TEXAS OFFICE OF CONSUMER CREDIT COMMISSIONER

2023 Report on Availability, Quality, and Pricing of Certain Financial Services and Consumer Loan Products

12/1/2023

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Executive Summary

Availability of consumer loan products is being impacted by tighter lending standards, especially for higher-risk borrowers. Loan volumes are declining in many industries and have not rebounded to pre-pandemic levels. Delinquencies on products such as credit cards and auto loans are increasing, and credit application denials are on the rise as well.

Pricing increases are common for transactions that allow higher lending costs to be passed on to borrowers. Products that are routinely made at state rate limits cannot pass on increased costs of lending. The effective federal funds effective rate has increased to 5.33% from .08% just two years ago. Cumulative inflation is approximately 20% higher over the last three years.

Innovation in credit expands consumer options but poses complications for established regulatory frameworks. Some novel products operate outside of state licensing; however, this may change as lawmakers and regulators continue to review such transactions.

Economic Activity could slowdown in 2024. Consumer debt levels continue to increase and interest rates remain elevated. Mortgage loans have decreased substantially due to affordability concerns. If the Federal Reserve decides to reduce the federal funds rate because inflation is on target, the impact could benefit borrowers. While Texas has performed better than the nation during economic slowdowns over the past twenty years, there is still inherent risk in the state.

Items of Note include borrowing trends in mortgage refinances, declining loan originations in the small dollar sector, and special circumstances in the automobile finance sector.

Mortgage Refinances Nearly 9 out of 10 current (2023) mortgage refinances include cash-out to the borrower. On average, 24% of equity is loaned out during such transactions. These are similar statistics to the 2005-2008 crisis, but the volume of refinances thus far is much lower.

Small Dollar Sector 37% of consumers said they could not cover a $400 emergency with current savings. In Texas, small consumer loan originations (342-F) have declined 30% since 2019. Regulatory tightening lending standards, as lending costs rise, could also limit availability of small dollar loans.

Automobile Financing Average interest rates for car loans are currently at 8%. Prices remain high (at levels set during the supply chain issue of 2021); however, they are no longer increasing. Buyers who purchased cars at elevated prices, with long loan terms and higher interest rates, may have issues trading in vehicles for new purchases in the future.

Introduction

The Office of Consumer Credit Commissioner (OCCC), established in 1963, licenses companies that extend consumer loans and retail installment sales. Each industry has its own unique and specific consumer benefits as well as unique compliance concerns. The OCCC works to ensure that the non-depository financial services industry that it regulates provides compliant financial products. 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.

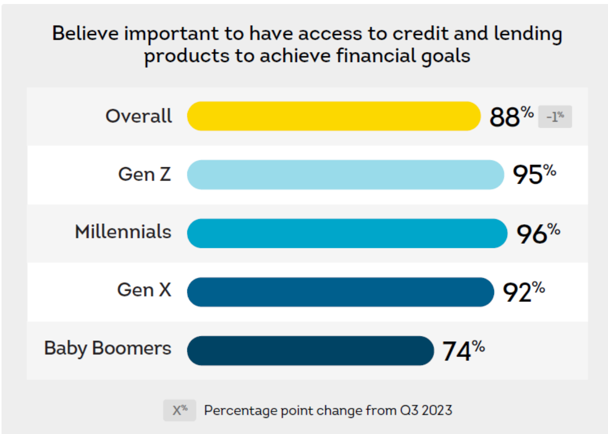
Several types of credit products are available and range from those frequently used by Texas consumers to niche offerings. Most of these industries must file annual reports for the preceding year that detail the growth or decline in their transactions. This report highlights seven of the most common credit transactions that Texas consumers received from OCCC licensees in data reports filed for the year 2022 and lists general alternatives to those products.

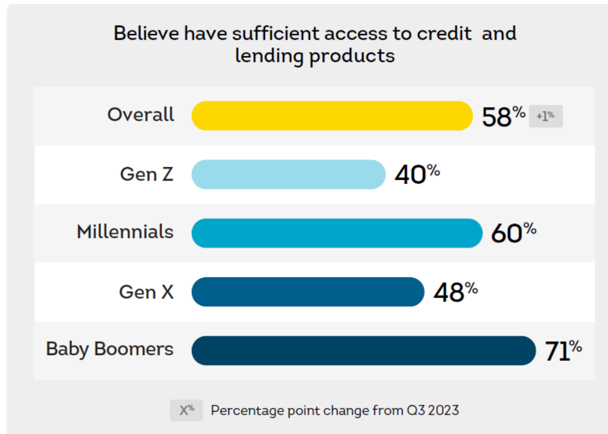
Industry (Statutory Provision)
Home Equity Loans - *Section 50(a)(6), Article XVI of the Texas Constitution*
Regulated Lenders -*Texas Finance Code (TFC) ch. 342*
Large Installment Loans - *TFC ch. 342 subch. E*
Small Installment Loans - *TFC ch. 342 subch. F*
Property Tax Loans - *TFC ch. 351*
Credit 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 sole authority over pawn loans, property tax loans, and credit access business transactions. The annual report data for those three loan types should reflect trends in the entire industry. Home equity loans, although made by OCCC licensees 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.

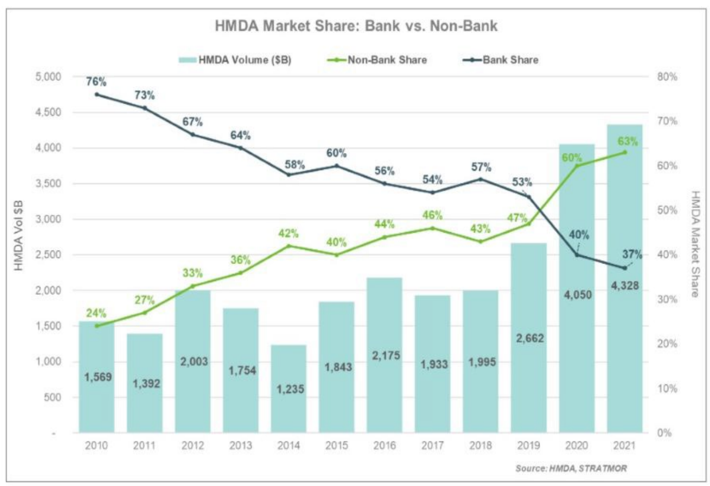
Access

Overall, 88% of consumers believe access to credit and financial products is important to achieve their financial goals while only 58% believe that they have sufficient access. (Transunion, 2023) A generational divide is observed with younger consumers more likely to believe access is important but also are more pessimistic regarding availability sufficient for their needs. Additional customer choice, increasing access to and improving quality of traditional lending channels, and innovating credit for younger generations might change perceptions of access.





Competition and Availability



Historically low interest rates of 2020-2021 fueled a mortgage boom that presented opportunities to refinance existing loans and allowed consumers to shop for new homes. Approximately 1/3 of all existing mortgage debt was refinanced during this period. (Haughwout, Donghoon, Mangrum, Scalley, & van der Klaauw, 2023). During this time, non-depository lenders accounted for over 60% of mortgage originations (Federal Financial Institutions Examination Council, 2022) (Cameron, 2022). The boom took off suddenly in 2020 and the availability of other market participants outside of the depository space was important for the following reasons:

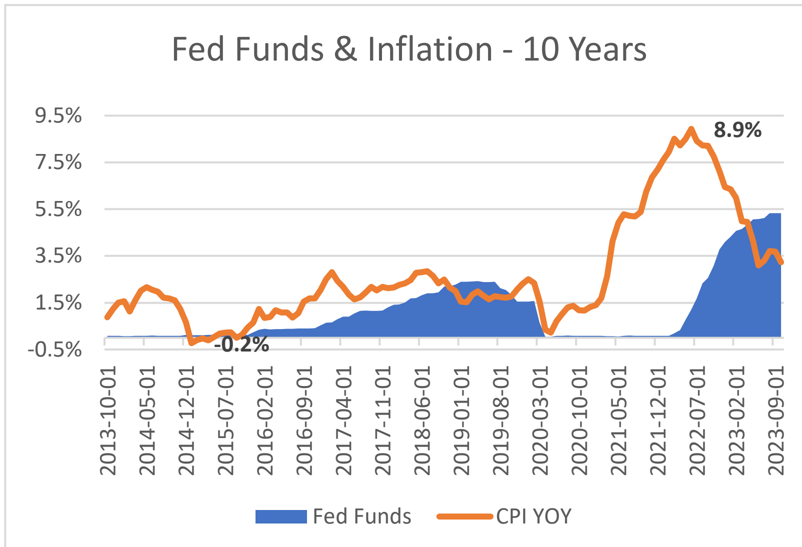
1. Additional capacity to help meet surging demand.
2. Generally, when firms must compete and consumer choices increase, downward pressure is applied to prices.
3. Differing risk tolerances among lenders increases overall availability.

Although non-depository business lines are more concentrated and under increased pressure when interest rates dramatically rose in 2022, the homeowners who were able to close loans during the boom undoubtedly benefited. As of Q1 2023 almost 2/3 of all mortgage debt was at rates of 4% or less (FreddieMac, 2023). Ensuring there is a robust market with many competitors is important for consumer choice and availability.

