OCCC

TEXAS OFFICE OF CONSUMER CREDIT COMMISSIONER

# 2020 Report on Availability, Quality, and Pricing of Certain Financial Services and Consumer Loan Products

*12/1/2020*

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# Introduction

Since Texas' existence as an independent republic, some form of consumer credit regulation has existed in the state. Since its creation in 1963, the Office of Consumer Credit Commissioner (OCCC) has seen the depth and breadth of its regulatory oversight increase to encompass the expanding financial marketplace in Texas, and each segment, with its own unique and specific benefits and 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 an extensive array of 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 six of the most common credit transactions that Texas consumers received from OCCC licensees in 2019 and lists general alternatives to those products.

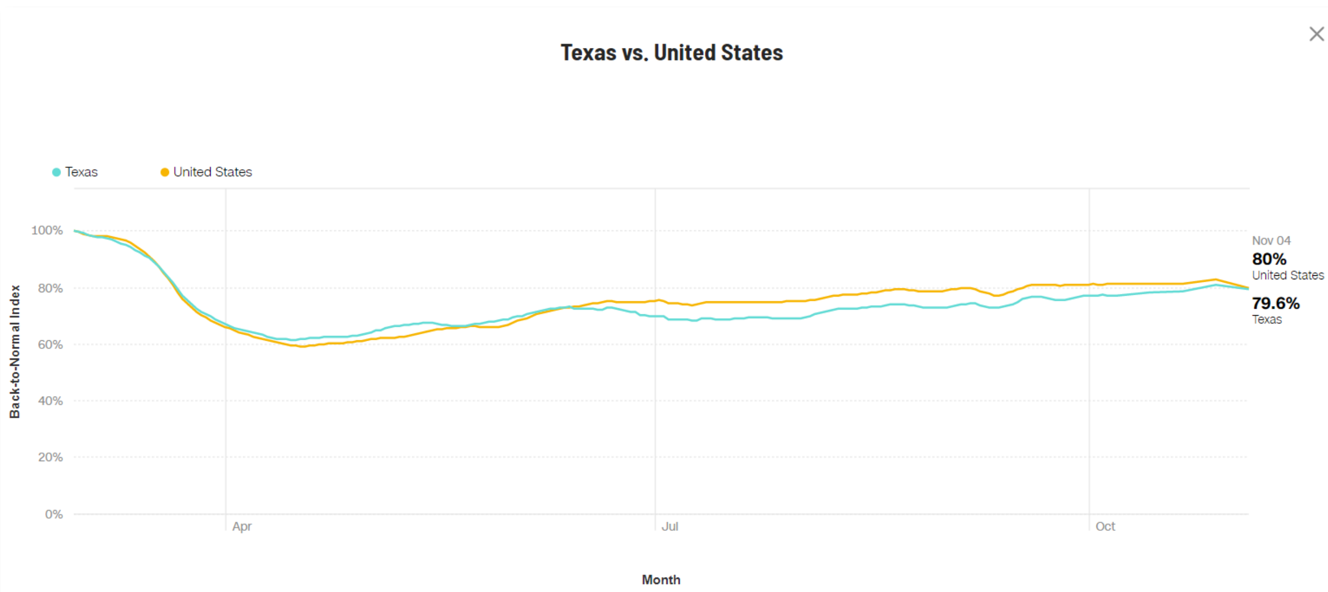
| Industry (Statutory Provision) |
|---|
| Home Equity Loans - *Section 50(a)(6), Article XVI of the Texas Constitution* |
| Regulated Lenders -*Texas Finance Code (TFC) ch. 342* |
| Large Installment Loans - *TFC ch. 342 subch. E* |
| Small Installment Loans - *TFC ch. 342 subch. F* |
| Credit Access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

Of the six types of consumer credit listed above, the OCCC possesses exclusive jurisdiction over pawn loans, and annual report data should reflect trends in the entire industry. Home equity loans are common products offered by depository institutions and other mortgage lenders not regulated by the OCCC and trends in OCCC licensed lenders may not be indicative of the entire marketplace. Motor Vehicle Sales Finance dealers are the OCCC's largest licensee base and originate 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 law.

## Special Note on 2020 and the Impacts of Covid-19

OCCC data from annual reports reflect licensee activity through December 31, 2019. Although it is unclear how the global pandemic caused by COVID-19 will ultimately affect the economy, it is believed that the pandemic will have a significantly greater effect on certain financial regulated industries than compared to previous cyclical downturns. In more typical recessions, demand for pawn loans (Market Data Enterprises Inc, 2012) and other higher cost credit are more likely to increase. When the OCCC receives annual reports for 2020, the OCCC expects loan originations to have declined. The relevant factors for this forecast include: (1) the intermittent closures of physical stores[1] that reduced the supply of loans, (2) the payment of stimulus money through direct payments to the consumers reducing the demand for loans; (3) the increased unemployment insurance benefits that reduced demand for loans;, (4) the loan forbearance and modification programs reducing the need for loans; and (5) the prohibition against foreclosure actions on federally-insured home loans.

Covid-19 is likely to have impacts in 2021 and beyond. The development and deployment of vaccines are important steps in normalizing the economy. Initial reports in November 2020 indicate a Pfizer vaccine that is in development could be 90% effective at preventing disease. However, the logistics of deploying (must be stored at ultra-cold temperatures) and delivering (requires patients to come back for a second dose) still pose serious challenges. (Cohen, Bonifield, & Jenkins, 2020)



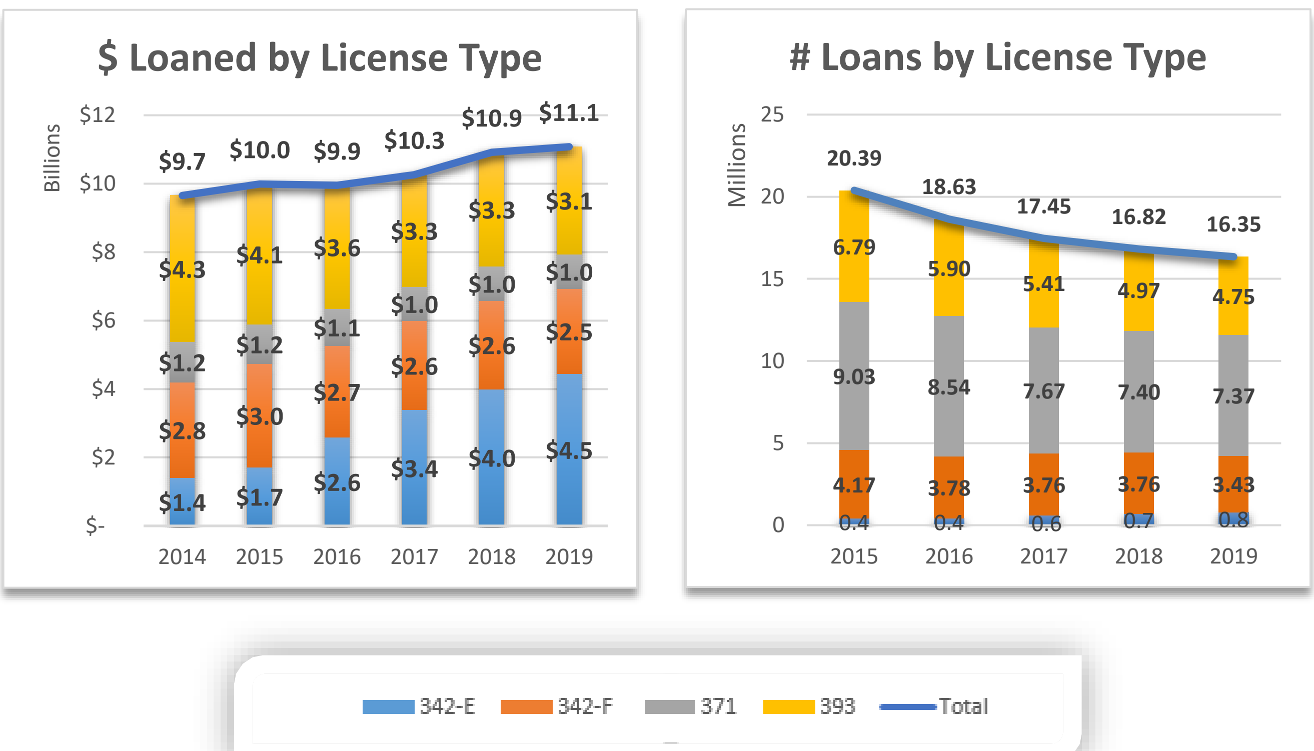

Both the United States and Texas economies are operating at around 80% pre-Covid levels according to the Moody's Analytics and CNN Business Back-to-Normal-Index. Hospitality, entertainment (especially movie theaters), and travel sectors are well below 80% back-to-normal while things like e-commerce are outperforming pre-Covid levels. (Moody's Analytics; CNN Business, 2020). A new stimulus package and an effective vaccine are likely to help provide additional support to the economy. The OCCC will continue to monitor economic activity and its effect on the credit industry and our licensees.

[1] *Although most of these companies were considered essential businesses and exempt from local closure orders several closed voluntarily to either protect staff or because of staff illness.*

## Lending Volumes

Non-real estate loans account for the vast majority of consumer loans (Installment Loans, Pawn Loans, and Payday/Title Loans). The OCCC licensed lenders and financial service providers profiled in this report made **16,350,000**[2] loans for **$11.1 billion** in 2019. 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.

The demand for certain installment loans, pawn loans, and payday loans is somewhat countercyclical to the overall economy. This is one of the reasons the number of loans made has decreased during the economic expansion for the period ending 2019 that is covered by this report. The amount loaned has gradually increased in this time. The number of payday and title loans made has decreased but the amount loaned was buoyed by larger advances and longer-term loans. Large installment loans (342-E) are available to higher credit quality customers than the other loan types and that demand can increase in a strong economy.

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[2] *Data submitted by OCCC licensees is aggregated and published on our 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.[3]

## Type of Customer

Borrowers generally 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 similar to other mortgage products. Non-interest closing costs are limited to 2% of the original principal balance of the home equity loan.[4] 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 5.28%) (Bank Rate, 2020) |
| | 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) |

[3] Preamble for 7 TAC §153.45

[4] 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.

