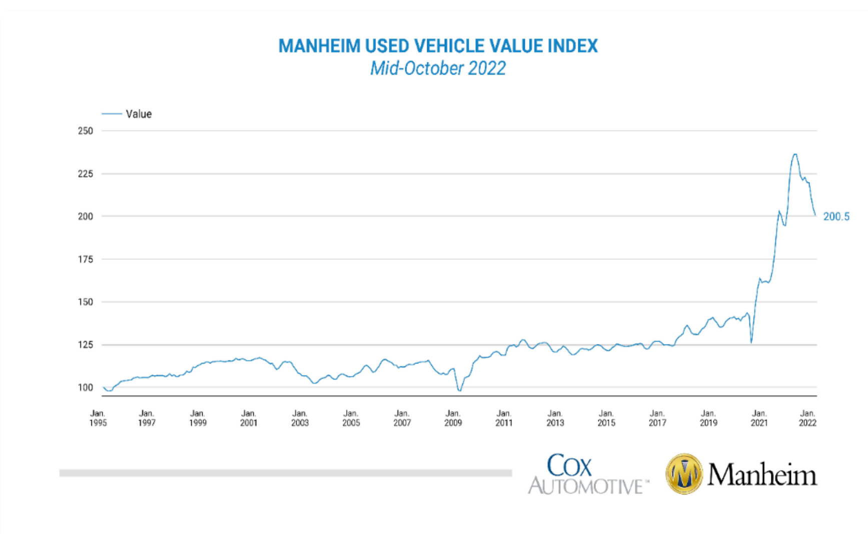


Bank Rates dipped following the recession but had been rising for the last few years. Rates peaked in 2019 before decreasing during the COVID-19 pandemic. These low-interest rates coupled with severe inventory shortages caused the price of vehicles to skyrocket. Recently, however, inflation has caused a significant spike in interest rates. Rising rates will likely lead to a decline in prices as demand sours, even in the face of supply chain issues causing a shortage of dealer inventories. (Board of Governors of the Federal Reserve System, 2022)

*2022 numbers through Q2

Current Outlook of Motor Vehicle Sales

Consumers with a pessimistic outlook of the future economy may be inclined to delay large purchases like automobiles. The “great recession” of 2008 impacted credit markets causing a dramatic decrease in new car sales. (Kellogg Insight, 2016) The current economic conditions present their own challenges for car sales that include rising prices for cars and increased financing costs while consumers are examining their own budgets..



The Manheim Used Vehicle Value Index decreased by 10.3% from one year ago, indicating an unadjusted average price decrease of 9%. (Manheim, 2022) Car prices are still elevated far above historical norms, and likely will remain that way as long as supply chain issues continue. However, we can see a clear and sharp decline in used car prices that coincides with the rise in interest rates. This decrease in prices will pose challenges for car dealers in the future.

Emergency or Unexpected Credit – Purpose and Amount

Since 2013, the Federal Reserve has conducted surveys on how likely an American adult could pay for an unexpected $400 expense with cash or its equivalents. (Board of Governors of the Federal Reserve System) In 2021, a record high number of 68% reported they could cover the expense with cash or its equivalents. Of the 32% who could not cover $400, the most common response was to pay with a credit card and pay off the balance over time.

Lending Club Corporation in partnership with PYMTS conducted a survey and concluded that the static $400 metric used by the Federal Reserve was not relevant for the types of expenses consumers face today. (PYMNTS and LendingClub Collaboration, 2022) That survey found that the average emergency expense is roughly $1,400 with car repairs being the most common and housing-related costs being the most expensive.

Type of Expense[10]	Frequency of Expense	Average Cost
Car repairs	30%	$1,008
Health-related occurrences	21.40%	$1,361
House-related issues and relocating	19.40%	$2,042
Unexpected high bills or taxes	6.90%	$1,852
Kids or grandkids-related expenses	5.30%	$1,742
Vet or pet-related expenses	4.30%	$1,070
Loaned money to relatives	0.80%	$1,051
Other expenses	11.80%	$1,536
Weighted average emergency expense		$1,446

[10] Based on consumers who reported an emergency expense in the preceding three months of the 2022 PYMNTS.com "New Reality Check: The Paycheck to Paycheck Report" survey.

Installment Loan Comparisons – Examples of Pricing and Restrictions

The OCCC licenses four types of installment loans a consumer might turn to in the case of an unexpected $1,400 - $2000 expense.