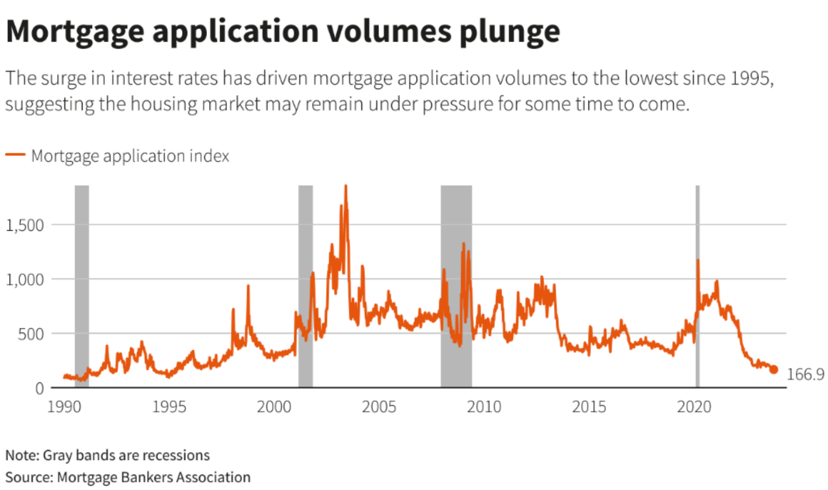
Economic Effects on Willingness to Borrow and Lend

Federal Reserve monetary policy has a trickle-down effect on lending costs for most borrowers. Financial institutions set their prime rate (the rate offered to the most credit worthy borrowers) based on the current federal funds rate. (Board of Governors of the Federal Reserve System, 2023) An increase in the federal funds rate causes an increase in both new fixed rate loans (e.g. conventional mortgages, auto loans) and variable rate loans (e.g. credit cards and adjustable rate mortgages).

At the beginning of COVID the federal funds rate was lowered to a target of 0% to .25% to ensure credit was available during the uncertainty of the pandemic. (Milstein & Wessel, 2021) As the economy recovered from the pandemic inflation rose faster than it had in decades. To combat inflation, the federal funds effective rate has increased 528 basis points since April 1, 2020. During that same time period, inflation rose 20%. (Federal Reserve Bank of St. Louis, 2023) (U.S. Bureau of Labor Statistics, 2023)



Demand of Credit



As rates rise, certain financial institutions can pass on the rate increase on to their customers. Borrower demand for loans can decrease during this time as credit becomes more expensive. Mortgage borrowers are especially sensitive to rate increases and the industry saw the lowest weekly application volume since 1995 in October 2023.

Supply of Credit and Rejection Rates

Rejection rates for credit applications have risen from 2022 according to the October 2023 FED Survey of Consumer Expectations Credit Access Survey. (Federal Reserve Bank of New York, 2023) Automobile loans showed the largest increase in rejection rates reaching the highest point since the survey began tracking.

Type of Credit	2022 Rejection Rate	2023 Rejection Rate
Credit Cards	18.5%	19.6%
Mortgage	14.6%	12.1% (remains above 2019 rate of 10.2%)
Auto Loans	5.2%	11.0% (highest rate since series began in 2013)
Credit Card Limit Increases	35.3%	30.9%
Mortgage Refinance	9.9%	15.5%
Lender-Initiated Account Closures	5.3%	7.2%

Potential Availability Concerns from the Effect of Market Conditions

The rates charged on credit products include compensation to the creditor for forbearance and risk[1]. Additionally, creditors have fixed costs to originate, service, and collect that are captured by interest rates or a fixed fee on the agreement. (Chen & Elliehausen, 2020)

Three of the most common credit products offered by licensees of the OCCC are motor vehicle retail installments sales, small installment consumer loans, and large installment consumer loans. Each of these products have rate ceilings and fee limitations and generally cannot pass on market increases to borrowers. When the cost of borrowed funds (evidenced by the federal funds rate) and operating expenses (inflation) increase, lenders must make decisions as loans become less profitable. Economic theory and consumer lending studies point to credit rationing or lower availability especially to more risky borrowers when market rates approach rate ceilings. (Vandenbrink, 1982) (Garon, Braga, Oglesby-Neal, & Martire, 2023)

Demand has decreased in mortgage applications (at least partially) because consumers want to avoid the current borrowing expense. Lenders have increased rejection rates in certain lines of credit due to tightening restrictions. There are potential concerns of an unbalanced market if there are no changes in demand for loans and a lender's willingness to make loans is curtailed.

[1] *Forbearance is forgoing current income for future income. Risk or Credit Risk is the probability of loss of borrower default.*

The following chart outlines Texas motor vehicle retail installments sales, small installment consumer loans, and large installment consumer loans and their rate and fee limitations.

Credit Product	Fees at Origination	Can fees automatically increase due to market adjustments?	Credit Rates
348[2] (motor vehicle sales)	Documentary Fee - Must be a reasonable amount and $150 is presumed reasonable 7 TAC §84.205	A dealer must file for a documentary fee over $150 and submit a cost justification to the OCCC which is reviewed for reasonableness	Certain used cars up to $15 per $100 add-on time price differential (roughly 26% depending on finance term). New cars are limited to 18%. 7 TAC §84.201
342-F (small installment loans)	Acquisition Charge - Limited to the lesser of 10% of the cash advance or $100 7 TAC §83.605	No	Installment Account Handling Charge of $4 per $100 loaned per month. (Maximum Effective rate of roughly 79% depending on term) 7 TAC §83.606
342-E (large installment loans)	Administrative Fee - Limited to $100 7 TAC §83.503	No	Tiered rate depending on the cash advance (maximum rate of 30%) 7 TAC §83.501

The Conference Board predicts the federal funds rate will decrease in the second half of 2024 to near 4% and by the end of 2024 inflation will have slowed to near 2%. (The Conference Board, 2023) If these predictions hold it would alleviate some short-term pressure faced by lenders to limit credit availability to riskier borrowers. In the long term, availability of credit to sub-prime borrowers should be considered in the context of how market forces on the costs of loans affect their supply.

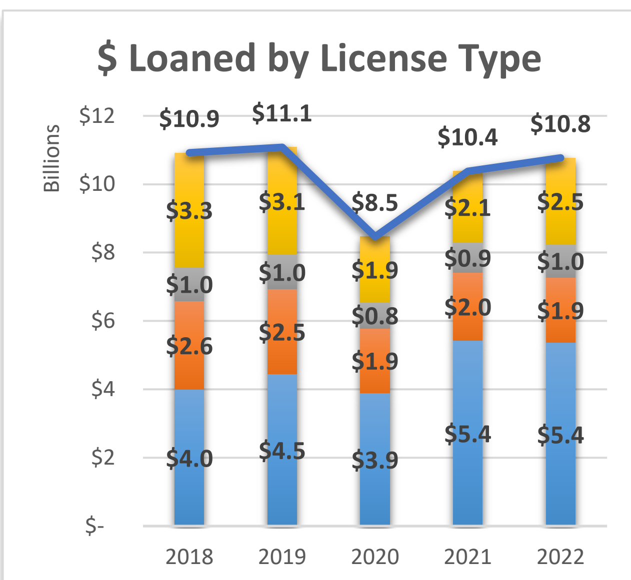
[2] *A seller cannot increase the sale price to include increased financing costs on credit sales 12 CFR Part 1026 (Regulation Z) §1026.2(a)(9)*

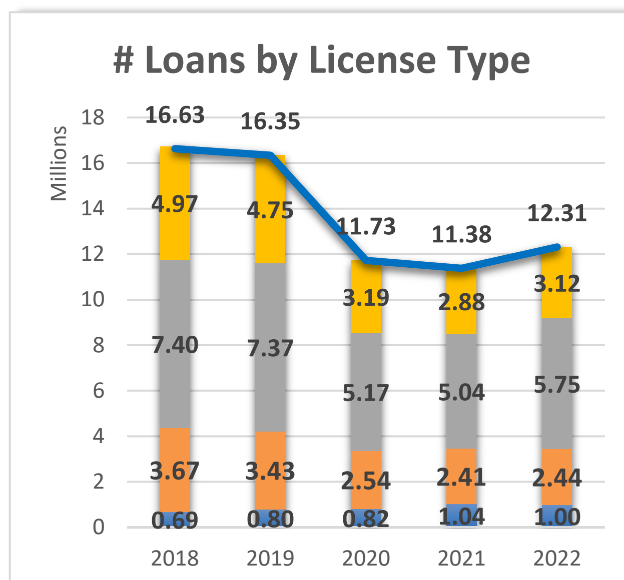
Lending Volumes

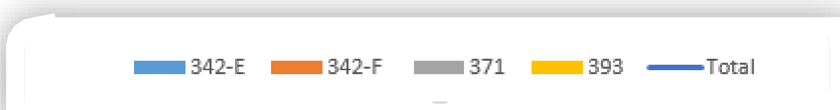
Non-real estate loans account for most consumer loans (Installment Loans, Pawn Loans, and Payday/Title Loans). OCCC licensed lenders and financial service providers profiled in this report made **12,310,000**[3] loans for **$10.8 billion** in 2022. This number does not reflect the number of borrowers as they may take out several loans during a year by refinancing a loan or receiving multiple loans throughout the year.

Loan originations increased by approximately 8% in number over 2021. This number is still down 25% from before the 2020 pandemic. Loan amounts for pawn transactions (371) have increased 24% since 2019 and a portion of the transaction decrease might be explained by combining more items on one transaction instead of "splitting pawn tickets.[4]" The number of CAB loans (393 *Payday and Title*) also experienced a large decline that did not rebound after COVID. Structural developments in that industry are explained in more detail in the CAB specific section.

Pawn and CAB transaction are the shortest term of credit licensed by the OCCC with maturities ranging from one to six months. The short terms of such loans enable consumers to obtain multiple transactions in a year if they choose and account for the greatest number of loans annually. Small consumer loans (342-F) are the next most originated loans; these loans have fallen almost 30% since pre-pandemic times. Compared with Pawn and CAB loans they are the least expensive loan product. Economic and interest rate effects could be impacting 342-F loan levels and monitoring 2023 annual report data could indicate if availability is diminishing.