## 2019 Home Equity Lending Report

*Data contained in this report is reported on a calendar year basis and reflects data through CY 2019. 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, Senate Bill 1124 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 Texas Department of Savings and Mortgage Lending.

## Home Equity Lending Data

### *Figure 4:*

| LOANS MADE | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| 1st Lien Home Equity Loans | 15,840 | 15,612 | 14,326 | 12,294 | 10,486 |
| Total Dollar Amount Loaned | $3,144,035,892 | $2,783,790,222 | $2,642,734,493 | $2,395,184,911 | $1,880,161,381 |
| Average Loan Amount | $198,487 | $178,311 | $184,471 | $194,826 | $179,302 |
| 2nd Lien Home Equity Loans[5] | - | - | - | - | 69 |
| Total Dollar Amount Loaned | - | - | - | - | $7,278,703 |
| Average Loan Amount | - | - | - | - | $105,488 |
| 342.G Loans[5] | - | - | - | - | 86 |
| Total Dollar Amount Loaned | - | - | - | - | $8,258,489 |
| Average Loan Amount | - | - | - | - | $96,029 |

### *Figure 5:*

| LOANS BROKERED | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| 1st Lien Home Equity Loans[5] | 58 | 36 | 66 | - | 36 |
| Total Dollar Amount Loaned | $13,631,906 | $7,330,620 | $15,164,997 | - | $6,695,767 |
| Average Loan Amount | $235,033 | $203,628 | $229,773 | - | $185,994 |
| 2nd Lien Home Equity Loans[5] | - | - | - | - | - |
| Total Dollar Amount Loaned | - | - | - | - | - |
| Average Loan Amount | - | - | - | - | - |
| 342.G Loans[5] | - | - | - | - | - |
| Total Dollar Amount Loaned | - | - | - | - | - |
| Average Loan Amount | - | - | - | - | - |

### *Figure 6:*

| LOANS RECEIVABLE | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| 1st Lien Home Equity Loans | 9,721 | 15,472 | 16,494 | 20,775 | 35,818 |
| Total Dollar Amount Loaned | $692,430,754 | $1,279,891,075 | $1,266,599,503 | $1,475,281,981 | $1,924,839,808 |
| Average Loan Amount | $71,230 | $82,723 | $76,792 | $71,012 | $53,739 |
| 2nd Lien Home Equity Loans | 1,027 | 1,579 | 1,016 | 15,199 | 4,202 |
| Total Dollar Amount Loaned | $66,964,593 | $43,989,976 | $23,464,395 | $459,501,786 | $90,021,578 |
| Average Loan Amount | $65,204 | $27,859 | $23,095 | $30,232 | $21,424 |
| 342.G Loans | 2,616 | 5,332 | 6,278 | 6,420 | 8,835 |
| Total Dollar Amount Loaned | $294,665,056 | $271,577,094 | $290,702,903 | $281,972,192 | $230,200,880 |
| Average Loan Amount | $112,640 | $50,933 | $46,305 | $43,921 | $26,056 |

| | | | | | |
|---|---|---|---|---|---|
| **Number of Companies Reporting[6]** | **772** | **794** | **810** | **802** | **778** |

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

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

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

## Overview

In 2019, 795,552 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 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 (raising the APR > 18% - 30%) |
| | 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 2019, 3,426,376 small installment loans averaging $726 were issued under Chapter 342-F. Due to the higher-cost nature of these loans the cash advance amounts are limited by law. Borrowers are able to obtain Chapter 342-F loans with minimal to no security or credit references. Lenders may require collateral such as personal property including the holding of a vehicle title; however, lenders rarely file liens (or perfect a security interest) as the costs of filing such liens cannot be recouped from the consumer.

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

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

## Type of Customer

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

## Typical Rates

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

| | |
|---|---|
| Allowable Charges | Fee structure for loans > $100: |
| | APR 80% - 113% |
| | 10% non-refundable Acquisition Charge (limited at $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: $1,420 |
| | Limited loan terms. Usually 9 - 18 months |
| | Typically, no more than one outstanding loan per borrower per company |
| | Prepayment allowed (without penalty) and interest is normally calculated on a simple or precomputed basis |

## Default

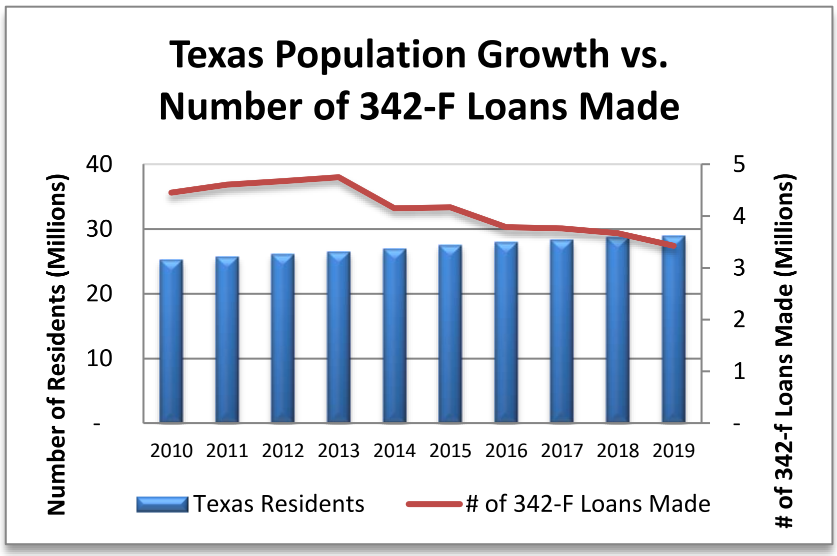
Borrowers utilizing secured loans risk losing their personal property, motor vehicle, or other security to the lender. The lender or third-party debt collector may pursue the remaining deficiency balance after the collateral has been disposed of or the entire remaining outstanding balance of unsecured 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

It is common for consumer loan companies to experience high levels of customer loyalty; however, as the population of Texas continues to increase the number of consumer loans made has declined. Reasons for the decline include, (1) strong economic performance and counter cyclical loan demand, (2) the rise of online alternatives, (3) less refinances due to increasing acquisition fee costs. The industry will have to consider ways to meet the needs of new and younger customers to stabilize loan volumes.




The Covid-19 pandemic has accelerated the future in ways people work, do business, shop, and use technology. Financial Technology was already making an impact on traditional brick and mortar lending that make up the bulk of the 342-F industry. Newer and sometimes less regulated models of receiving advances could possibly further impact the 342-F industry. Early wage access programs that can charge subscription or program fees are on the rise nationwide. These programs can be employer based or direct to consumer and warrant additional monitoring to determine their place in the credit landscape. (National Consumer Law Center, 2020)

## Regulated Lender Consolidated Volume Report
## Calendar Year 2019

*Figure 7:*

| Loans Made | Number of Loans | Dollar Value of Loans |
|---|---|---|
| Chapter 342-E | 795,552 | 4,451,851,105 |
| Chapter 342-F | 3,426,376 | 2,478,462,458 |
| Chapter 342 G – Secondary Mortgages[7] | | |
| Home Equity Loans – 1st Lien | 15,840 | 3,144,035,892 |
| Home Equity Loans – 2nd Lien[5] | | |
| Chapter 346 – Revolving Credit Accounts | 13,503 | 86,689,875 |
| Chapter 348 – Motor Vehicle Sales Finance | 348,897 | 10,833,024,909 |
| Chapter 345 – Retail Installment Sales/Contracts | 1,803,023 | 1,010,461,492 |
| Chapter 347 Loans – Manufactured Housing | 9,121 | 635,765,776 |

*Figure 8:*

| Loans Receivables | Number of Loans | Dollar Value of Loans |
|---|---|---|
| Chapter 342-E | 1,166,413 | 5,510,141,072 |
| Chapter 342-F | 1,362,669 | 1,040,775,728 |
| Chapter 342 G – Secondary Mortgages | 2,616 | 294,665,056 |
| Home Equity Loans – 1st Lien | 9,721 | 692,430,754 |
| Home Equity Loans – 2nd Lien | 1,027 | 66,964,593 |
| Chapter 346 – Revolving Credit Accounts | 92,051 | 213,867,102 |
| Chapter 348 – Motor Vehicle Sales Finance | 907,852 | 19,164,043,736 |
| Chapter 345 – Retail Installment Sales/Contracts | 2,856,313 | 1,054,481,738 |
| Chapter 347 Loans – Manufactured Housing | 44,970 | 2,306,125,045 |

*Number of Companies Reporting: 772*

[7] Volume below reportable activity

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

## Type of Customer

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

## Typical Rates

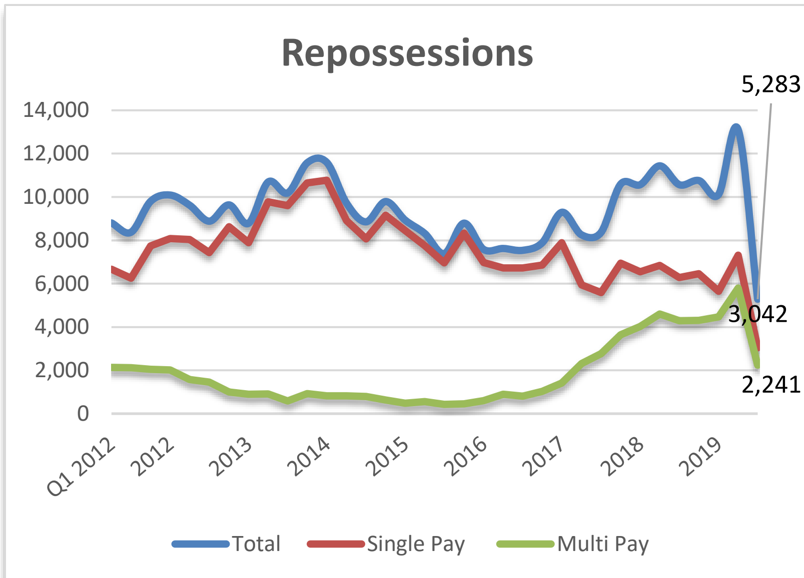
The majority of the loan cost is not capped. Fees charged to borrowers by the CAB typically depend on the amount of the loan and the length of the term. CAB agreement terms are limited to 180 days or less. The entire loan may be due in a matter of days, or the loan may be due over several equal payments. Refinancing or renewing payday and title loans is very common 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 13,000. 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.