FEATURES	342-E	342-F	CAB Payday	CAB Title
Loan Terms				
Average Loan Amount	$5,232	$822	$616	$1,487
Typical APR[11]	18%-32%	80%-110%	430%	367%
Typical Term in Months	36	12	5	5
Typical Monthly Payment	$223	$110	$283	$617
Monthly Amount of Finance Charge per $100 borrowed	$1.43	$4.84	$25.91	$21.50
Consumer Protections				
The OCCC licenses, examines, and mediates complaints about loans	✓	✓	✓	✓
Ability to Repay Analysis Required	✓	✓		
Prepayment Penalty Prohibition	✓	✓		
Additional Fees limited	✓	✓		
Refund of Unearned Finance Charge Required	✓	✓		
Contracts are Required to be written in plain language and easily understandable	✓	✓		
Other				
Eligible to Military[12]	✓			
No other fees or products allowed (e.g. credit insurance)		✓		

Other options a consumer might turn to include a loan from family, a friend, or an acquaintance. The private-party loan option might come with more beneficial terms but generally does not include any regulatory oversight in the case of disagreements.

[11] CAB APR is estimated from fees reported to the OCCC in 2021 Data reports

[12] 10 U.S. Code §987 restricts loan terms to members of the military including a "all-in" APR limit of 36%. Not all 342-E loans are eligible but are the most likely option.

Emerging Products and Innovation

The OCCC is monitoring the following emerging financial products. These products contain possible benefits and expanded access to customers but also possess some regulatory uncertainty. If the products or providers don't perform then the customer might have few options to turn to for corrective assistance.

Cryptocurrency and the Risks of an Unregulated Market

One segment of the FinTech market that has gotten considerable attention this past year is the cryptocurrency market. Cryptocurrency is a digital currency that uses encryption technologies to verify and maintain records without a centralized authority. Due to their decentralized structure, cryptocurrencies and crypto exchanges pose a serious challenge for regulatory bodies trying to protect consumers. Most notably, the cryptocurrency exchange company "FTX" imploded in November of 2022, plummeting from a $32 billion valuation to bankruptcy within a few days. (Reiff, 2022) FTX is the latest example of extreme volatility in cryptocurrency and their exchanges that occurred in 2022, segments of the economy that are largely unregulated.

Neobanks, Instant Cash, and Subscription/Tipping Models.

Online banks are sometimes referred to as "NeoBanks" and operate through a mobile application without any physical branches. The growing acceptance of mobile banking and the popularity of using mobile apps have made this a growing industry. Many of these banks offer versions of an "instant cash" product where a customer can receive an advance of a small portion of their normal direct deposit to cover things like restaurant bills for dinner (MoneyLion, 2022). They are often marketed with 0% APR and an optional "tip" if you enjoy the service; however, to truly receive cash instantly there is normally a fee similar to a credit card advance[13].

Consumer Protection Implications

Bank Partnerships occur with an internet bank acting as a lender and a financial technology company as a service provider to the bank by developing software where borrowers can apply for credit. Internet banks generally incorporate in states without strict usury laws and export their home state rates throughout the country. The pre-emption of interest rates and the absence of lender licensing requirements remove a layer of consumer protection. Legal challenges to these models question who is the "true lender" in this ever-evolving space of lending. (Pompan, Bigart, Wilson, Berge, & Webb, 2021)

[13] MoneyLion advertises a fee of up to $8.99 to receive $100 instantly to an external debit card

Earned Wage Access (EWA)

Another fintech development includes companies that allow workers to access their earned wages before the completion of their pay period. Earned Wage Access (EWA) companies either provide the earned wages directly or as a partnered benefit provided by the employer. In a press release on November 17, 2022, ADP the largest payroll processing company by market share (Pang, Markovski, & Trifunovski, 2022), announced EWA as a new feature of its platform. (ADP, 2022)

Consumer Protection Implications

In 2020, the CFPB issued an advisory opinion that one specific EWA product was not an extension of credit. A coalition of 96 consumer advocates sent a letter to the CFPB in October 2021 asking them to review the issue and regulate the EWA industry (especially products that charge a fee). (96 consumer, labor, civil rights, legal services, faith, community and financial organizations and academics, 2021) On June 30, 2022, the CFPB rescinded the approval of the special "regulatory sandbox" treatment of that company. In a press release, the CFPB announced that further clarification of the definition of "credit" under the Truth in Lending Act was forthcoming.