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

[4] *Splitting Pawn Tickets can occur at the customer request in order to redeem items on different days. Splitting pawn items can also be initiated by the pawnbroker but items normally sold as a set should not be split in order to obtain a higher finance charge due to rate ceiling limitations on higher loan amounts.*

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.[5]

Type of Customer

Borrowers need to own their home and have accumulated enough equity to borrow against it. Lenders should 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 can 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 in a manner similar to other mortgage products. Non-interest closing costs are limited to 2% of the original principal balance of the home equity loan.[6] In addition to interest, lenders may charge fees, including but not limited to, title fees 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 9.82**%**) (Bank Rate, 2023)
	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)

[5] Preamble for 7 TAC §153.45

[6] 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.

Trends in Home Equity Lending[7]

Most of the mortgage debt in America is sitting at rates of 4% or less and with current rates approximately double that it doesn't make sense for most Americans to refinance. However, home appreciation has resulted in many borrowers possessing equity in their homes and now most refinances include cash-out. In the first half of 2023 almost 9 out of 10 refinance transactions were cash-out (Freddie Mac, 2023).

Year(s) of Refinance	Cash out Share of Refinances	Average Dollars of Equity Cashed Out	Average Equity Cashed Out as a Percent of Property Value	Total Home Equity Cashed Out per Year(in 2022 dollars, billions)
1998-2004	53.4%	$59,286	18.1%	$136
2005-2008	76.1%	$86,750	20.9%	$332
2009-2019	35.3%	$65,182	17.1%	$66
2020-2022	56.4%	$68,667	15.7%	$211
Jan - Jun 2023	88.8%	$89,000	24.0%	$24

When rates were at historic lows in 2020-2022 homeowners were refinancing with lower rates and obtaining accrued equity in their homes. Now, mortgage rates are much higher, and appreciation has slowed. Some of the consumer behavior occurring in 2023 is beginning to resemble borrowing leading up to and during the great recession of 2007-2009. One important difference is the total equity removed from housing is much lower due to refinancing activity slowing considerably and home prices have not significantly declined. Texas has additional protections that limit the amount of equity that is loaned to borrowers limiting the chance of owing more than their house is worth if the market were to decline. Continued observation in this market is important due to the potential economic impacts.

[7] *Figures represent yearly averages from the time frame.*

2022 Home Equity Lending Report

Data contained in this report is reported on a calendar year basis and reflects data through CY 2022. Data in this report includes information reported by OCCC licensees and may not reflect data or trends for the entire mortgage industry.

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 may also include second-lien loans with a cash advance made to or on behalf of the borrower.

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

LOANS MADE	2022	2021	2020	2019	2018
1st Lien Home Equity Loans	6,462	34,432	24,639	15,840	15,612
Total Dollar Amount Loaned	$1,619,641,517	$7,708,880,666	$5,334,114,525	$3,144,035,892	$2,783,790,222
Average Loan Amount	$250,641	$223,887	$216,491	$198,487	$178,311
2nd Lien Home Equity Loans[8]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-
342-G Loans	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-

LOANS RECEIVABLE	2022	2021	2020	2019	2018
1st Lien Home Equity Loans	10,518	9658	9,824	10,093	15,472
Total Dollar Amount Loaned	$1,315,530,163	$829,759,690	$669,234,312	$692,430,754	$1,279,891,075
Average Loan Amount	$125,074	$85,914	$68,122	$71,230	$82,723
2nd Lien Home Equity Loans	259	487	673	1,027	1,579
Total Dollar Amount Loaned	$7,331,421	$11,731,572	$14,899,211	$66,964,593	$43,989,976
Average Loan Amount	$28,307	$24,089	$22,139	$65,204	$27,859
342-G Loans	669	1,075	1,663	2,616	5,332
Total Dollar Amount Loaned	$60,373,929	$103,136,949	$60,155,317	$294,665,056	$271,577,094
Average Loan Amount	$90,245	$95,941	$36,172	$112,640	$50,933
Number of Companies Reporting[9]	**806**	**813**	**801**	**772**	**794**

[8] *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.*

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

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

Overview

In 2022, 995,604 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 on 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 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 2022, 2,440,161 small installment loans averaging $780 were issued under Chapter 342-F. Due to the higher-cost nature of these loans 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: $1,700*
	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, 2023. 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.

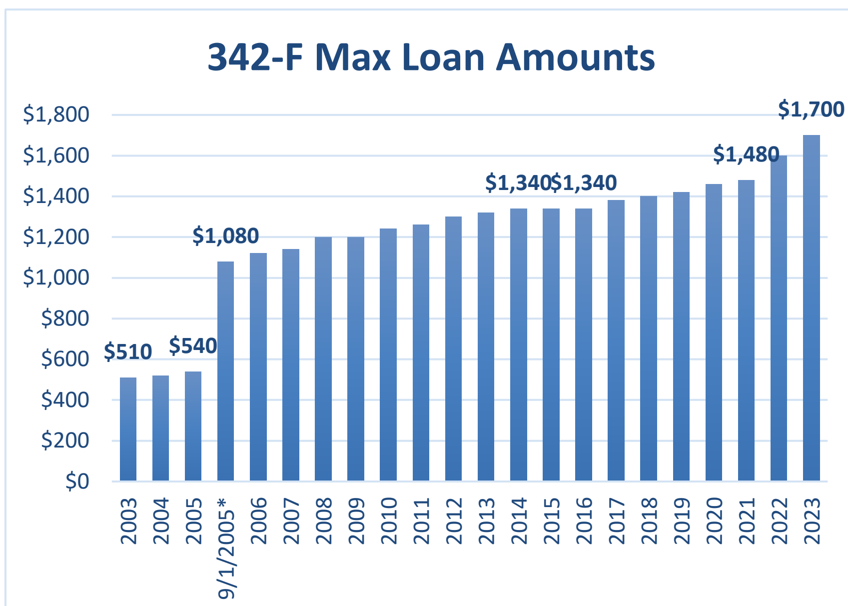
Alternatives

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 2023 loan ceiling is $1,700, reflecting an increase in the Consumer Price Index (CPI) from December 2021 to December 2022. 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. Other than automatic increases in the CPI, the 79th Texas Legislature doubled the reference base effective 9/1/2005.

The CPI adjustment has resulted in the maximum 342-F loan amount increasing 6.25% in the past year. An analysis of Transunion credit data found that the average balance of all new unsecured personal loans increased 14.4% nationwide from Q1 2022 to Q1 2023. (Transunion, 2023)



Regulated Lender Consolidated Volume Report for Calendar Year 2022

Loans Made	Number of Loans	Dollar Value of Loans
Chapter 342-E	995,604	$5,367,220,173
Chapter 342-F	2,440,161	$1,902,459,872
Chapter 342 G – Secondary Mortgages[10]		
Home Equity Loans – 1st Lien	6,462	$1,619,641,517
Home Equity Loans – 2nd Lien[7]		
Chapter 346 – Revolving Credit Accounts	14,753	$93,547,787
Chapter 348 – Motor Vehicle Sales Finance	346,805	$12,976,091,591
Chapter 345 – Retail Installment Sales/Contracts	4,618,045	$1,244,198,853
Chapter 347 Loans – Manufactured Housing	3,145	$346,378,876

Number of Companies Reporting: 806

[10] Volume below reportable activity

Property Tax Loans (351)

Overview

In 2022, 6,346 property tax loans averaging $14,526 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 its 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[11]

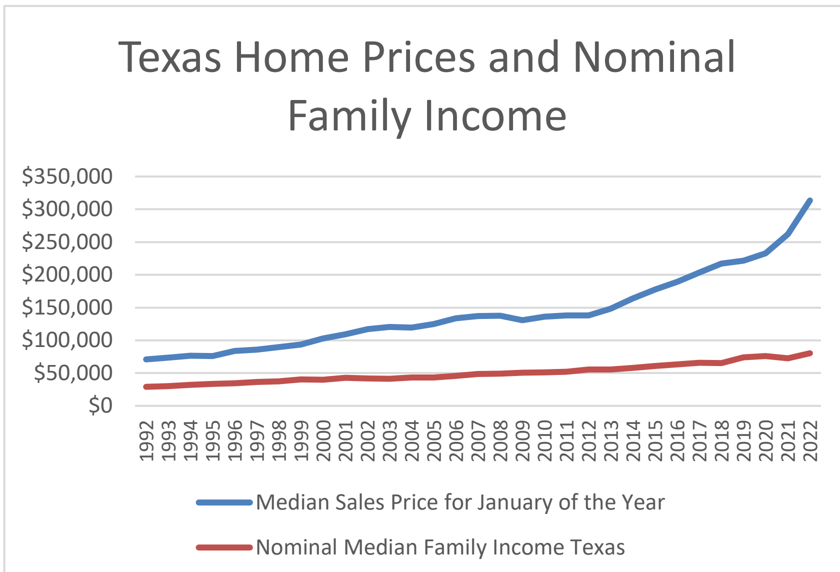
2. Credit Card with a low-interest rate

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 has the sixth highest property tax burden in the United States. An analysis of 2020 tax payment data concluded that the median taxes on a median-priced Texas home produced an effective tax rate of 1.66%. (Fritts, 2023) 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, 2023) largely outpacing both real and nominal wages. (US. Census Bureau, 2022)

Year	Homestead Exemption
< 1997	$5,000
1997	$15,000
2015	$25,000
2022	$40,000
2023	$100,000

Homestead exemptions are an important tool in mitigating the rise in taxes as they limit assessed value increases from year to year and exempt a portion of the property's taxable value. Texas voters have amended the Texas Constitution four times in the last 26 years increasing the homestead exemption. 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.