## Alternatives

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

## Credit Access Business (CAB) Annual Data Report, CY 2019

*Data contained within the below summary represents aggregated statewide annual data reported by credit access businesses (CABs)* ***as of 4/28/2020.*** *The OCCC reviewed the data for reasonableness. The OCCC continues to receive amended or corrected data submissions and periodic revisions are published when significant. The OCCC will request verification from the licensee of any data that is found to be questionable or unreasonable.*

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

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

## Data Limitations

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

The data presented in the following summary represents CAB submissions via electronic and manual reporting, to include any corrected data, of annual activity as of April 28, 2020.

***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 2019 that did not refinance. | 455,398 | 566,401 | 29,762 | 73,848 |
| 2 | Number of refinances of extensions of consumer credit before paid in full or otherwise closed for reduced payoff in the report year.[8] | | | | |
| 2A | Refinancing 1 time | 114,694 | 77,410 | 9,406 | 10,425 |
| 2B | Refinancing 2-4 times | 159,010 | 54,484 | 21,600 | 18,764 |
| 2C | Refinancing 5-6 times | 34,652 | 10,009 | 11,902 | 2,284 |
| 2D | Refinancing 7-10 times | 26,314 | 4,236 | 13,467 | 1,666 |
| 2E | Refinancing more than 10 times | 15,543 | 6,956 | 15,581 | 1,386 |
| 3 | Total amount of CAB fees charged by the CAB on all CAB contracts during 2019. | $204,967,806 | $1,301,576,328 | $179,792,118 | $342,704,566 |
| 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. | 434,505 | 753,890 | 126,736 | 78,058 |

(Table continued on next page)

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

| Item # | Item Description | Single Payment Deferred Presentment Transactions | Installment Deferred Presentment Transactions | Single Payment Auto Title Loans | Installment Title Loans |
|---|---|---|---|---|---|
| 5 | Number of consumers for whom the CAB obtained or assisted in obtaining an extension of consumer credit during 2019. | 384,140 | 991,690 | 96,477 | 139,060 |
| 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 | 269,893 | 245,356 | 11,496 | 9,070 |
| 6B | $251 - $500 | 449,238 | 442,842 | 31,534 | 35,472 |
| 6C | $501 - $750 | 114,187 | 225,315 | 19,258 | 24,694 |
| 6D | $751 - $1000 | 77,402 | 205,788 | 23,661 | 29,456 |
| 6E | $1001 - $1500 | 35,819 | 115,582 | 21,435 | 26,802 |
| 6F | $1501 - $2000 | 11,958 | 46,653 | 13,940 | 15,606 |
| 6G | $2,001 - $2,500 | 8 | 9,982 | 7,346 | 8,468 |
| 6H | $2,501 - $3,000 | 6 | 5,451 | 6,579 | 6,381 |
| 6I | $3,001 - $5,000 | 1 | 687 | 9,696 | 7,268 |
| 6J | $5,001 - $7,500 | 0 | 5 | 3,185 | 1,686 |
| 6K | Over $7,500 | 0 | 0 | 2,366 | 966 |
| 7 | Total dollar amount of new extensions of consumer credit during the report year for each of the following loan ranges. | | | | |
| 7A | $0 - $250 | $47,360,422 | $43,244,906 | $1,847,619 | $1,657,649 |
| 7B | $251 - $500 | $180,438,310 | $177,704,251 | $12,788,791 | $14,650,874 |
| 7C | $501 - $750 | $71,289,246 | $141,945,634 | $12,142,822 | $15,327,321 |
| 7D | $751 - $1000 | $69,908,611 | $184,060,177 | $21,853,260 | $27,262,113 |
| 7E | $1001 - $1500 | $45,865,142 | $145,041,769 | $27,703,073 | $34,301,125 |
| 7F | $1501 - $2000 | $21,269,274 | $86,870,887 | $25,648,992 | $28,526,695 |
| 7G | $2,001 - $2,500 | $18,673 | $23,194,593 | $17,111,298 | $19,433,722 |
| 7H | $2,501 - $3,000 | $17,300 | $15,750,398 | $18,818,177 | $18,119,545 |
| 7I | $3,001 - $5,000 | $3,250 | $2,548,528 | $38,885,854 | $28,778,035 |
| 7J | $5,001 - $7,500 | $0 | $29,359 | $19,443,104 | $10,168,049 |
| 7K | Over $7,500 | $0 | $0 | $22,387,562 | $9,628,262 |
| 8 | Total number of refinances on extensions of consumer credit originated in 2019. | 1,142,506 | 286,739 | 290,892 | 71,379 |
| 9 | Total dollar amount of extensions of consumer credit for 2019. | $436,170,217 | $820,390,197 | $218,630,628 | $207,853,325 |
| 10 | Total dollar amount of refinances for 2019. | $497,318,513 | $308,888,137 | $529,575,611 | $119,339,669 |

| | | | | |
|---|---|---|---|---|
| **Number of locations reporting activity in each category:** | **762** | **880** | **1,041** | **757** |

**Total Number of Companies Reporting:** **2,018**

# 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.

The majority of 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 $219 |
| | 180% for loans up to $1,460 |
| | 30% for loans for up to $2,190 |
| | 12% for loans up to $18,250 |
| 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. Rates adjust each July 1 based upon the Consumer Price Index.

## Default

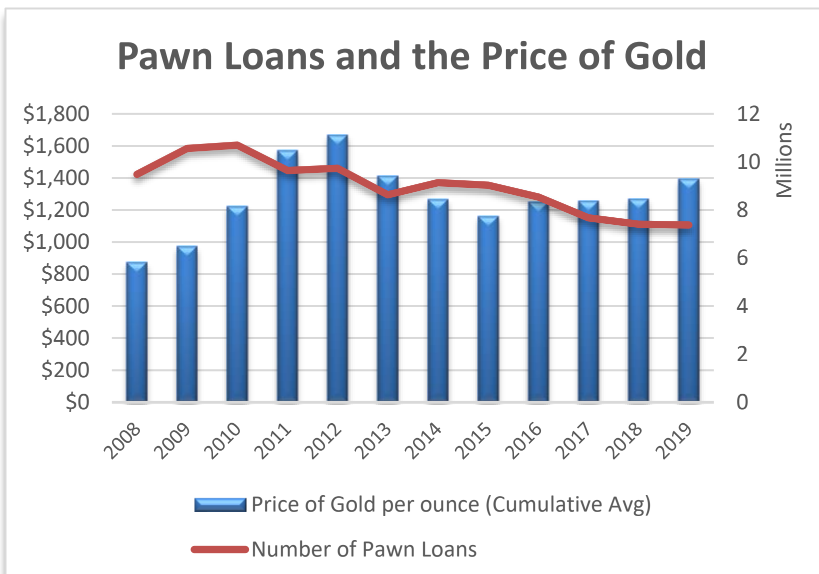
In order to reclaim possession of the pledged goods, the pledgor must repay the entire loan. If the customer does not redeem pledged items at the end of the loan term, those items may then become part of the pawnshop's inventory and are offered for sale to the general public. In the event of forfeiture,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

In addition to economic conditions and increasing alternatives affecting the demand for pawn loans, the price of gold (Federal Reserve Bank of St. Louis, 2020) is also an important factor for any pawnshop. Generally, in times of economic uncertainty the price of gold increases (Amadeo, 2020). In conjunction with consumer need for borrowing in economic downturns, high gold prices offer higher loan amounts on gold jewelry. Pawnshops are willing to lend more on gold when prices are expected to increase or stay elevated. Low gold prices can be a driver in less pawn demand because it indicates a strong US economy and carries the opportunity cost of risking gold assets on a lower dollar loan.



## Pawn Industry Consolidated Volume Report by Calendar Year

### *Figure 10:*

| Loans Made | Number of Loans | Dollar Value of Loans | Average Loan |
|---|---|---|---|
| **2019** | 7,373,149 | $1,012,421,749 | $137 |
| **2018** | 7,400,239 | $1,002,291,887 | $135 |
| **2017** | 7,674,390 | $1,005,695,472 | $131 |

### *Figure 11:*

| Loans Outstanding | Number of Loans | Dollar Value of Loans | Average Loan |
|---|---|---|---|
| **2019** | 1,691,458 | $275,993,630 | $163 |
| **2018** | 1,698,304 | $275,124,093 | $162 |
| **2017** | 1,653,975 | $268,603,076 | $162 |

*Number of Companies Reporting in CY 2019: 1,381*

*Number of Companies Reporting in CY 2018: 1,369*

*Number of Companies Reporting in CY 2017: 1,367*

# 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 varies 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 deal.

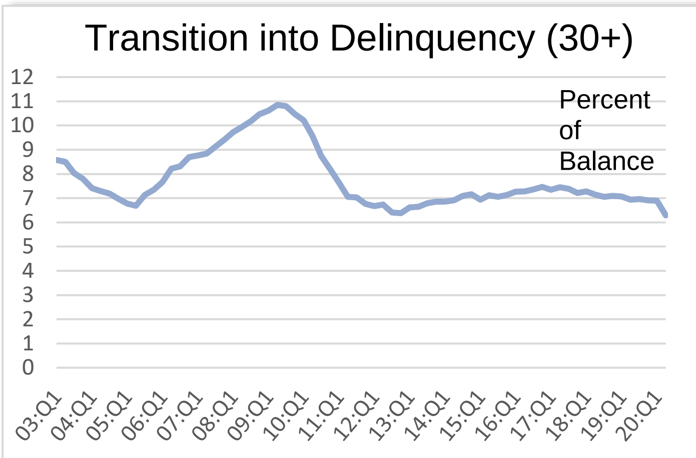
## Typical Rates

The maximum allowable rates for motor vehicle sales finance are determined by statute as add-on rates. 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 required 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