Managing Credit

A customer's credit limit and the interest rate they pay is often dependent on their credit score. Credit scores can change due to the source of the data used, the company that calculates it, or the day that it was retrieved. Generally, the score is based on the following factors (Consumer Financial Protection Bureau, 2022):

What makes up your credit score?		
Bill Paying History	Current Unpaid Debt	Number and Type of Loan Accounts
Length of time loan accounts have been open	How much available credit is being used	New Applications for credit
Debt sent to Collections	Foreclosure	Bankruptcy

Since certain negative marks on a credit report like bankruptcy can affect a credit score for up to 10 years it is important to stay vigilant in maintaining a positive credit history. (Experian, 2022)

Check your credit report every year for accuracy at annualcreditreport.com

Low-cost lending programs

Community Organizations

Borrowers with distressed credit may not be able to take advantage of the best interest rates in the market but community programs are helping Texans pay off high-interest debt and start rebuilding their credit. One such program offered by Foundation Communities is called a Fresh Start Loan which includes (1) paying off high-interest loans up to $1,000, (2) reporting positive payment history to credit bureaus, and (3) creating goals with a financial coach. (Foundation Communities, 2022).

Credit Unions

Membership-based and member-owned financial institutions such as Credit Unions are sources of personal loans if consumers are (1) eligible for membership, and (2) have a good or better credit history. Federal Credit Unions cannot charge interest higher than 18% and since they are non-profit they typically have some of the lowest rates available. (Tretina, 2022)

Some credit unions offer Credit Builder Loans as a way to improve your credit if you do not qualify for the institution's personal loans. These types of loans often work as secured loans where customers do not receive funds until after they make scheduled payments and may be an option for someone looking to improve their credit history. (RBFCU, 2022)

National Banks

At least four national banks have implemented small dollar loan programs for their customers through mobile apps. (Kline, 2022) Typically marketed as $1,000 or less the banks' customers are able to access lines of credit to avoid overdraft fees. The advance can be repaid over a few installments for a flat fee of 5% or less of the amount advanced.

Maintaining a positive credit history and timely making payments are key factors in expanding consumer options when it comes to credit. Customers empowered with knowledge of their options and qualified rates are in a position to make the best credit decisions when financial emergencies happen.

Financial Education

The OCCC encourages and supports financial education programs to assist consumers manage their finances and meet their financial goals. Financial Education is essential as it provides consumers with the knowledge and concepts to make smart money decisions, prevent fraud, and build wealth.

The OCCC partners with many organizations throughout the state to encourage, support, and assist with financial education programs. The OCCC also offers in-person and virtual financial education programs directly to Texans, providing 1070 consumers with financial education services during FY ’22.

The OCCC manages the Texas Financial Education Endowment (TFEE) Grant. The Texas Financial Education Endowment (TFEE) grant supports statewide financial capability and consumer credit building activities and programs. The endowment is funded through assessments on each credit access business and is administered by the Finance Commission of Texas.

The 2020-2021 TFEE Grant Cycle concluded on December 31, 2021. During 2020-2021 cycle, $275,144 in TFEE funds were reimbursed to 9 organizations. These organizations provided a total of 22,002 hours of direct financial education contact to 30,271 Texans. Grantees used TFEE funds to support financial education across three different program categories: K-12 financial education and capability, adult financial education capability, and financial coaching.

Currently, the 2022-2023 TFEE grant cycle is in progress. The 2022-2023 grant cycle began on January 1, 2022, and will run through December 31, 2023. For this grant cycle, $409,000 in aggregate awards was approved for 12 organizations.

Distribution of Licensed Locations by Zip Code

It is common for similar business lines to cluster together (e.g. *Car Dealers, Restaurants, Furniture Stores, Pharmacies*) (Becher, 2012). The linear correlation of different license types located within zip codes is presented below. Using the Pearson Product-Moment Correlation (based on all Texas zip codes with at least one license type) the correlation of any two license types produces a value between -1 and 1. A value near zero indicates there is no correlation, while a value of positive 1 indicates that two variables move in a linear fashion (Lund Research Ltd, 2019)(e.g. a zip code that contains the most pawnshops would also contain the most 342-F lenders).

	348	*351*	*371*	*393*	*342-E*	*342-F*	*342-G/A6*
348	1.00						
351	0.03	1.00					
371	0.62	0.02	1.00				
393	0.47	-0.01	0.63	1.00			
342-E	0.43	0.03	0.45	0.52	1.00		
342-F	0.47	0.00	0.63	0.60	0.44	1.00	
342-G/A6	0.03	0.06	0.04	0.04	0.11	0.03	1.00

Excluding motor vehicle sales finance licenses, the industries that share a large positive correlation are 342-F (small installment lenders), 393 (payday and title lenders), and 371 (pawnshops).