[11] Texas Tax Code §33.02

Property Tax Lending
Consolidated Volume Report
Calendar Year 2022

Loans Made Statistics	Residential	Non-Residential	Total
Number of Loans	6,346	1,192	7,538
Amount of Loans	$92,185,081	$73,847,388	$166,032,469
Average Loan Amount	$14,526	$61,953	$22,026
Total Closing Costs	$5,266,412	$2,083,811	$7,350,223
Average Closing Costs	$830	$1,748	$975
Average Interest Rate	12.99%	11.76%	

Total Volume Statistics	
Number of Loans Receivable	24,506
Amount of Loans Receivable	$500,679,742
Number of Loans 90+ Delinquent	5,131
Amount of Loans 90+ Delinquent	$128,915,838
Number of Foreclosures	193
Amount of Foreclosures	$9,964,692

Number of Companies Reporting: 67

Data as of 6/20/2023

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. The CAB provides the borrower with a check for the proceeds 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.

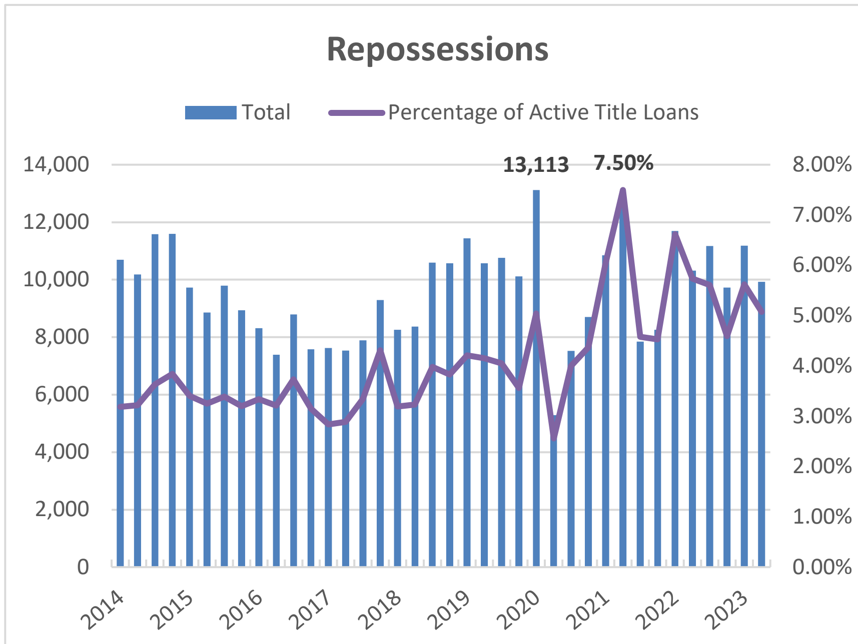
Typical Rates

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 has 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 creditors 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 have continued to remain higher than historical norms. *Since borrowers may obtain multiple loans throughout the year the repossession rate reflects the likeliness on a transaction basis not a borrower basis.*

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

The reported loans made have decreased in this industry since 2019 and factors specific to industry are likely a bigger cause than the COVID pandemic. 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[12] or motor vehicle title loans. (Attorney General of Texas, 2019) CSOs which are not CABs might not: (1) obtain OCCC licenses, (2) receive OCCC compliance exams and (3) report transaction data to the OCCC. Additionally, the transaction itself has evolved from a predominantly single payment loan with multiple renewals to one installment loan with the term and renewal equivalent to multiple loans.

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

Credit Access Business (CAB) Annual Data Report, CY 2022

Data contained within the below summary represents aggregated statewide annual data reported by credit access businesses (CABs) ***as of 3/15/2023.*** *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 (including any corrected data) of annual activity as of March 15, 2023.

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 2022 that did not refinance.	177,002	834,160	13,930	41,191
2	Number of refinances of extensions of consumer credit before paid in full or otherwise closed for reduced payoff in the report year.[13]				
2A	Refinancing 1 time	43,446	54,682	1,753	6,212
2B	Refinancing 2-4 times	54,161	31,309	9,378	9,190
2C	Refinancing 5-6 times	6,027	3,144	3,734	1,116
2D	Refinancing 7-10 times	3,381	1,781	4,258	837
2E	Refinancing more than 10 times	2,342	1,074	7,243	624
3	Total amount of CAB fees charged by the CAB on all CAB contracts during 2022.	$71,190,940	$1,235,423,411	$203,008,710	$276,572,253
4	Total number of extensions of	90,402	751,793	95,447	51,546

(Table continued on next page)

[13] 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 2022.	124,839	1,177,720	75,392	84,372
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	82,333	286,905	8,895	3,008
6B	$251 - $500	116,641	480,416	19,774	14,513
6C	$501 - $750	43,299	234,111	14,273	11,966
6D	$751 - $1000	33,037	215,431	18,691	15,739
6E	$1001 - $1500	18,116	116,990	19,766	17,732
6F	$1501 - $2000	5,415	31,789	13,563	11,986
6G	$2,001 - $2,500	7	12,372	7,707	7,627
6H	$2,501 - $3,000	6	4,060	7,118	5,540
6I	$3,001 - $5,000	0	401	10,344	9,306
6J	$5,001 - $7,500	0	4	4,047	2,350
6K	Over $7,500	0	0	2,858	1,395
7	Total dollar amount of new extensions of consumer credit during the report year for each of the following loan ranges.				
7A	$0 - $250	$14,669,075	$45,793,819	$1,415,401	$555,559
7B	$251 - $500	$45,091,277	$199,894,505	$8,031,924	$6,057,396
7C	$501 - $750	$27,000,797	$149,223,619	$9,075,406	$7,572,740
7D	$751 - $1000	$30,334,558	$195,374,535	$17,298,015	$14,567,372
7E	$1001 - $1500	$23,306,659	$147,140,556	$25,626,151	$22,656,335
7F	$1501 - $2000	$9,988,419	$58,586,784	$24,891,795	$21,779,436
7G	$2,001 - $2,500	$16,080	$29,225,904	$17,845,424	$17,460,568
7H	$2,501 - $3,000	$16,996	$11,726,448	$20,401,493	$15,698,853
7I	$3,001 - $5,000	$0	$1,390,130	$40,770,126	$37,020,048
7J	$5,001 - $7,500	$0	$24,851	$24,551,256	$14,006,685
7K	Over $7,500	$0	$0	$26,687,706	$14,073,505
8	Total number of refinances on extensions of consumer credit originated in 2022.	191,453	211,428	185,983	41,167
9	Total dollar amount of extensions of consumer credit for 2022.	$150,423,930	$838,381,133	$216,594,713	$171,448,507
10	Total dollar amount of refinances for 2022.	$148,522,821	$341,692,690	$530,001,711	$120,886,860

Number of locations reporting activity	**431**	**545**	**681**	**570**
Total Number of Companies Reporting:				**1,652**

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 $255
	180% for loans up to $1,700
	30% for loans for up to $2,550
	12% for loans up to $21,250
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, 2023. Rates adjust each July 1 based upon the Consumer Price Index.

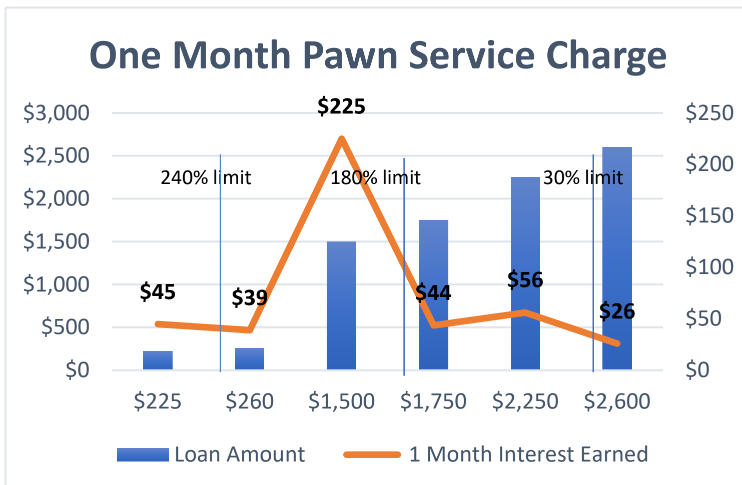
Default

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



From 2020 to 2022 the number of Texas pawn loans rose 11% and the amount loaned rose 29%. Two factors stand out for the increase in pawn loan demand: (1) The recovery from the Covid-19 pandemic and subsequent end to many economic relief programs, and (2) Price increases of around 15% through inflation (CPI-W) (Social Security Administration, 2023) from December 2020 through December 2022. Although loan activity remains lower than pre-pandimic levles.

In Texas, there are additional factors affecting the amount loaned on items due to the allowable rate structure. When prices rise consumers may seek to borrow more and in the case of a pawn loan their collateral for the loan could also be worth more. Pawn rates are tied to the amount loaned on each pawn ticket and the overall rates decrease when predetermined loan amount are exceeded. Those loan amounts are computed every year according to inflation and have risen approximately 15% from 2021 to 2023. The One Month Pawn Service Charge graph (at right) 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 $1,700. Despite the fact that the consumer desires a larger loan, the consumer may be artificially limited to a loan size due to the structure of the pawn service charge rate brackets.

Example Item	Loan Amount	1 Month Interest Earned
Power Tools	$225	$45
	$260	$39
Gold Jewelry	$1,500	$225
	$1,750	$44
Motorcycle	$2,250	$56
	$2,600	$26

Pawn Industry Consolidated Volume Report by Calendar Year

Loans Made	Number of Loans	Dollar Value of Loans	Average Loan
2022	5,752,850	$982,305,520	$171
2021	5,041,993	$875,583,904	$174
2020	5,174,572	$761,250,480	$147

Loans Outstanding	Number of Loans	Dollar Value of Loans	Average Loan
2022	1,265,258	$282,908,435	$224
2021	1,277,783	$252,223,573	$197
2020	1,258,157	$221,982,276	$176

Number of Companies Reporting in CY 2022: 1,352

Number of Companies Reporting in CY 2021: 1,382

Number of Companies Reporting in CY 2020: 1,374

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.