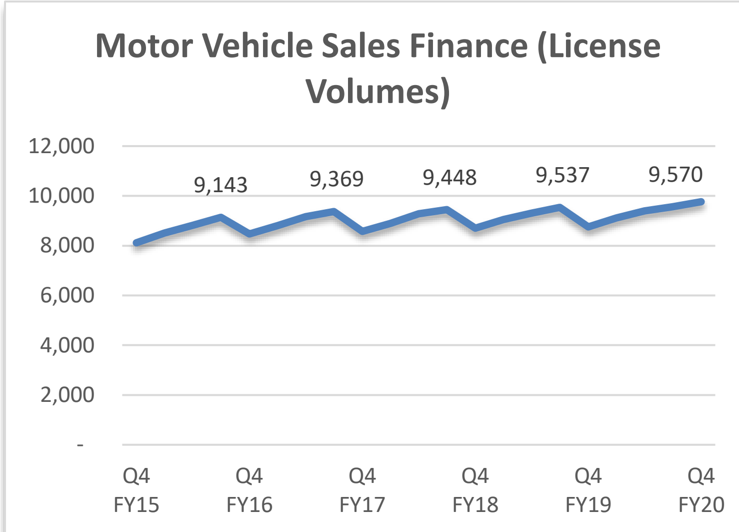
Initial delinquencies generally rise during times of economic stress. However, after the recovery of the "great recession" auto financing that was 30+ days delinquent remained relatively stable. The most recent data (Q2 2020) indicates the current economic environment has not affected initial delinquencies due to relief from the CAREs Act and voluntary concessions from lienholders as consumers were offered forbearance. This should be watched as a leading indicator as the economy attempts to recover. (Haughwout, Lee, Scally, & Klaauw, 6)

## 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 to draft up to the approved amount.

## Motor Vehicle Sales Industry Data

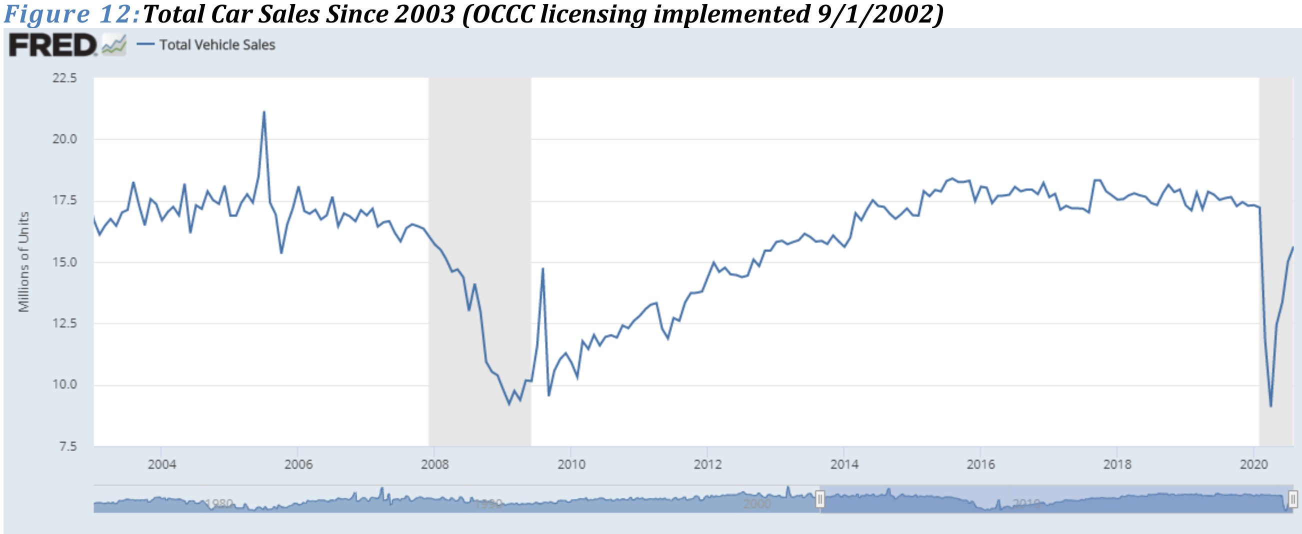
The OCCC does not currently collect annual report data from motor vehicle sales finance dealers who hold a chapter 348 license. Industry monitoring is primarily completed through examinations, stakeholder meetings and the change in license levels. The highest licensing levels occur in the third fiscal quarter every year. Renewals occur in the fourth fiscal quarter and there is an anticipated drop for those companies that have closed and do not renew their license. The chart represents the third quarter licensing levels for the last five years. Although the license count has been increasing each year, the most recent third quarter (FY20) saw a small increase of 0.35% licensee growth.




## National Trends

United States motor vehicle sales increased every year 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. Consumers may have been driven away by rising auto interest rates that increased the price of cars. Sales dropped off significantly in the early days of the pandemic, but they have begun to rebound. While motor vehicle sales are showing signs of a rebound, there is still a long way to go before sales reach their level from previous years, as they now stand at the 15 million vehicle range. One factor that may help sales is the rates that cars are sold, with motor vehicle interest rates now dropping after several years of incremental increases.

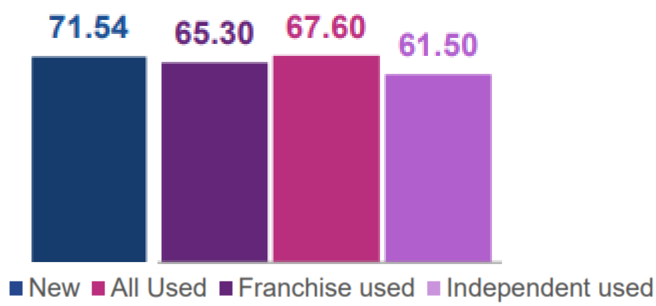
*Figure 12:* ***Total Car Sales Since 2003 (OCCC licensing implemented 9/1/2002)***

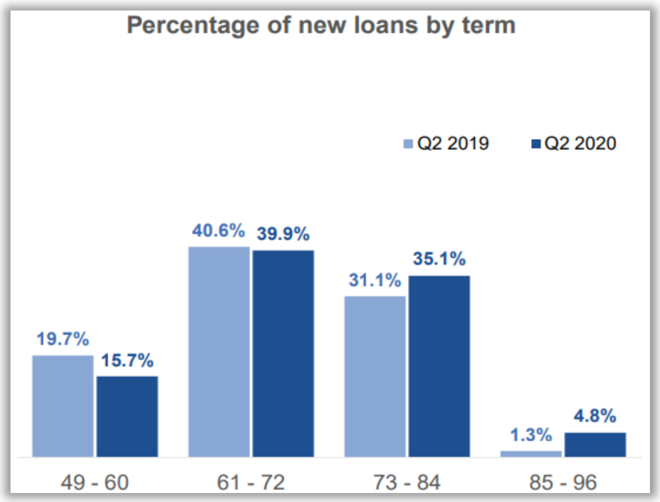


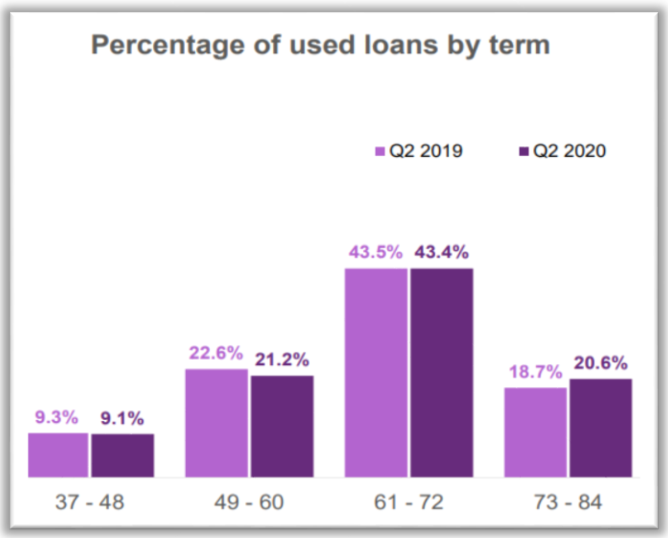
## Repayment Terms

Car repayment terms have been changing slowly over the past 10 years. The average length for new motor vehicle financing currently sits at 71.54 months, with the highest concentration of new and used car loans centered at 61-72 months, but both new and used loans are being seen with longer terms. At the same time, the average new-car monthly payment hit an all-time high the second quarter of 2020, topping out at $568. (Experian, 2020) The price of cars has gone up in recent years which has helped drive the loan terms up as well. Consumers look to finance their new/used car with a more affordable payment, and they increasingly have turned to longer-term loans to reduce that monthly payment amount. While this idea may seem more affordable at first there is a higher interest payment in the long term due to the increased length of the loan.