342-F and 393 (0.60)
393 and 371 (0.63)
342-F and 371 (0.63)

Zip codes that contain the most OCCC licenses

The distribution of active and inactive licensed locations in the top 30 zip codes (ranked by the total number of licenses) is provided in the next table. The table shows the number of licensed locations with their primary business designation. They are ordered from left to right: Motor Vehicle Sales Finance (348), Property Tax Loans (351), Pawn Loans (371), Credit Access Businesses (393), Personal Installment Loans (342-E), Small Consumer Loans (342-F), and real property related Secondary Mortgage Loans (342-G) & Home Equity Loans (A6). Data is as of **11/03/2022**.

The US Census Bureau; American Community Survey obtained demographic information about each zip code. estimates derived from US census data. (US Census Bureau, 2022) Estimated population and median household income are presented by zip code.

	Zip	Population	Median Household Income	Location	348	351	371	393	342-E	342-F	342-G/A6	Grand Total
1	78501	60,299	$41,345	McAllen	61	1	7	17	6	38	0	130
2	78521	89,629	$33,616	Brownsville	78	0	8	8	3	27	0	124
3	75211	77,920	$46,226	SW Dallas	98	0	3	3	6	6	0	116
4	77037	18,030	$41,611	N-Houston/Aldine	94	0	6	3	3	5	0	111
5	79915	36,797	$29,017	El Paso	93	0	5	3	1	8	0	110
6	75217	86,811	$41,513	SE Dallas	95	0	7	3	2	3	0	110
7	78572	80,135	$45,274	McAllen	57	0	4	9	6	25	0	101
8	75229	32,739	$105,606	NW Dallas	90	1	2	0	1	1	0	95
9	75050	43,190	$61,441	Grand Prairie	83	0	3	4	1	3	0	94
10	76011	22,878	$43,350	Arlington	80	0	4	4	2	2	0	92
11	78041	47,207	$53,514	Laredo	54	0	5	9	3	20	0	91
12	78577	78,731	$40,463	Pharr	57	1	5	3	1	23	1	91
13	78550	52,022	$40,105	Harlingen	32	0	5	13	3	30	0	83
14	78415	41,976	$50,397	South Corpus Christi	43	0	6	5	1	20	0	75
15	78520	59,388	$37,803	Brownsville	31	0	8	2	5	27	1	74
16	78221	42,535	$45,950	South San Antonio	27	0	6	8	3	29	0	73
17	77074	40,891	$41,154	SW Houston	62	0	2	1	1	4	0	70
18	78852	57,160	$41,794	Eagle Pass	37	0	4	3	3	22	0	69
19	76117	32,191	$47,473	NE Fort Worth	56	0	6	2	2	2	0	68
20	75041	31,250	$53,446	NE Dallas	59	0	4	0	2	3	0	68
21	78040	39,997	$27,319	Laredo	39	0	7	3	1	17	0	67
22	75220	41,110	$47,003	NW Dallas	50	0	5	4	3	4	0	66
23	77063	41,829	$48,117	West Houston	56	0	4	4	0	2	0	66
24	77055	45,201	$59,102	Spring Branch Houston	48	0	7	2	2	6	0	65
25	78130	79,786	$66,574	New Braunfels	38	0	6	7	3	10	0	64
26	78043	46,141	$43,968	Laredo	36	0	6	4	4	14	0	64
27	77587	17,162	$45,354	City of South Houston	56	0	3	2	1	2	0	64
28	79925	39,868	$49,219	El Paso	42	0	3	4	5	9	0	63
29	77076	34,668	$36,722	N Houston	52	0	1	2	3	4	0	62
30	75702	27,678	$41,064	Tyler	34	0	5	6	2	15	0	62
				Top 30 Zip Totals	1,738	3	147	138	79	381	2	2,488
				Remainder of Texas	7,527	74	1,048	1,366	656	1,956	58	12,685
				Out of State	318	7	1	50	253	100	157	886
				All Licenses	9,583	84	1,196	1,554	988	2,437	217	16,059

In addition to the top 30 zip codes based on total licenses, the remaining zip codes that were "category leaders" (had the most licenses for a specific type) are included. These additional category leaders have the most pawnshops, mortgage, and property tax licenses.