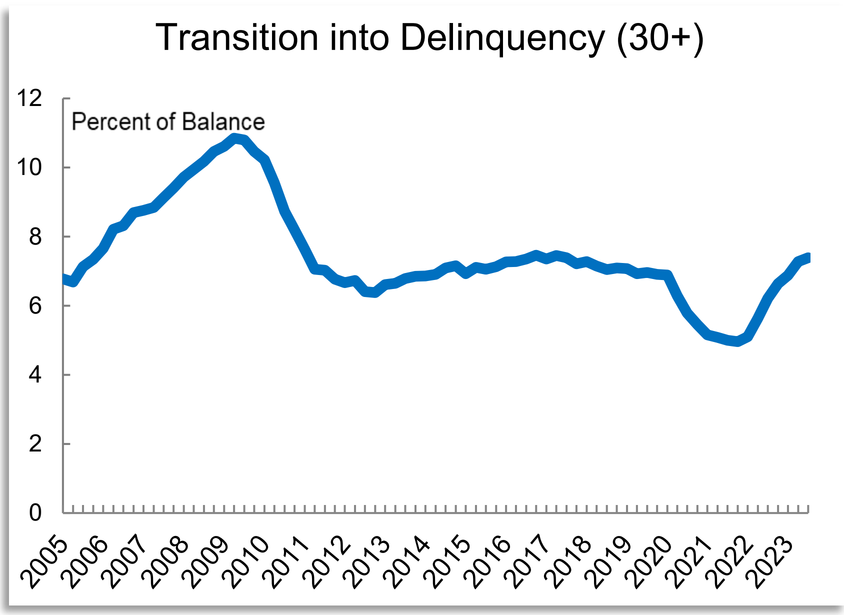
Typical Rates

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

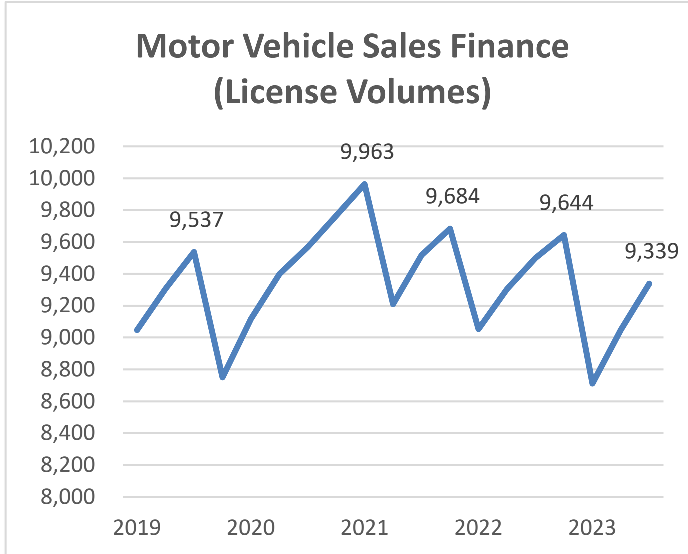
Initial delinquencies generally rise during times of economic stress. After the recovery of the "great recession", auto financing that was 30+ days delinquent remained relatively stable. According to the most recent data (Q3 2023), new delinquencies have risen 118 basis points since Q3 of 2022. Vehicle prices have increased substantially in the past couple of years and remain elevated despite rising interest rates. The higher costs of vehicles are causing many Americans to struggle to make loan payments.

Alternatives

Traditional car shopping advice is for perspective buyers to first obtain pre-approval of financing through their bank or credit union and bring that with them to the dealership. After negotiating a sale price for the car at the dealership then financing should be discussed. If the dealership can offer better financing terms than the consumer obtained from their financial institution, they could make a reasoned decision on how they wish to finance the vehicle.

Unique supply issues during the pandemic upended the traditional advice. Several consumers reported that dealers would not sell them vehicles unless they obtained financing through the dealership (Wheeler, 2022). During this period, demand exceeded supply and dealers could select buyers that benefited them through (1) quicker timing of funding, (2) less paperwork, and (3) receiving financing incentives. The car supply challenges of 2020-2022 was a unique period but the impacts on consumer choice in obtaining financing should be considered.

Motor Vehicle Sales Industry Data



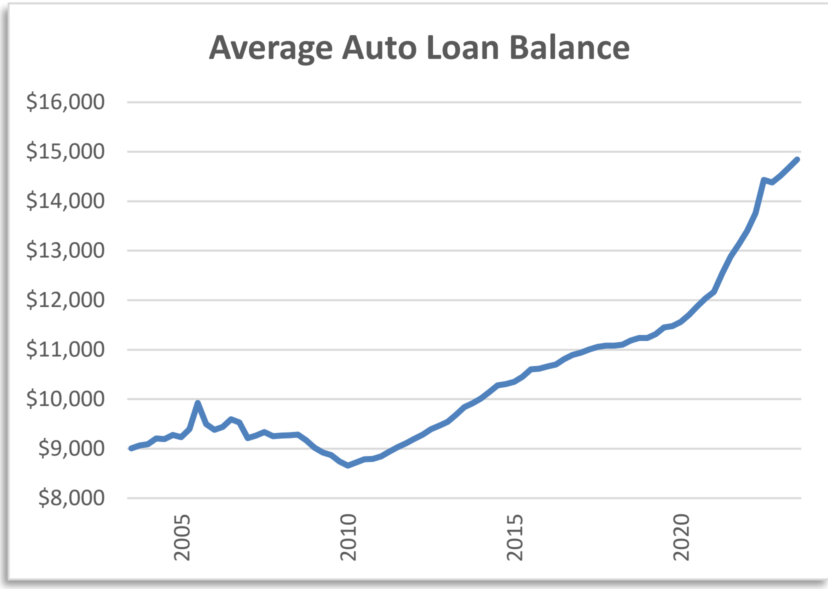
The OCCC does not currently collect annual report data from motor vehicle sales finance dealers who hold a chapter 348 license. Industry monitoring is primarily completed through examinations, stakeholder meetings, and changes in license levels. The highest licensing levels used to occur in the third fiscal quarter of every year and renewals occurred in the fourth fiscal quarter. There is an anticipated drop regarding 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 shows the peak licensing levels for the last five years. License volumes were steadily increasing before the COVID-19 pandemic but have been on a slight downward trend ever since.

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. In 2020, supply chain disruptions significantly impacted total vehicle sales. Today, total vehicle sales are on a steady upward trend to gradually reach pre-pandemic levels.

Prices of both new and used vehicles today are significantly elevated above historical norms. Additionally, interest rates have risen as the Fed attempts to combat inflation. Although the combination of higher auto loan amounts and higher interest rates was expected to curb demand, many citizens need a vehicle to work and thus were forced to take on this greater financial burden.

Average Auto Loan Amount

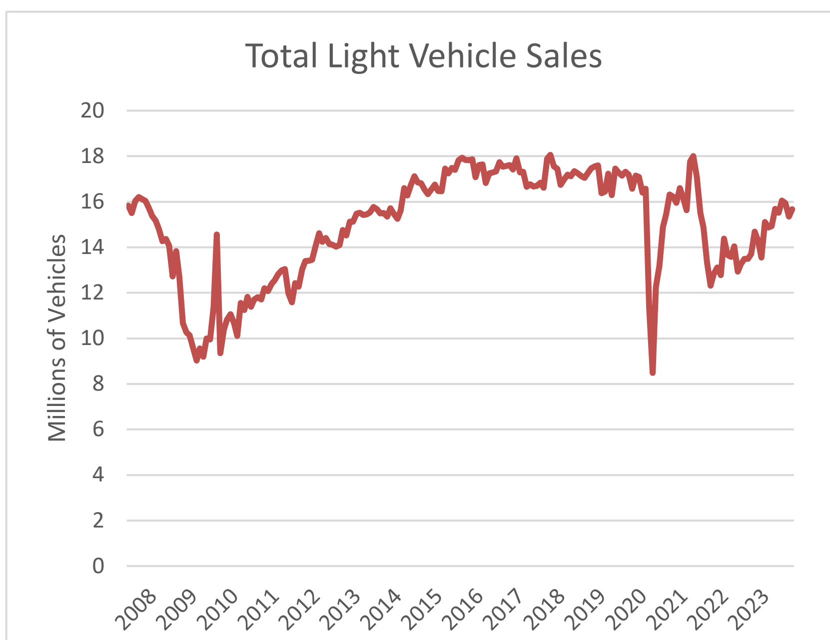


The average auto loan amount increased to $14,844 in 2023 Q3. Over the last decade, the average auto loan balance has increased $5,157. General inflation of the dollar over time and longer-term loans have contributed to this jump. This average represents the average amount that a person has left to pay on an auto loan, not the amount of a brand-new loan.

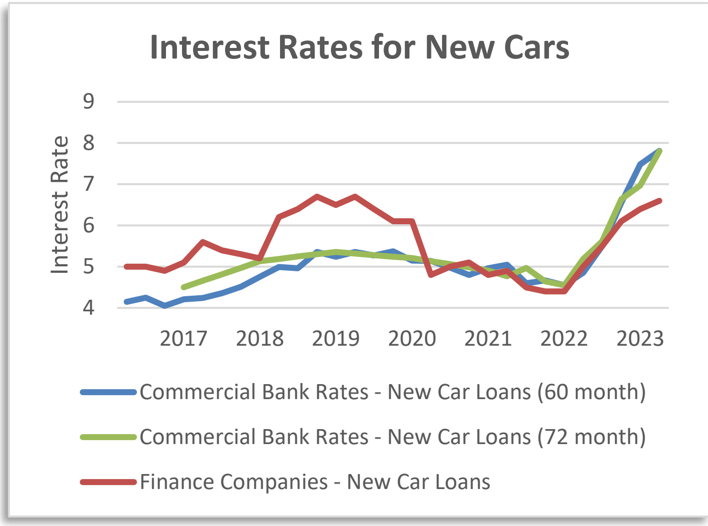
(Federal Reserve Bank of New York, 2023)

Motor Vehicle Sales

Motor vehicle sales steadily increased following the great recession before stalling around 2015. Covid-related supply chain disruptions had a great effect on the number of motor vehicle sales in the first year following the pandemic. Today motor vehicle sales are climbing back to their pre-pandemic trends despite larger average auto loans and higher interest rates.