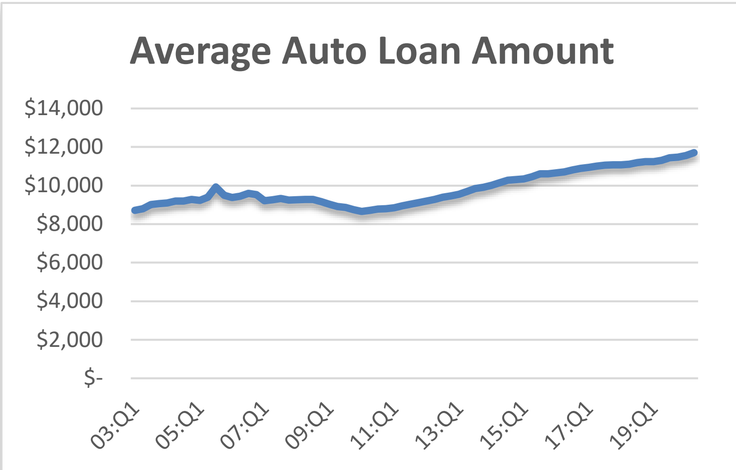
***Figure 13 :***



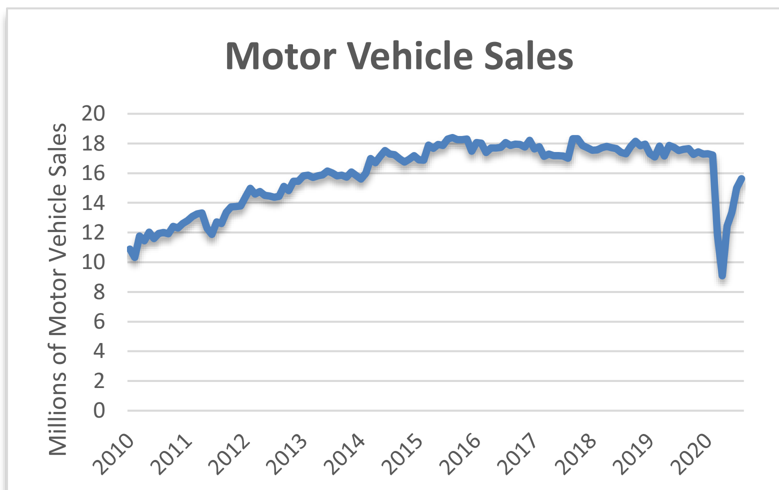
## Average Auto Loan Amount



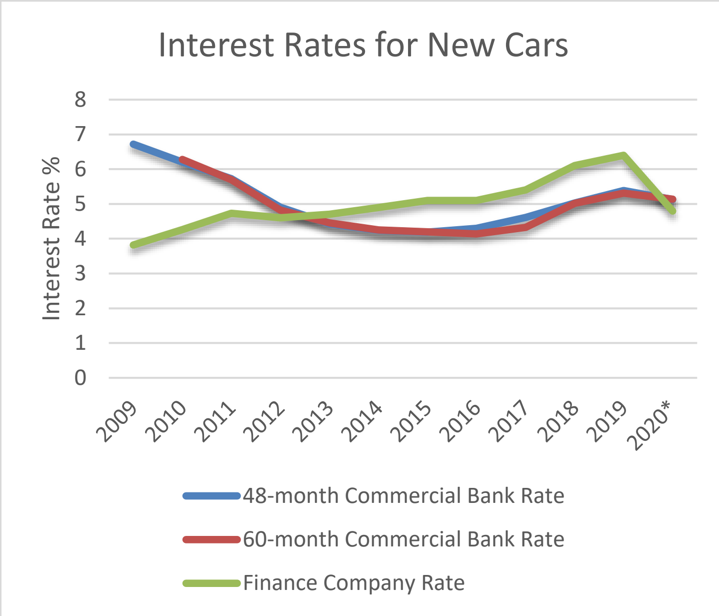

The average auto loan amount increased to $11,705.74 in 2020 Q2. Since early 2010, the average loan amount has increased from $8,657. The rising cost of cars and longer term loans have contributed to this jump. This average represents the amount that a person has left to pay on an auto loan, not the amount of a brand new loan.
(Federal Reserve Bank of New York, 2020)

## Motor Vehicle Sales

Motor vehicle sales have spiked dramatically over the last 10 years. Interest rates are lower than ever before, which has encouraged consumers to buy both new and used cars. After a massive drop in motor vehicle sales in the early months of 2020, there has been the beginnings of a V-shaped rebound in total sales. It remains to be seen how long it takes for the auto industry to fully recover, but it has shown positive signs in the early stages of a pandemic-induced slowdown. (Federal Reserve Bank of St. Louis, 2020)



## Interest Rates for New Cars

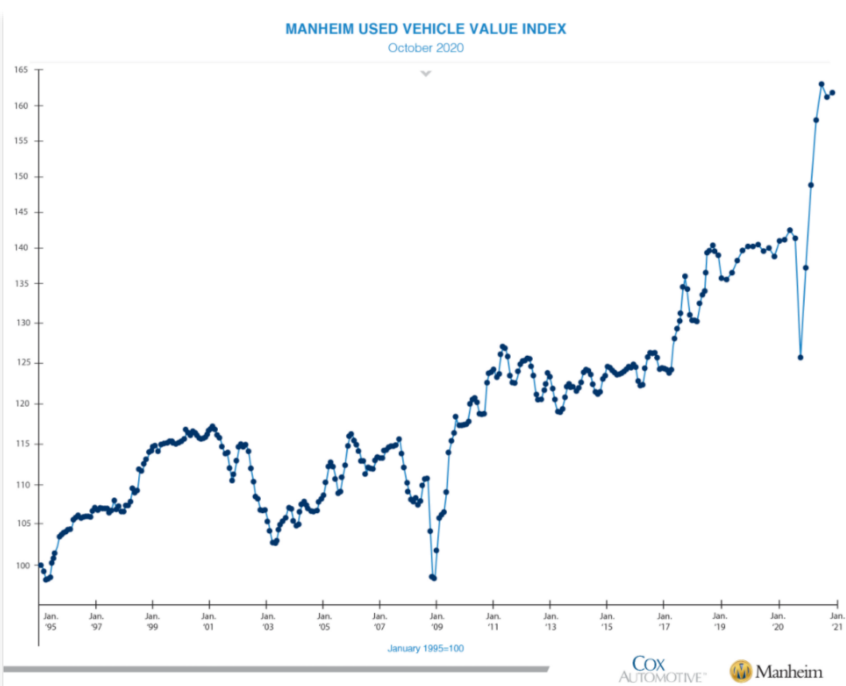



Bank Rates dipped following the recession but had been rising for the last few years. Now with the auto industry (among others) reeling, interest rates are falling again to encourage consumer spending. The length of economic shutdowns and recovery will likely determine how low interest rates go, but rates are remaining low through 2020. (Board of Governors of the Federal Reserve System, 2020)

*2020 numbers through Q2

## 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. The current economic conditions present their own challenges for car sales. (Kellogg Insight, 2016)




The Manheim Used Vehicle Value Index increased 15.4% from one year ago and "Plans to purchase a vehicle in the next six months declined in October to the lowest level since April." (Manheim, 2020) The strength in wholesale prices of used cars indicate cars will be more expensive for consumers in the near future and could prove a challenge for the auto industry to make up for the decline in sales over the summer.

## Availability Gap

The largest gap between average loan offerings is between 342-E and title loans. Although lenders make 342-E loans for a variety of different purposes (student loan refinances, automobile loan refinances, consumer goods purchases, etc), experience suggests that there is a smaller supply of general purpose loans in the $1,400 - $3,000 amortizing loan market than at amounts outside that range.

The Texas Constitution authorizes the Legislature to set maximum interest rates. Chapter 342 provides different rate limitations for Subchapter E and F loans, with a $1,460 maximum loan amount for Subchapter F loans.

For Subchapter E loans, rates are typically between 18% and 30%, loan amounts are typically between $3,000 and $9,000, and loan terms are typically 60 months or more. Subchapter E lenders may also charge a prepaid administrative fee up to $100. The Finance Code provides three rate structures, under which lenders can choose to charge one of the following:

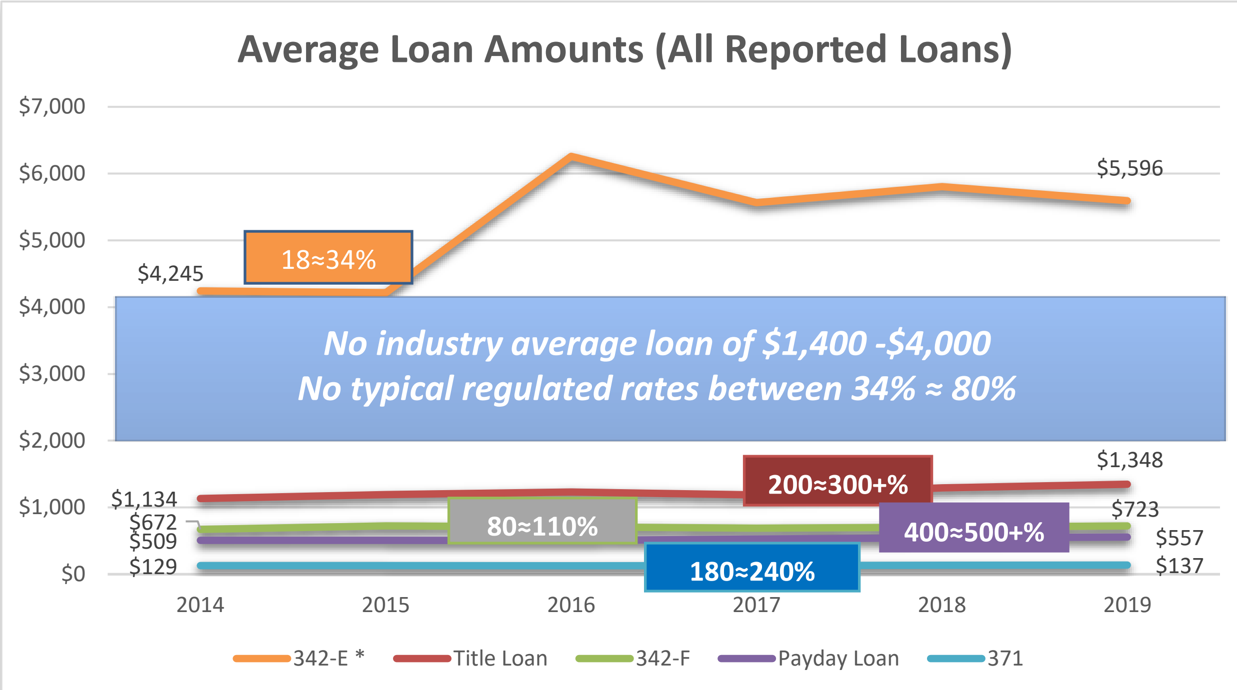
- an add-on interest rate up to 18% for the loan amount up to $2,190 and 8% for the amount over $2,190 up to $18,250,
- a simple interest rate up to 18%, or
- a three-tiered interest rate up to 30% for the loan amount up to $3,650, 24% for the amount over $3,650 up to $7,665, and 18% for the loan amount over $7,665 up to $18,250.

For Subchapter F loans, the Finance Code allows the lender to charge interest (called the “installment account handling charge”) up to 4% of the loan amount per month. Subchapter F lenders may also charge a prepaid acquisition charge that does not exceed the lesser of $100 or 10% of the loan amount. Annual percentage rates are typically between 80% and 113%, and loan terms are typically between 9 and 18 months.

In the marketplace, there appears to be a gap between the highest Subchapter F loans at $1,460, and the lowest Subchapter E loans offered, typically around $3,000. Texas strives to ensure a competitive market to serve consumers’ needs in a range of amounts. It appears that the yield for a Subchapter E loan may be affecting the availability of loans in this gap. In addition, although a Chapter 342 license authorizes a lender to make loans under both Subchapter E and Subchapter F, the OCCC found that only 29 companies made loans under both subchapters in 2019.

Consumer loans are available in the following sub-types: Chapter 342 Subchapter E loans, Chapter 342 Subchapter F loans, Chapter 371 pawnshop loans, Chapter 393 CAB payday loans, and Chapter 393 CAB title loans. Each of these loan types has some combination of rate, term, or loan amount restrictions. Average rates and loan amounts for the loan sub-types is presented in the following chart.