	Zip	Population	Median Household Income	Location	348	351	371	393	342-E	342-F	342-G/A6	Total by Zip
342-E "In-State" Category Leader												
	76014	33,289	$53,896	Arlington	17	0	0	0	***12***	1	0	30
342-G/A-6 "In-State" Category Leader												
	75019	43,137	$122,033	Coppell	2	0	0	0	0	1	***5***	8
351 Category Leader												
	78731	27,664	$85,586	NW Austin	0	***16***	0	0	0	0	0	16

For comparison, zip codes were selected by certain demographic data. The following zip codes had the highest and lowest median household income (zip codes with more than 1,000 houses) and the highest population.

	Zip	Population	Median Household Income	Location	348	351	371	393	342-E	342-F	342-G/A6	Total by Zip
Highest Median Income with over 1,000 Households												
	76092	31,837	$224,265	Southlake	0	0	0	0	0	0	0	0
Lowest Median Income with over 1,000 Households												
	79901	8,821	$12,025	El Paso	6	0	2	0	1	27	0	36
Highest Population												
	77494	122,814	$142,037	Katy	11	0	1	1	2	1	0	16

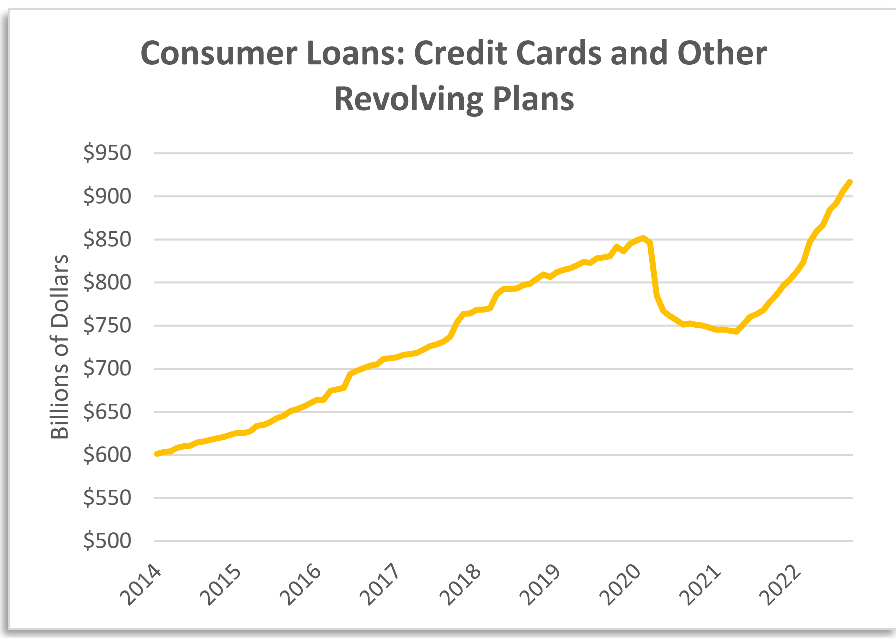
National Credit Trends

Overview

The Federal Reserve's October Senior Loan Officer Opinion Survey reported that a moderate net share of banks saw stronger demand for credit card loans, while a significant number of banks saw weaker demand for auto loans. Mortgage rates have significantly increased this year in response to the Federal Reserve's attempts to control inflation, which has led to a significant decrease in mortgage demand. Additionally, the Consumer Confidence Index has dropped significantly over the past year, measuring less than during the 2008 financial crisis. Trends point to consumers continuing to increase their debt load in the near term. (Board of Governors of the Federal Reserve System, 2022)