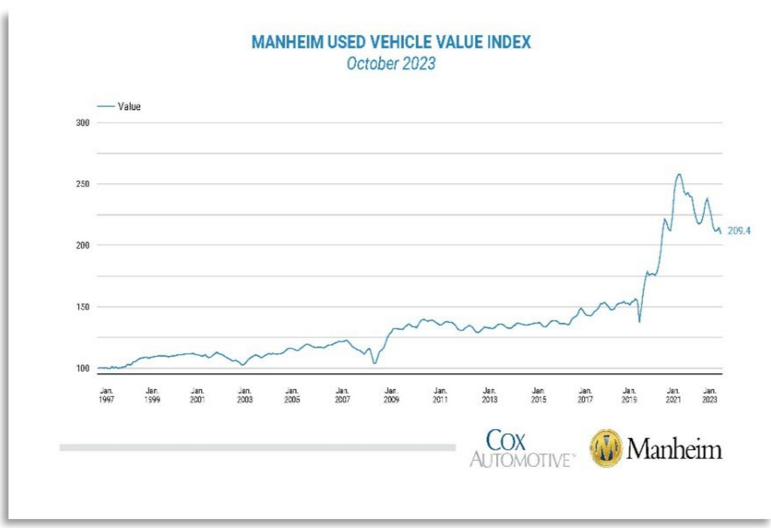
Interest Rates for New Cars



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 increase. Today, despite the supply-chain issues of the pandemic being largely neutralized and interest rates sitting at just under 8%, car prices remain high. (Board of Governors of the Federal Reserve System, 2023)

Current Outlook of Motor Vehicle Sales

Recessions tend to depress sales of motor vehicles like many other household purchases. The "great recession" of 2008 also 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.



Wholesale used-vehicle prices (on a mix, mileage, and seasonally adjusted basis) decreased 2.3% in October from September. The Manheim Used Vehicle Value Index dropped to 209.4, down 4.0% from a year ago. (Manheim, 2023) Car prices are still elevated far above historical norms and are likely to remain elevated for the foreseeable future, but the downward trend emerging from the data suggests that used cars prices are stabilizing.

Emergency or Unexpected Credit – Purpose and Amount

Since 2013, the Federal Reserve has conducted surveys on likelihood that an American adult could pay for an unexpected $400 expense with cash or its equivalents. In 2021, a record high number (68%) reported they could cover the expense with cash or its equivalents. However, a year later the survey found consumers were doing noticeably worse, with only 63% reporting they would be able to cover a $400 expense and 18% saying the largest expense they could cover was less than $100 with current savings. (Board of Governors of the Federal Reserve System)

Lending Club Corporation in partnership with PYMTS conducted a similar 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) Their survey found that the average emergency expense is roughly $1,400 with car repairs being the most common.

Type of Expense[14]	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

[14] 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 $1,000 - $2000 expense.

FEATURES	342-E	342-F	CAB Payday	CAB Title
Loan Terms				
Average Loan Amount	$5,391	$780	$624	$1,634
Typical Term in Months	36-60	12-24	5	5
Typical APR[15]	18%-32%	82%-98%	411%	369%
Direct Comparisons (cab loans are limited to 180 days and those loan terms are unusual for 342-F and 342-E)				
Hypothetical Loan Amount	$1,700	$1,700	$1,700	$1,700
Hypothetical Term	5	5	5	5
Monthly Payment	$386	$428	$756	$708
Total Finance Charge	$230	$440	$2,078	$1,838
Consumer Protections				
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	✓	✓		
Eligible to Military[16]	✓			
No Other Fees or Products Allowed (e.g. credit insurance)		✓		

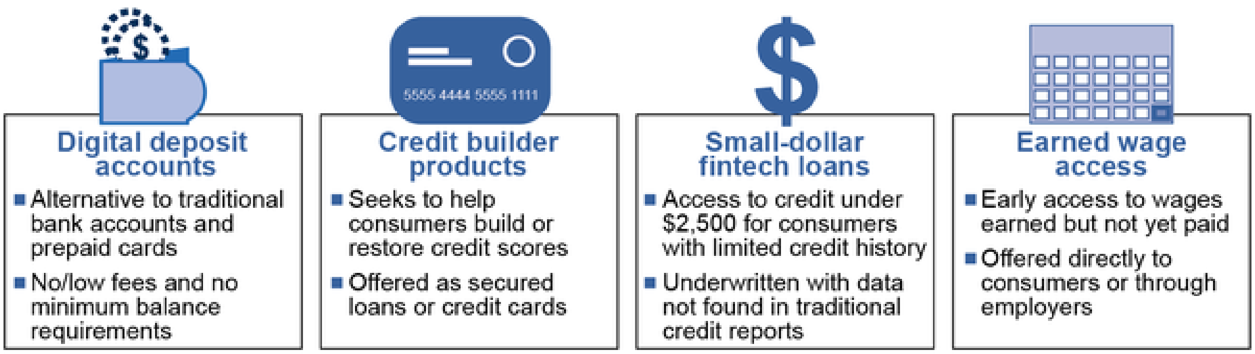
[15] CAB APR is estimated from fees reported to the OCCC in 2023 Q2 Data reports.

[16] 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 several 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 risks having few options for corrective assistance.

A 2023 Government Accountability Office (GAO) report highlighted several innovative products that market to underserved and unbanked populations. The report highlighted potential benefits such as lower costs and increased access compared to alternatives such as payday loans. Highlighted risks include a lack of full transparency related to product fees and features. Additional risks to banking partners (an integral source upon which many innovative products rely) are due to fair lending concerns, lack of FDIC insurance for fintech deposit accounts, 3rd party fraud and anti-money laundering compliance.



Source: GAO. | GAO-23-105536

The GAO issued a recommendation to the Consumer Financial Protection Bureau (CFPB) that additional Truth in Lending Act guidance is needed to further define "credit" in relation to Earned Wage Access (EWA) providers. (United States Government Acountability Office, 2023) 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. (National Consumer Law Center, 2021) On June 30, 2022, the CFPB rescinded its approval of the special "regulatory sandbox" treatment of a particular EWA company. Innovation in financial services promises to offer many benefits in relation to availability, pricing, and service. Regulatory clarification is important to ensure a fair marketplace and proper consumer protection safeguards.

Financial Education

The OCCC supports and promotes financial education throughout the state to encourage and empower Texans to achieve financial capability. The OCCC partners with many organizations throughout the state to host, participate, and assist with financial education programs. During Fiscal Year 2023, the OCCC participated in 24 financial education events where 1052 people received direct educational services.

The OCCC administers the Texas Financial Education Endowment (TFEE) Grant. TFEE 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 2022-2023 TFEE grant cycle is currently in progress. For this grant cycle, the Finance Commission awarded $409,000 in aggregate awards to 12 organizations. As of June 2023, approximately $343,000 has been disbursed to grant award recipients.

The 2024-2025 TFEE grant cycle begins on January 1, 2024. Fifty-two applications were received for the upcoming grant cycle, requesting nearly $4 million in funding. To guide the TFEE application and funding recommendations, the agency coordinates a Grant Advisory Committee (GAC). The role of the GAC is to evaluate grant applications objectively and transparently, then make recommendations to the Finance Commission. The GAC considers several factors in determining TFEE grant award recipients, including TFEE priorities, geographic areas, unique and underserved populations, and application scores. In October of 2023, the Finance Commission awarded 10 organizations an aggregate amount of $735,700 for the upcoming grant cycle.

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 data used, the company calculating the score, or the day the score 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 for consumers to stay vigilant in maintaining a positive credit history. (Experian, 2022)

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

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)(For example, a zip code that contains the most credit access businesses would also contain the most 342-F lenders).

License Type	*348*	*351*	*371*	*393*	*342-E*	*342-F*	*342-G/A6*
348	1.00						
351	0.04	1.00					
371	0.56	0.03	1.00				
393	0.47	0.00	0.56	1.00			
342-E	0.46	0.05	0.42	0.55	1.00		
342-F	0.40	-0.02	0.48	0.57	0.39	1.00	
342-G/A6	0.04	0.05	0.05	0.05	0.10	0.04	1.00

Excluding motor vehicle sales finance licenses, the industries that share the largest positive correlation are located near credit access businesses. Those include 393 (credit access businesses) with 342-F (small installment lenders), and 371 (pawnshops), and 342-E (large installment lenders).

Industries and Correlations
393 and 342-F (0.57)
393 and 371 (0.56)
393 and 342-E (0.55)

Zip codes that contain the most OCCC licenses

The distribution of active and inactive licensed locations in the top 30 zip codes (ranked by 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 valid as of **11/06/2023**.