*Figure 12:*




*Average data for 342-E is affected by the increase in loans designed for student loan and automobile loan refinancing.

Chapter 342 provides important consumer protections and contains a well-established framework for consumer lending in Texas. For this reason, it is appropriate to ensure that Chapter 342 serves market needs.

# Alternatives to High-Cost Lending

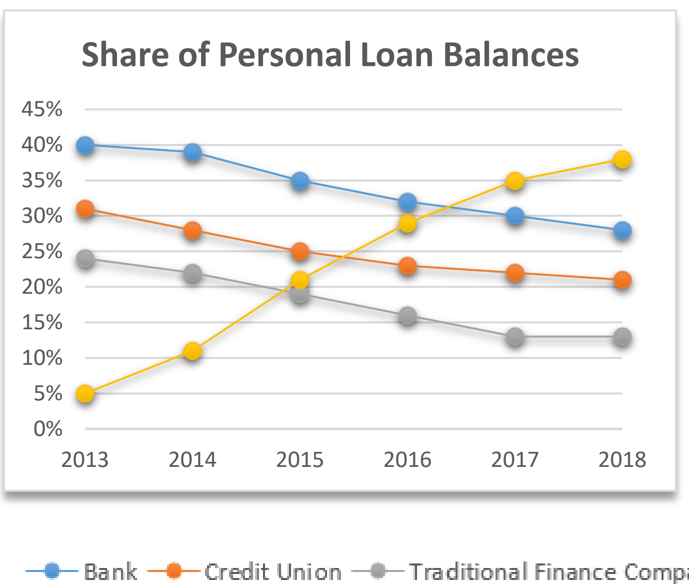
## Overview

In 2018, approximately 41% of Texans report utilizing non-bank borrowing methods within the past five years compared to 29% of all Americans. (FINRA Investor Education Foundation, 2020) This type of borrowing is typically high cost and involves higher interest and higher fees than traditional borrowing. For Texas consumers with limited financial or credit resources, high cost borrowing methods may seem like the only available option.

To assist consumers who utilize high cost financial products, many organizations have developed products to provide consumers with lending choices other than high cost borrowing methods. Additionally, many organizations are delivering financial education to help individuals develop the skills and tools necessary to manage financial resources.

## FinTech and RegTech

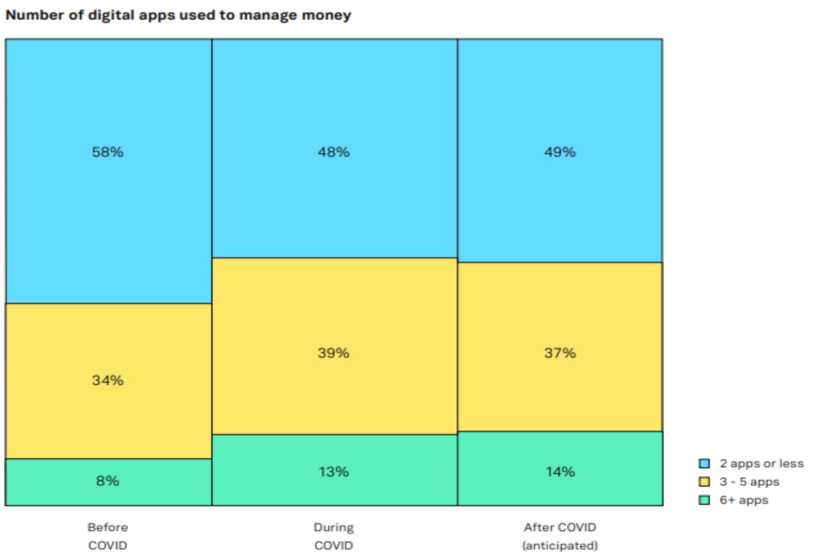
Electronic Commerce (E-Commerce) continues to contribute an increasing share of the economy. Consumer lending is following suit and enables a wide array of offerings to borrowers across the country. Fintech (Kagan, 2019) is a combination of the words Finance and Technology and can broadly relate to ways to automate or expand access to financial services. In many instances, Fintech can enable startup companies to compete with large entrenched institutions due to lower operational costs. Unsecured personal loans are increasingly made by Fintech companies. In 2018, 38% of all unsecured loans were made in the Fintech space, outpacing all other traditional offerings. (TransUnion, 2019)



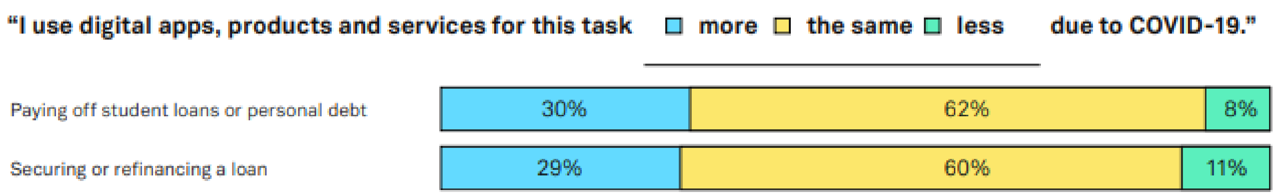

A unique challenge is ensuring products and offerings meet the individual regulatory requirements of each state. The use of regulatory technology (RegTech) (Frenkenfield, 2019) is also a fast growing sector. Financial services companies can use technology to monitor and report on their compliance programs and quickly identify potential risks. Regulators also need to embrace technology to perform data analytics for risk scoping and efficiencies.

## COVID-19 Impact on Fintech Usage

The majority of Americans used fintech before the pandemic, but COVID-19 accelerated adoption. During the pandemic, people used more fintech apps, more frequently and for more financial tasks.



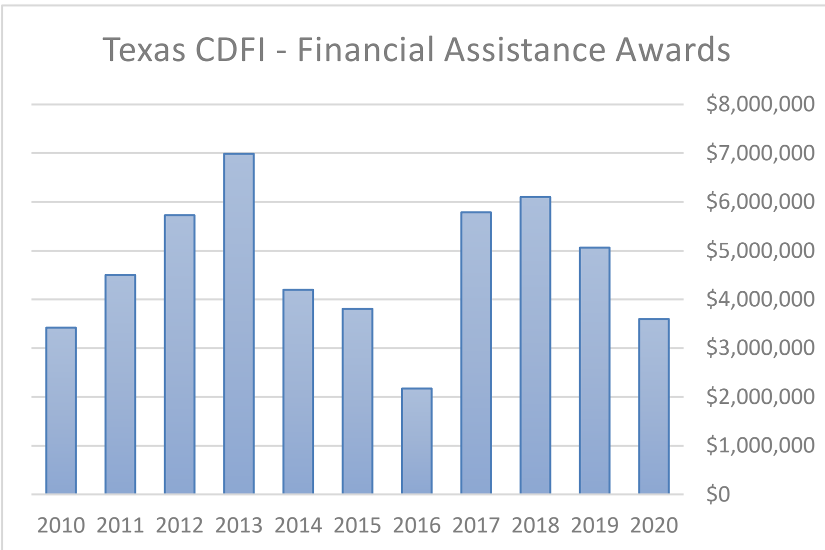

59% of Americans agree with this statement: "I use more apps and digital tools to manage my money now than I did before COVID-19." In addition, 30% or more of respondents cited that due to COVID-19 they're relying on fintech more for more complex financial management, such as investing, checking or improving one's credit profile, and paying off student loans and personal debt. (Plaid, 2020)




As fintech adoption becomes more universal, new companies as well as established financial institutions will look to expand the digital tools that they offer to consumers and push innovation to meet their expectations and demands. This can offer tangible benefits to consumers, but will only increase the need for regulators to keep an eye out for the newest technologies, apps, and products in the financial sector.

## Low-cost lending programs

There are a number of organizations licensed by the OCCC that are either community-based or fintech-based and are Community Development Financial Institutions (CDFIs) certified by the United States Department of Treasury (Community Loan Center of the Rio Grande Valley, 2020). CDFIs are mission driven financial institutions that serve economically disadvantaged communities by expanding access to credit in those communities. (U.S. Department of the Treasury, 2020) These organizations generally have access to federal funds in addition to private capital to expand access.




CDFIs are required to match dollar-for-dollar in non-federal funds financial assistance awarded in grants. (U.S. Department of Treasury, 2020) Since 2010, Texas CDFIs have received over $51 million in awards. Although specific missions may be different, (1) affordable housing, (2) alternatives to high cost loans, (3) and services for the traditionally non-banked are main goals.

## Financial Education

There are several organizations throughout the state that offer financial education services to encourage and assist consumers to develop the skills and abilities required to effectively manage finances. Through a variety of financial education programs, participants are afforded with the knowledge necessary to make informed financial decisions.

To encourage and develop financial education opportunities in Texas, during the 82nd Session, the Texas Legislature established the Texas Financial Education Endowment (TFEE) to support statewide financial capability and consumer credit building activities and programs.

During the 2018-2019 TFEE Grant Cycle 21,314 individuals were provided educational services and $226,141.25 was reimbursed to grant recipients to support financial education.

The 2020-2021 TFEE Grant Cycle began in March 2020 and will run through December 2021. The Texas Finance Commission awarded $300,000 to ten organizations to support financial education opportunities. These organizations are working diligently to support and offer financial education opportunities to consumers.

The OCCC's Financial Education Department has expanded financial education services. The agency is offering webinars directly to consumers and has also partnered with Employees Retirement System and Texas Department of Transportation to provide financial education classes. During fiscal year 2020, the OCCC provided 2,863 individuals with financial education.

## 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).

| | *342-F* | *342-E* | *371* | *342-G/A-6* | *348* | *393* | *351* |
|---|---|---|---|---|---|---|---|
| 342-F | 1.00 | | | | | | |
| 342-E | 0.37 | 1.00 | | | | | |
| 371 | 0.53 | 0.49 | 1.00 | | | | |
| 342-G/A-6 | 0.01 | 0.09 | 0.02 | 1.00 | | | |
| 348 | 0.43 | 0.54 | 0.59 | 0.02 | 1.00 | | |
| 393 | 0.58 | 0.49 | 0.56 | 0.05 | 0.49 | 1.00 | |
| 351 | 0.00 | 0.04 | 0.06 | 0.10 | 0.05 | 0.01 | 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 (0.58) |
| 393 and 371 (0.56) |
| 342-F and 371 (0.53) |

## 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 the primary business designation. They are ordered from left to right: Small Consumer Loans (342-F), Personal Installment Loans (342-E), Pawn Loans (371), Secondary Mortgage Loans (342-G) & Home Equity Loans (A6), Motor Vehicle Sales Finance (348), Credit Access Businesses (393), and Property Tax Loans (351). Data as of **11/03/2020**.

