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Credit Access Business Bulletin
City Ordinances

December 11, 2012

The Office of Consumer Credit Commissioner (OCCC) is concerned about a business model used by some credit access businesses (CABs) in the cities of Dallas, Austin, and San Antonio. These three cities have enacted ordinances restricting certain renewal activities by CABs and limiting the number of installments a transaction may have. The practice discussed in this bulletin appears to be intended to avoid compliance with the city ordinances. While the OCCC does not have authority to enforce the city ordinances, it is concerned about a practice whose intent appears to be circumvention of the law.

It appears that a number of CABs are engaged in the following practice. A CAB branch located within the city limits offers the consumer a no-interest, 30-day loan funded by the CAB and secured by the consumer's vehicle. If, at the end of the month, the consumer cannot pay off the loan, the CAB informs the consumer that the consumer's vehicle will be repossessed if the consumer does not pay the loan off. The CAB then proposes that the consumer go to another branch location outside the city limits and obtain a CAB loan to pay off the original loan and keep the vehicle from being repossessed.

The OCCC is concerned about the lack of transparency involved in this practice, which effectively draws into a CAB transaction a consumer who might not otherwise engage in one. This business model could also be perceived as a deceptive practice because it appears calculated to bring the consumer into the store with the promise of one product, but later effectively requires the consumer to go to another location to purchase another product.

The OCCC also believes that this business model may conflict with the legislative intent manifested in house bills 2592 and 2594 passed in 2011. These bills establish the three-party model upon which the CAB transaction is based and require separation between the lender and the CAB. When, as here, the CAB acts as a lender, the CAB is stepping out of the role of credit access business and into the role of the lender, contrary to legislature's intent. Significantly, it is likely that if the legislature finds this practice conflicts with its intent, it could consider passing additional legislation that would put further regulatory restrictions on CABs.

The OCCC is concerned about the possible legislative reaction to this practice and this business model's lack of transparency. The agency strongly urges any credit access business currently engaged in this practice to consider the legislative and legal consequences.