The US Census Bureau's American Community Survey obtained demographic information about each zip code with 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	60,855	$43,679	McAllen	71	1	9	15	6	30	0	132
2	78521	88,791	$35,318	Brownsville	78	0	9	8	4	18	1	118
3	79915	36,505	$32,259	El Paso	92	0	5	3	5	9	0	114
4	77037	18,106	$42,731	N-Houston/Adeline	98	0	6	3	4	2	0	113
5	75211	75,213	$50,368	SW Dallas	98	0	3	4	5	3	0	113
6	75217	87,767	$44,384	SE Dallas	92	0	7	3	3	2	0	107
7	75229	32,924	$107,886	NW Dallas	101	1	2	0	1	0	0	105
8	78572	76,645	$48,288	McAllen	62	0	4	8	7	21	0	102
9	76011	21,701	$45,224	Arlington	70	0	22	4	2	2	0	100
10	75050	43,422	$64,435	Grand Prairie	81	0	4	3	0	2	0	90
11	78577	79,128	$39,490	Pharr	60	1	5	3	1	18	1	89
12	78041	46,751	$55,311	Laredo	48	0	5	9	4	14	0	80
13	78550	54,486	$41,961	Harlingen	30	0	5	12	5	26	0	78
14	77063	39,855	$44,745	West Houston	63	0	5	4	1	0	0	73
15	78415	41,583	$49,255	South Corpus Christi	41	0	7	4	1	19	0	72
16	75041	31,451	$58,945	NE Dallas	63	0	4	0	3	2	0	72
17	78221	41,964	$51,115	South San Antonio	26	0	6	8	5	26	0	71
18	78852	56,746	$45,029	Eagle Pass	41	0	4	2	3	20	0	70
19	78520	60,592	$42,484	Brownsville	32	0	7	2	5	22	0	68
20	78201	45,767	$38,363	San Antonio	22	0	7	7	3	28	0	67
21	77074	39,088	$42,599	San Antonio	60	0	2	1	2	1	1	67
22	76117	32,438	$48,522	NE Fort Worth	55	0	6	2	2	1	0	66
23	77055	43,780	$64,277	West Houston	48	0	7	3	3	4	0	65
24	77587	16,381	$51,000	Spring Branch Houston	55	0	3	2	3	1	0	64
25	78043	45,703	$50,190	New Braunfels	36	0	6	4	4	14	0	64
26	78212	27,020	$52,783	Laredo	53	2	6	0	0	2	0	63
27	78130	84,510	$73,662	City of South Houston	35	0	7	7	4	10	0	63
28	75901	28,979	$52,531	El Paso	41	0	4	10	1	7	0	63
29	79925	38,947	$49,391	N Houston	44	0	5	3	5	6	0	63
30	75702	28,236	$44,648	Tyler	33	0	8	6	1	14	0	62
				Top 30 Zip Totals	1,729	5	180	140	93	324	3	2,474
				Remainder of Texas	7,495	74	1,294	1,291	803	1,696	62	12,715
				Out of State	316	8	8	51	298	168	158	1,007
				All Licenses	9,540	87	1,482	1,482	1,194	2,188	223	16,196

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 installment lender, 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
	76014	32,460	$55,764	Arlington	20	0	0	0	12	1	0	33
	75067	67,837	$68,923	Lewisville	15	0	5	6	3	4	8	41
	78731	26,506	$92,641	NW Austin	0	13	0	0	0	0	0	13

For comparison, zip codes were selected by certain demographic data. The following zip codes reflect 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
	76092	31,276	$240,694	Southlake	1	0	0	0	0	0	0	1
	79901	8,518	$13,510	El Paso	8	0	3	0	0	22	0	33
	77494	129,165	$137,275	Katy	11	0	1	1	2	0	0	15

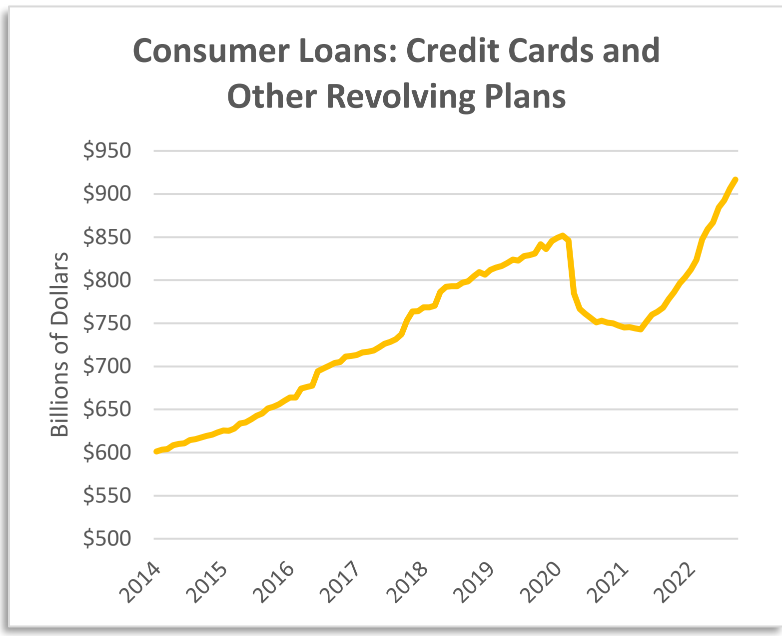
National Credit Trends

Overview

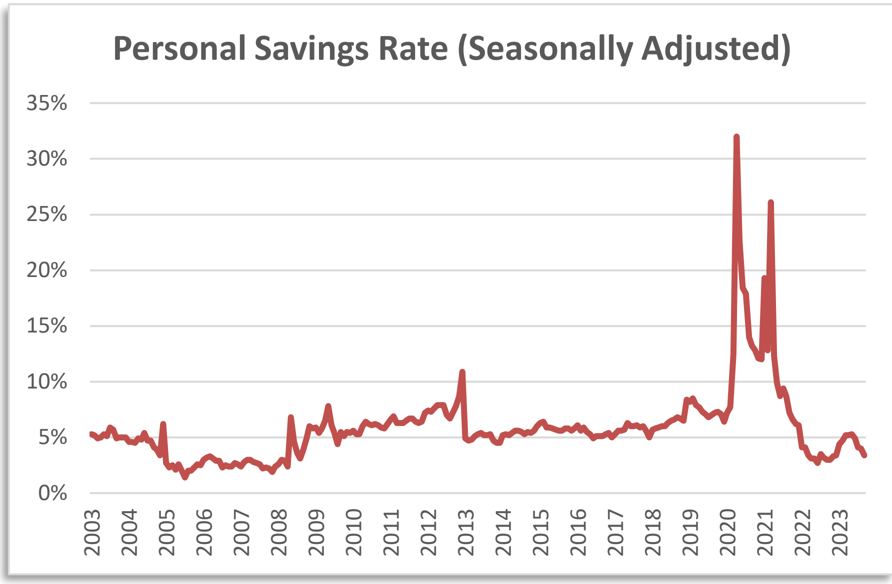
The October 2023 Senior Loan Officer Opinion Survey indicates that there have been changes in standards, terms, and demand for bank loans to businesses and households in the third quarter of 2023. For business loans, there are reports of tighter standards and weaker demand for commercial and industrial loans; this trend is reflected throughout commercial real estate loan categories. In terms of household loans, lending standards tightened for all categories of residential real estate (RRE) loans and (HELOCs), with weaker demand for loans across both categories. Credit card, auto, and other consumer loans also saw tightened standards and diminished demand. (Board of Governors of the Federal Reserve System, 2023)

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 that period most likely attributable to federal stimulus and consumers anticipating an economic recession, which led to a significant dip in the amount of credit card loans. This year total credit card debt has risen back to the trend line established before 2020. It should be noted that the current rate that credit card debt is increasing faster than in previous years, despite the previously mentioned survey showing a decrease in demand for credit card loans. (Federal Reserve Bank of St. Louis, 2023)



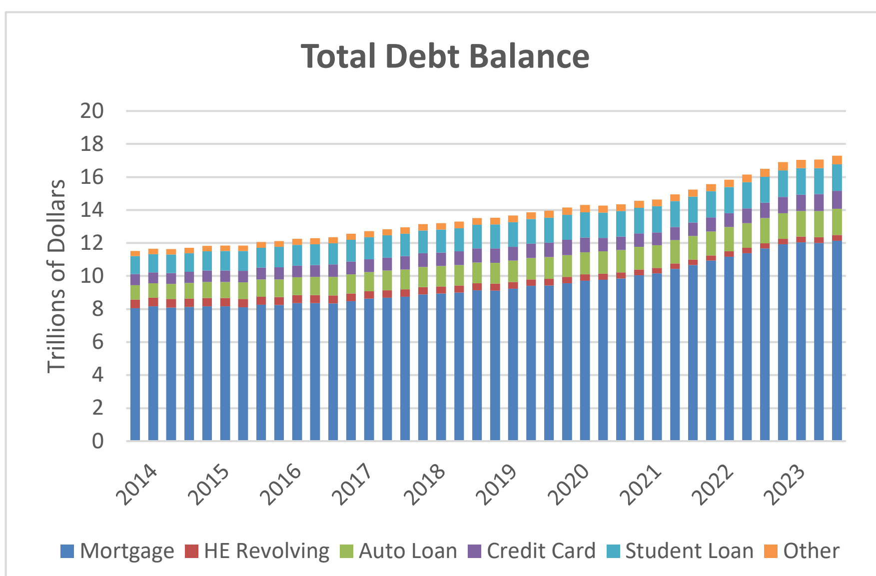
Personal Savings



The personal savings rate as a percentage of disposable income decreased to 4% September 2023; this is below the decade's average of 6%. While a lower savings rate can mean that consumers feel more confident about the economy's future, the decrease in real wages combined with an increase in interest rates have made economists concerned that consumers (out of necessity rather than choice) are saving less. (Dickler, 2023)