Demographic information about each zip code was obtained from the American Community Survey 2018 5-year estimates of the US Census Bureau. (United States Census Bureau, 2020) Estimated population and median household income are presented by zip code.

| | Zip | Population | Median Household Income | Location | 342-F | 342-E | 371 | 342-G/A-6 | 348 | 393 | 351 | Total by Zip |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 78501 | 63,554 | $36,618.00 | McAllen | 39 | 7 | 9 | 0 | 53 | ***22*** | 1 | ***131*** |
| 2 | 75211 | 79,010 | $41,154.00 | SW Dallas | 4 | 11 | 3 | 0 | ***102*** | 5 | 0 | 125 |
| 3 | 77037 | 20,463 | $42,906.00 | N Houston /Aldine | 5 | 10 | 6 | 0 | 100 | 3 | 0 | 124 |
| 4 | 76011 | 22,640 | $37,159.00 | Arlington | 4 | 1 | ***23*** | 0 | 87 | 6 | 0 | 121 |
| 5 | 78521 | 92,108 | $30,099.00 | Brownsville | 22 | 4 | 8 | 0 | 74 | 10 | 1 | 119 |
| 6 | 75217 | 86,896 | $38,225.00 | SE Dallas | 2 | 5 | 7 | 0 | 91 | 3 | 0 | 108 |
| 7 | 79915 | 80,213 | $41,906.00 | El Paso | 10 | 5 | 5 | 0 | 83 | 3 | 0 | 106 |
| 8 | 78572 | 35,445 | $30,536.00 | McAllen | 26 | 3 | 4 | 0 | 63 | 10 | 0 | 106 |
| 9 | 75050 | 42,916 | $55,753.00 | Grand Prairie | 2 | 2 | 4 | 0 | 86 | 4 | 0 | 98 |
| 10 | 78550 | 52,216 | $36,948.00 | Harlingen | 31 | 1 | 5 | 0 | 41 | 16 | 0 | 94 |
| 11 | 78201 | 46,775 | $35,285.00 | NE San Antonio | ***49*** | 3 | 7 | 0 | 26 | 8 | 0 | 93 |
| 12 | 78520 | 62,414 | $32,355.00 | Brownsville | 32 | 7 | 8 | 1 | 37 | 3 | 0 | 88 |
| 13 | 75229 | 31,790 | $93,416.00 | NW Dallas | 0 | 1 | 2 | 0 | 82 | 0 | 1 | 86 |
| 14 | 78415 | 40,439 | $44,975.00 | South Corpus Christi | 26 | 1 | 7 | 0 | 45 | 6 | 0 | 85 |
| 15 | 78577 | 77,835 | $39,372.00 | Pharr | 20 | 2 | 5 | 0 | 55 | 3 | 0 | 85 |
| 16 | 78041 | 47,261 | $47,655.00 | Laredo | 17 | 2 | 5 | 0 | 50 | 8 | 0 | 82 |
| 17 | 77055 | 44,680 | $53,263.00 | Spring Branch Houston | 8 | 7 | 7 | 0 | 56 | 3 | 0 | 81 |
| 18 | 75220 | 43,088 | $46,417.00 | NW Dallas | 3 | 9 | 5 | 0 | 56 | 4 | 0 | 77 |
| 19 | 77083 | 79,996 | $54,650.00 | SW Houston | 1 | 7 | 1 | 0 | 59 | 9 | 0 | 77 |
| 20 | 78221 | 39,523 | $40,029.00 | South San Antonio | 30 | 4 | 6 | 0 | 26 | 8 | 0 | 74 |
| 21 | 78212 | 39,711 | $47,840.00 | North Central San Antonio | 6 | 1 | 7 | 0 | 52 | 2 | 5 | 73 |
| 22 | 79925 | 29,225 | $45,903.00 | El Paso | 11 | 7 | 5 | 0 | 46 | 4 | 0 | 73 |
| 23 | 77074 | 41,386 | $40,214.00 | SW Houston | 2 | 3 | 2 | 0 | 63 | 1 | 0 | 71 |
| 24 | 78130 | 74,172 | $62,813.00 | New Braunfels | 10 | 3 | 7 | 0 | 41 | 8 | 0 | 69 |
| 25 | 77063 | 38,961 | $45,262.00 | West Houston | 0 | 3 | 5 | 0 | 56 | 4 | 0 | 68 |
| 26 | 75702 | 27,766 | $33,066.00 | Tyler | 13 | 4 | 9 | 0 | 35 | 6 | 0 | 67 |
| 27 | 77587 | 17,040 | $45,643.00 | City of South Houston | 1 | 4 | 3 | 0 | 57 | 2 | 0 | 67 |
| 28 | 78043 | 44,838 | $35,474.00 | Laredo | 17 | 2 | 6 | 0 | 36 | 5 | 0 | 66 |
| 29 | 77034 | 40,532 | $48,764.00 | South East Houston | 5 | 5 | 3 | 0 | 49 | 4 | 0 | 66 |
| 30 | 76117 | 31,860 | $48,280.00 | NE Fort Worth | 0 | 2 | 6 | 0 | 56 | 2 | 0 | 66 |
| | | | | **Top 30 Zip Totals** | 396 | 126 | 180 | 1 | 1,763 | 172 | 8 | 2,646 |
| | | | | **Remainder of Texas** | 2,061 | 931 | 1,336 | 63 | 7,778 | 1,588 | 65 | 13,822 |
| | | | | **Out of State** | 199 | 265 | 2 | 131 | 294 | 52 | 5 | 948 |
| | | | | **All Licenses**[9] | **2,656** | **1,322** | **1,518** | **195** | **9,835** | **1,812** | **78** | **17,416** |

[9] *Includes all Active and Inactive licenses as of 11/03/2020*

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 | 342-F | 342-E | 371 | 342-G/A-6 | 348 | 393 | 351 | Total by Zip |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **342-E “In-State” Category Leader** | | | | | | | | | | | | |
| | 77081 | 52,078 | $31,196 | SW Houston | 5 | ***19*** | 6 | 0 | 17 | 4 | 0 | 51 |
| **342-G/A-6 "In-State" Category Leader** | | | | | | | | | | | | |
| | 75252 | 26,511 | $61,151 | N Dallas | 0 | 0 | 0 | ***4*** | 4 | 0 | 2 | 10 |
| **351 Category Leader** | | | | | | | | | | | | |
| | 78731 | 27,175 | $94,048 | NW Austin | 0 | 0 | 0 | 0 | 2 | 0 | ***14*** | 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.

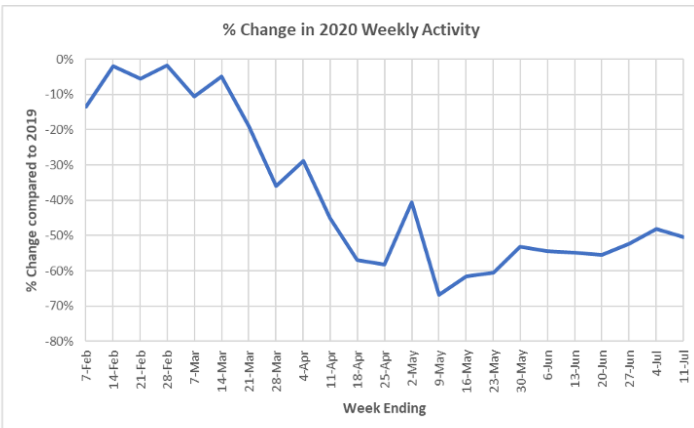
| | Zip | Population | Median Household Income | Location | 342-F | 342-E | 371 | 342-G/A-6 | 348 | 393 | 351 | Total by Zip |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Highest Median Income with over 1,000 Households** | | | | | | | | | | | | |
| | 76092 | 30,908 | $230,750 | Southlake | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Lowest Median Income with over 1,000 Households** | | | | | | | | | | | | |
| | 79901 | 10,284 | $13,893 | El Paso | 32 | 2 | 3 | 0 | 3 | 0 | 0 | 40 |
| **Highest Population** | | | | | | | | | | | | |
| | 77449 | 122,814 | $76,163 | Katy | 8 | 1 | 2 | 0 | 15 | 6 | 0 | 32 |

# National Credit Trends

## Overview

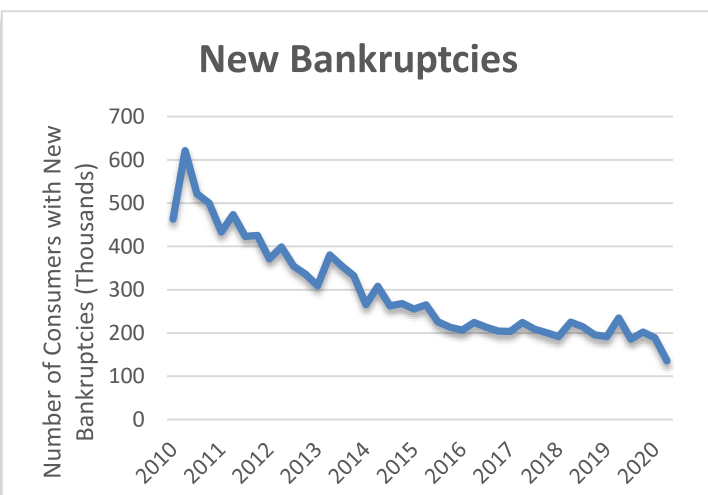
The demand for consumer lending is in flux right now. The Federal Reserve's July Senior Loan Officer Opinion Survey shows that American consumer demand for mortgages is strong; but auto, credit card, and other consumer loans have experienced weaker demand. The total debt balance in the US actually fell slightly from Q1 to Q2 in 2020, which is a sign that consumers are looking to save some money as millions lose their jobs and source of income. Mortgage rates have dropped almost 200 basis points since the end of 2018 which has kept the demand for home loans and refinances strong. (Board of Governors of the Federal Reserve System, 2020)

A multistate review of payday loan transactions revealed significant decreases in activity during the pandemic. Veritec Solutions is a company that collects real-time loan data from states that implement its use for regulatory tracking.