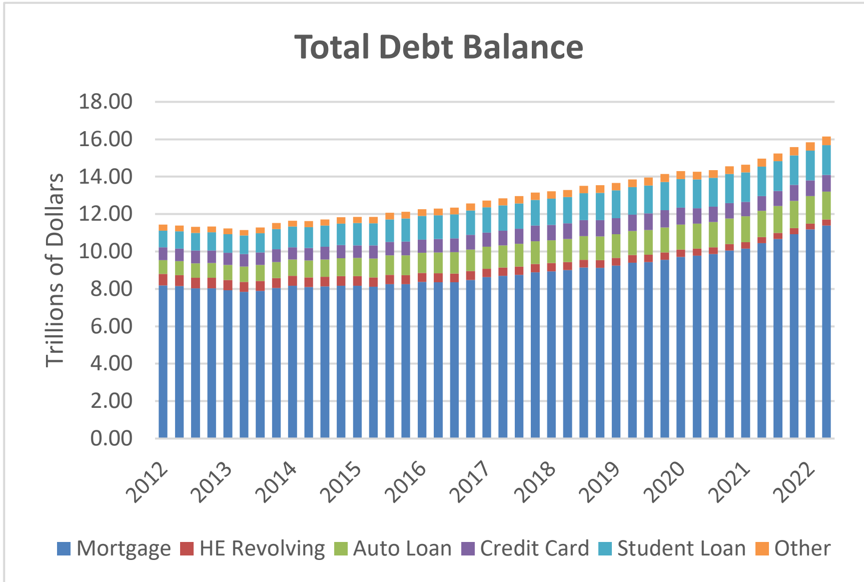
Credit Card Balances

In the early stages of the pandemic, Americans were hesitant to rely on credit card debt. There was a spike in the personal savings rate during this period most likely attributable to federal stimulus and consumers anticipating an economic recession. However, this year we can see that total credit card debt has risen back to the trend line established before 2020. However, the rate that credit card debt is increasing, is much higher than in previous years. (Federal Reserve Bank of St. Louis, 2022)



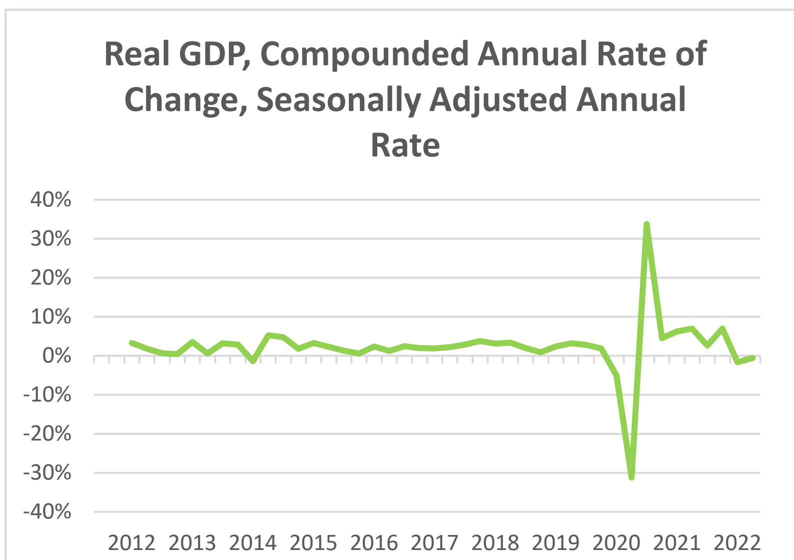
Total Debt Balance

Total debt balance dipped from 2009-2013, but has been on the rise since then. While household debt fell in the early years of economic recovery in the United States, it has risen considerably alongside the decreasing interest rates. Total household debt rose 2.2% in 2021 Q2, compared to a 0.5% increase in 2021 Q1. The increase in household debt is being driven by rising mortgage and auto debt. In relation to CPI, credit card and student loan debt have been on the decline since the start of the coronavirus pandemic. (Federal Reserve Bank of New York, 2022)

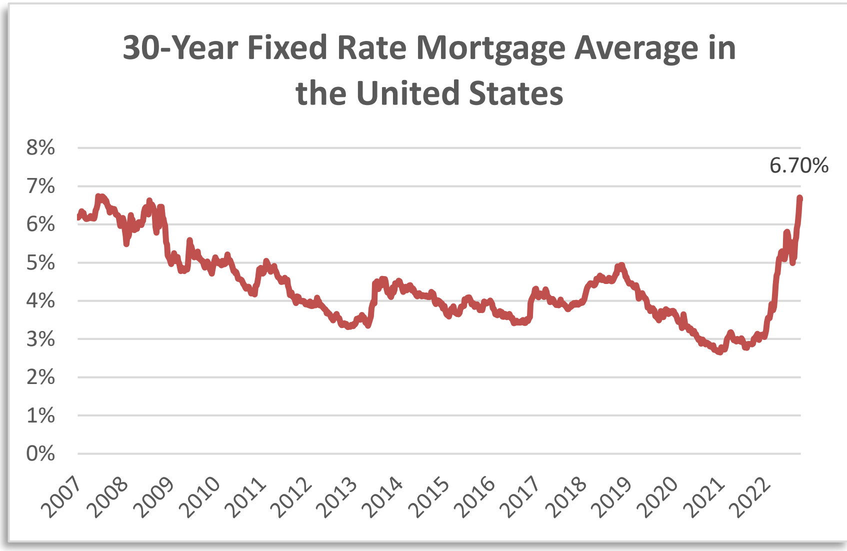


Real GDP

Real GDP growth is another lagging indicator that does not predict future economic performance but it demonstrates how well the US economy has performed in the lookback period. As can be seen in the graph, real GDP typically grows roughly 2-3% each quarter. The U.S. economy has alternated in recent quarters with minor contraction followed by minor expansion. This is due in large part to high inflation and the next several quarters will be monitored closely.
(Federal Reserve Bank of St. Louis, 2022)