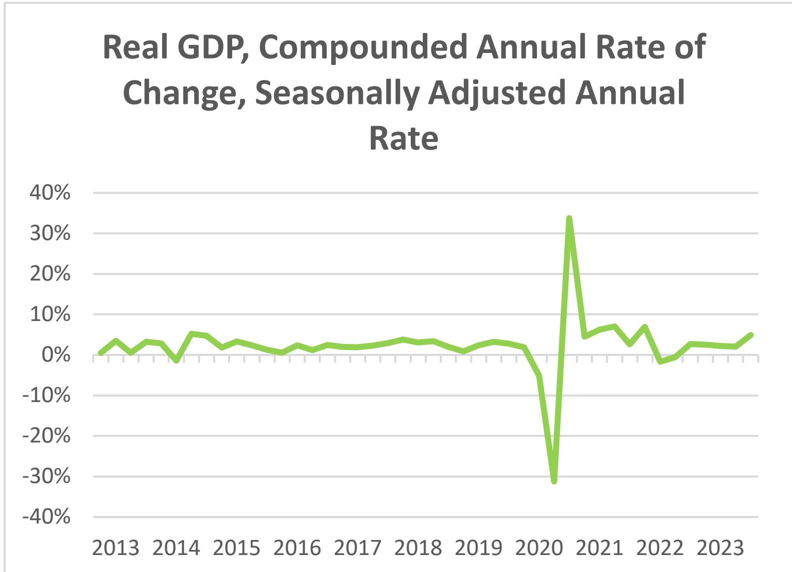
Total Debt Balance

The total debt balance dipped from 2009-2013 but has steadily increased over the past decade. In 2023, rising interest rates have significantly impacted this upward trend. Total household debt rose 4.8% year-over-year (YoY) in Q3 2023, compared to an 8.2% YoY increase in Q3 2022. This increase in household debt is being driven primarily by rising mortgage and auto debt. (Federal Reserve Bank of New York, 2023)

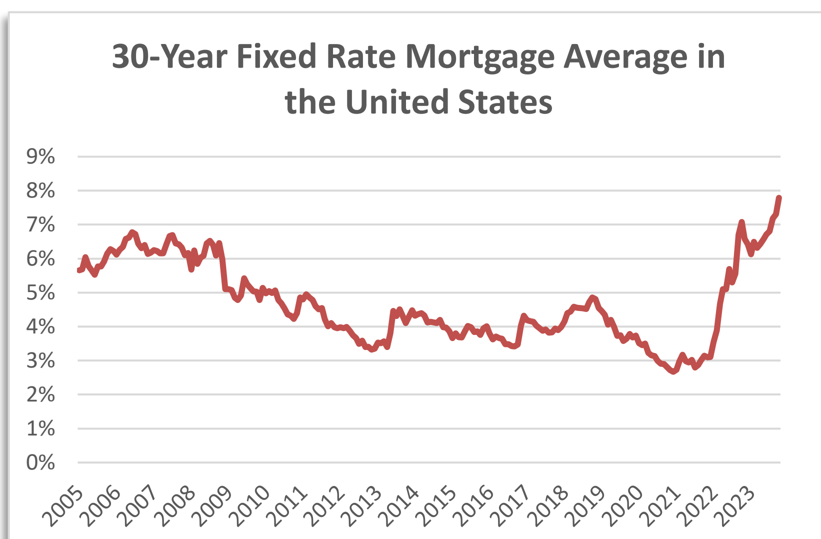


Real GDP

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 evidenced in the graph, real GDP typically grows roughly 2-3% each quarter. Q2 of 2023 showed a higher GDP growth of nearly 5% as the US economic output climbs out of the dip caused by the 2020 pandemic. (Federal Reserve Bank of St. Louis, 2023)

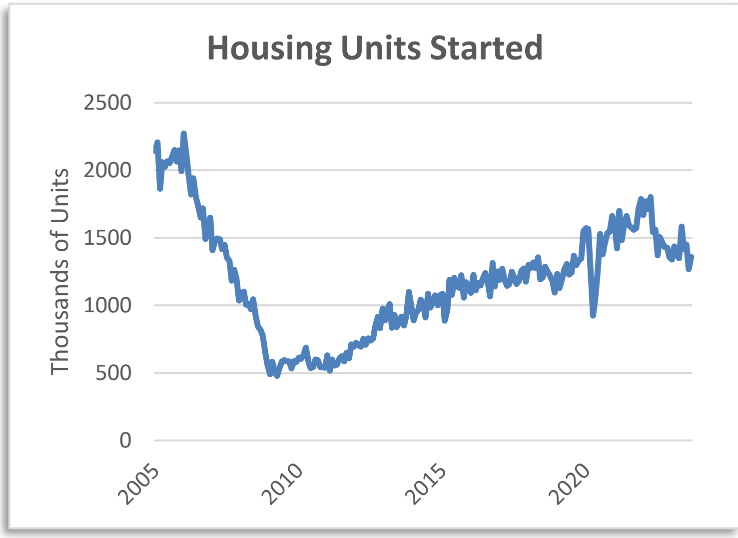


Mortgage Rates



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 during the pandemic, but over the past two years rates have steeply increased due to inflationary pressure. As of the end of Q3 2023, the average rate for a 30-year mortgage is 7.31%. Despite this rate increase, average home prices remain elevated. (Freddie Mac, 2023)

Housing Starts

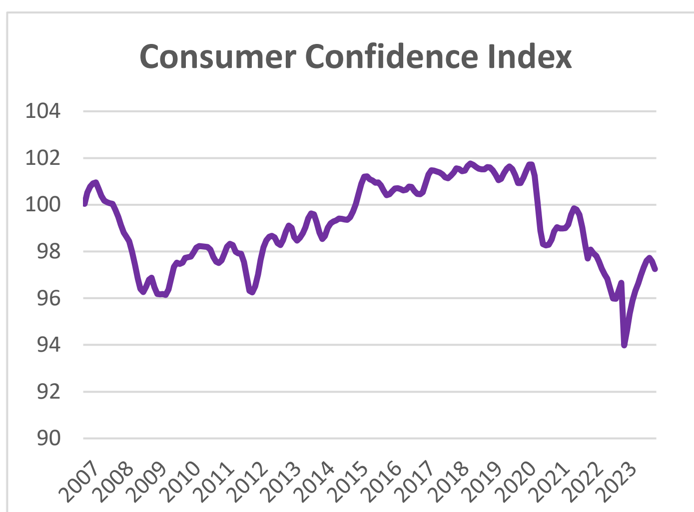


(Federal Reserve Bank of St. Louis, 2023)

Housing starts (the number of new houses begun during a particular period of time) is a good leading indicator because it shows how real estate developers feel about consumer spending habits in the near future. A rise in this number can be a sign of increasing confidence in the nation's future development. Housing starts have increased steadily since the great recession, but were turbulent during the onset of the Covid pandemic. Housing starts have been declining after peaking in mid-2022. This decline is likely responsible (at least in part) for why home prices remaining high in the face of rising interest rates.

Consumer Confidence Index

The Consumer Confidence Index (CCI) steadily rose in the decade following the 2008 housing crisis. In 2019, the CCI faltered amid concerns about tariffs and weakening economies elsewhere in the world; however, the index was still trending upward in the long term. 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 6% YoY amid the previously mentioned high inflation and rising interest rates. (OCED, 2023)



USA (2023), OECD (2023), Consumer confidence index (CCI) (indicator). doi: 10.1787/46434d78-en (Accessed on 28 November 2023)

Economic Reports and Forecasts: State of Texas

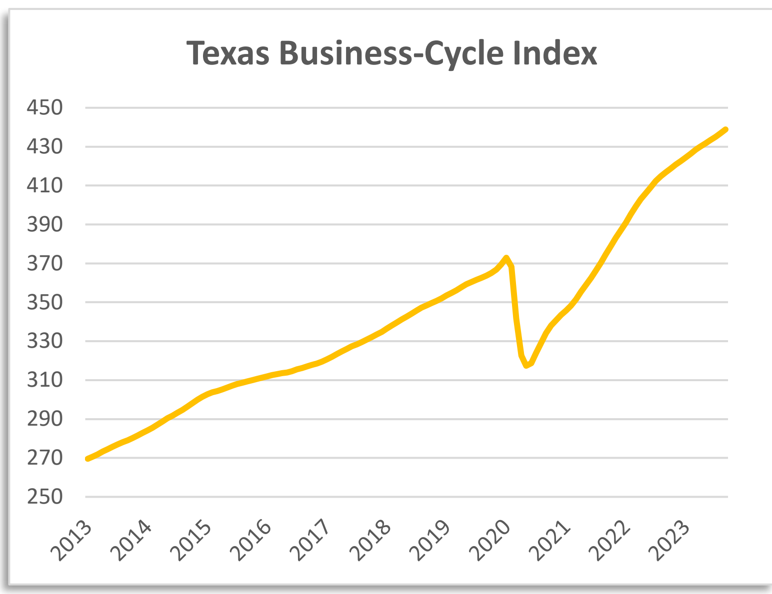
Overview

The state's unemployment rate currently appears to be flat at around 4%. The number of initial unemployment relief claims filed this year is 12.4% higher than the number of initial claims filed last year. Overall, Texas's economic activity appears strong relative to the nation but there are some indications the economy is slowing. Employment is growing modestly with slower growth in manufacturing and no growth in the service sector. Weekly unemployment claims are rising and high mortgage rates continue to weigh down the housing sector. Texas positive export growth is beneficial as the exports of the rest of the nation excluding Texas are contracting (Federal Reserve Bank of Dallas, 2023).

Texas economy dashboard (October 2023)			
Job growth (annualized) July–Oct. '23	Unemployment rate	Avg. hourly earnings	Avg. hourly earnings growth y/y
2.7%	4.1%	$32.07	5.2%

Texas Business-Cycle Index

The Texas Business Cycle Index attempts to forecast the strength of economic expansion or retraction. After a two-year recovery period from the dip in 2020, the Texas Business Cycle appears to have returned to positive momentum. (Federal Reserve Bank of Dallas, 2023)



Reporting Requirements

The report has been prepared in response to and fulfills certain constitutional, statutory, and administrative regulation requirements.[17]

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.

[17] 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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