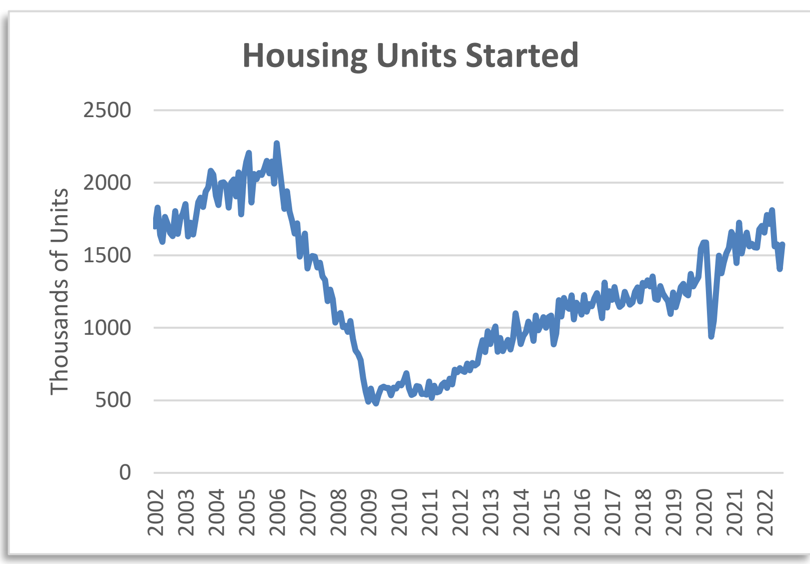


Mortgage Rates



Mortgage rates have been in a gradual decline for the past 10 years, with many fluctuations occurring along the way. Mortgage rates fell to historic lows over the previous two years, mainly due to the fed's attempts at stabilizing the housing market with the onset of the pandemic. This year, the resulting inflation from Covid-related economic policies led to a huge jump in mortgage rates. Housing prices were already at record levels, and with the recent rise in interest rates, demand has sharply fallen. (Freddie Mac, 2022)

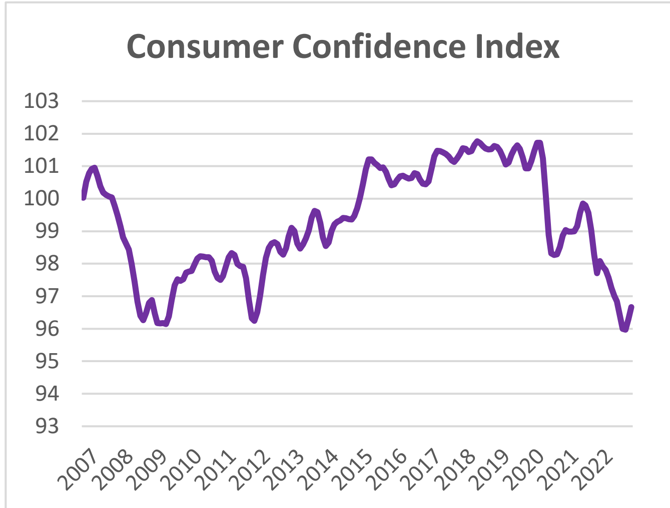
Housing Starts



Housing starts is a good leading indicator because it shows how real estate developers feel about consumer spending habits in the near future. A rise in the number of housing starts can be a sign of increasing confidence in the nation's future development. Housing starts have increased steadily since the collapse of the housing bubble, but experienced turbulence during the onset of the Covid pandemic. Recently, the decrease in housing demand due to increasing interest rates has resulted in a decrease in the number of new housing starts, dropping 13% from April to August. (Federal Reserve Bank of St. Louis, 2022)

Consumer Confidence Index

The Consumer Confidence Index steadily rose in the decade following the "great recession". In 2019, the consumer confidence index faltered amid concerns about tariffs and weakening economies elsewhere in the world, but, the index was still trending upward in the long run. In this index, a number above 100 signals a boost in consumer confidence toward the economic situation which could portend more spending and less saving in the next 12 months. Inversely, values below 100 indicate a pessimistic attitude towards future developments in the economy, possibly resulting in a tendency to save more and consume less. The index has dropped 4% from last year's high amid high inflation and international conflict (the war in Ukraine in particular) creating issues for supply chains. (Organisation for Economic Co-operation and Development, 2022)



USA (2022), Consumer confidence index (CCI) (indicator). doi: 10.1787/46434d78-en (Accessed on 14 November 2022)

Economic Reports and Forecasts: State of Texas

Overview

The state's unemployment rate currently appears to be leveling off at around 4%, which many economists consider to be a "healthy" rate. The number of Texans filing for unemployment relief has been cut in half since last year. Overall, Texas's economic activity appears to be healthy following the economic uncertainty of the previous few years, but high inflation and the possibility of a collapse in housing demand still remain potential issues for the future.

Unemployment Claims

750,441

As of November 16, 2022, 750 thousand Texans have filed for unemployment relief since last year's report.

Unemployment Rate

4%

Texas's unemployment rate was 4% in September 2022, down from 5.1% in September 2021

Sales Tax Revenues

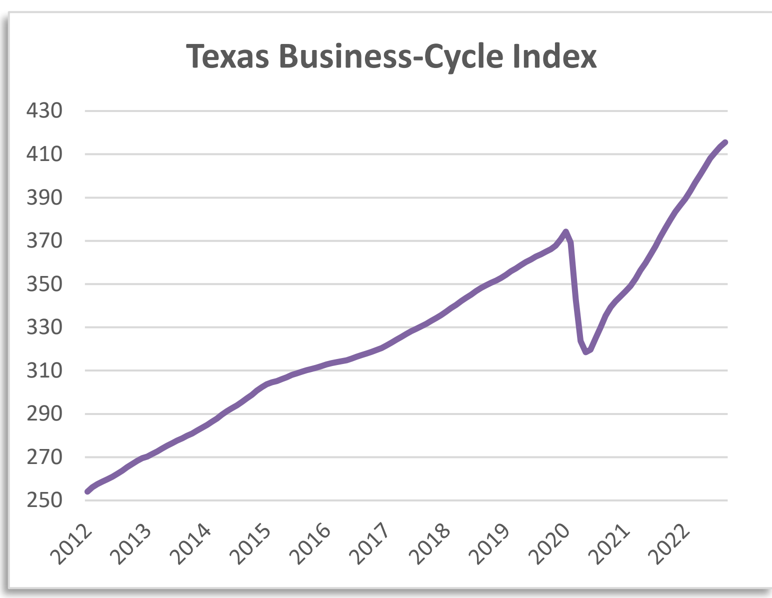
$3.8 billion

In October 2022, Texas's sales tax revenues were up 11.9% from October 2021.

Initial unemployment claims have been falling and are now at pre-pandemic levels. Sales tax revenue has been increasing and oil prices are rising as the economy adjusts to the new post-COVID "normal".

Texas Business-Cycle Index

The Texas Business Cycle Index attempts to forecasts the strength of economic expansion or retraction in the near future. When the economy is not doing well, more people need loans and bring business to licensees. Because of this, some of the OCCC licensees operate out of sync or against the normal business cycle. The shock the pandemic caused to the Texas economy did not significantly increase borrowing, mostly due to Covid-related government aid programs like the CARES Act. (Federal Reserve Bank of Dallas, 2022)



Reporting Requirements

The report has been prepared in response to and fulfills certain constitutional, statutory, and administrative regulation requirements.[14]

Texas Finance Code, Sec. 11.305. Research

(a) The consumer credit commissioner shall establish a program to address alternatives to high-cost lending in this state. The program shall:

(1) study and report on high-cost lending, including the availability, quality, and prices of financial services offered in this state to individual consumers in this state; and

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

(b) The program may:

(1) apply for and receive public and private grants and gifts to conduct the research authorized by this section;

(2) contract with public and private entities to carry out studies and analyses under this section;

(3) provide funding for pilot programs, and

(4) make grants to nonprofit institutions working to provide alternatives to high-cost loans.

(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.

[14] Sec.50(s), Art XVI, Texas Constitution
Texas Finance Code §351.164
Texas Finance Code §342.559
7 Texas Administrative Code §85.502

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