An analysis of seven states from February 1 – July 11 show the significant year-over-year drop in weekly activity. Payday loan activity fell over 60% in May and remained at a 50% decrease over the same weeks of 2019 through July. (Veritec Solutions, 2020)

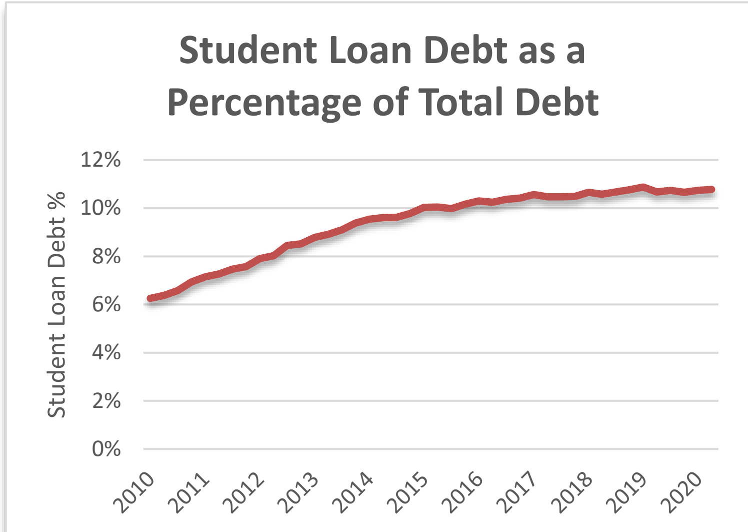
## Bankruptcies



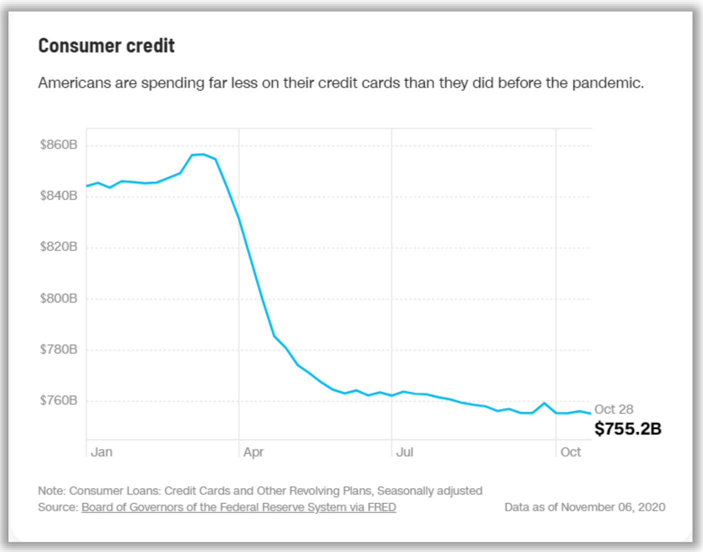

New bankruptcies peaked in 2010 following the recession as US consumers struggled to make ends meet. Since that time, new bankruptcies have plateaued around 200,000 per quarter. This isn't surprising, considering there has been a more favorable economic environment, including low unemployment and low interest rates. Q2 2020 reported the lowest number of bankruptcies in the graph. (Federal Reserve Bank of New York, 2020)

## Student Loan Debt

Student loans take up a greater percentage of household debt now than they ever have. As the cost of tuition continues to rise, the prevalence of student loans grows larger and takes up a greater hold on household debt. (Federal Reserve Bank of New York, 2020)



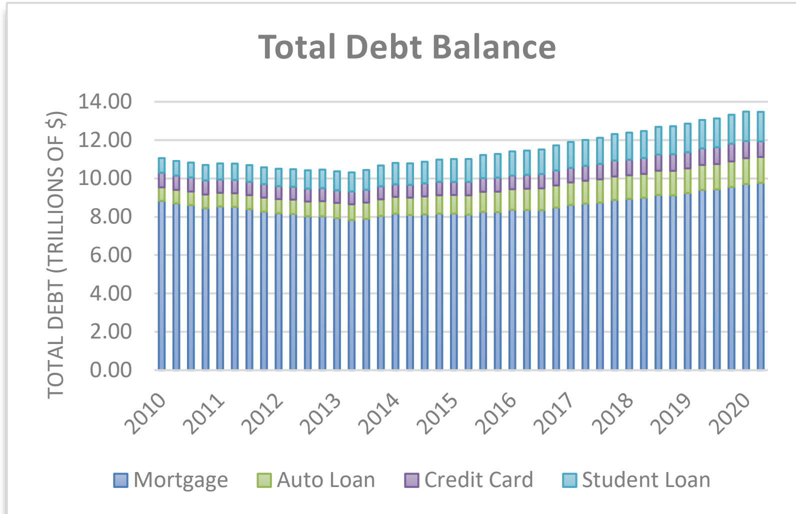

## Credit Card Balances

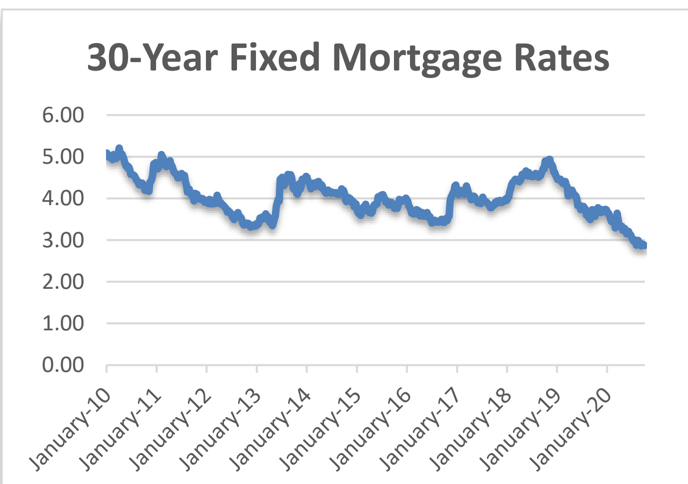



Since the early stages of the pandemic Americans have been hesitant to rely on credit card debt. There was a spike in the personal savings rate during this period most likely attributable to federal stimulus. (Moody's Analytics; CNN Business, 2020)

## 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 However, total household debt declines for the first time since 2014 to a total of $14.27 trillion. Total household debt dropped 0.2% in 2020 Q2, compared to a 1.1% increase in 2020 Q1. In this quarter, balances climbed by 0.7% on mortgages and 0.1% on student loans, while balances dropped by 0.2% on auto loans and 8.5% on credit cards. (Federal Reserve Bank of New York, 2020)




## Mortgage Rates

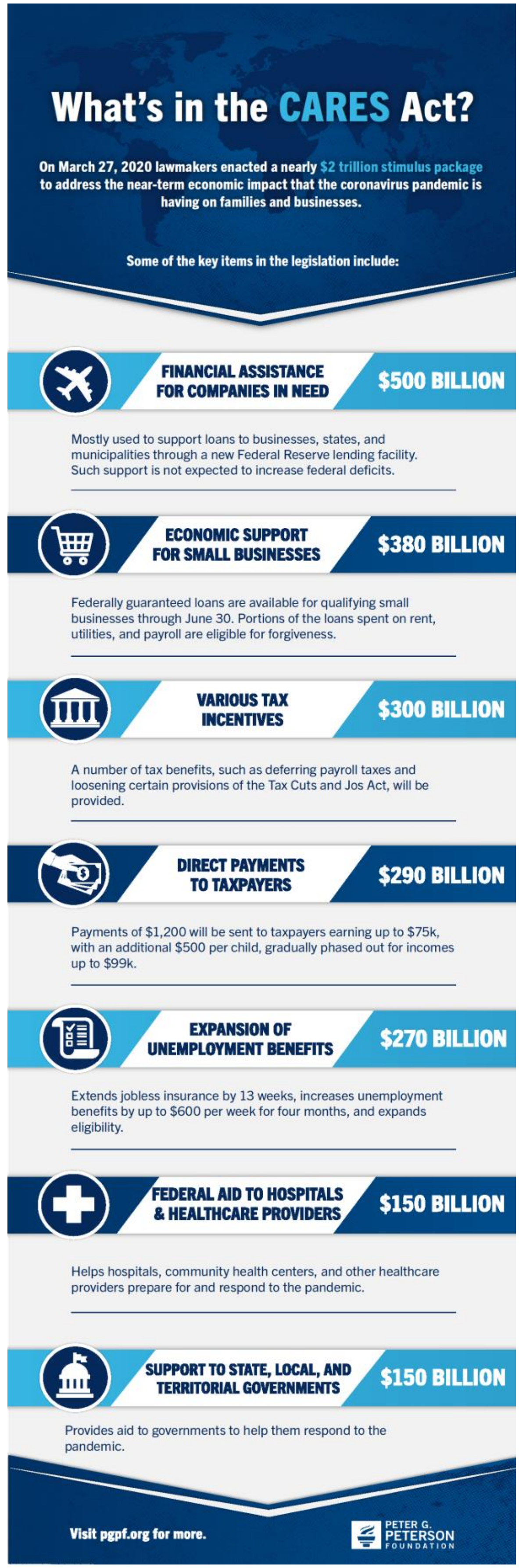
Mortgage rates have dropped since 2009 following the financial crisis. Mortgage rates topped out at over 6% in the early-to-mid 2000's but dropped to historic lows in the last 10 years and have remained at that level. Mortgage Rates slightly fell from 2.90% in late September to 2.81% at the end of October. Rates have generally been in decline since November 2018 Thirty year rates have not hit 6% since 2008, and it remains to be seen when that could happen again. (Freddie Mac, 2020)

## Economic Reports and Forecast: United States

The longest bull market and economic expansion in U.S. history ended in 2020. **(Reagan, 2020)** In the second quarter many non-essential businesses were closed by state governors to combat the spread of the Covid-19 pandemic. Federal stimulus provided through the CAREs Act added unemployment benefits, direct payments to citizens and forgivable loans to help businesses maintain payroll expenses. **(Peter G Peterson Foundation, 2020)**

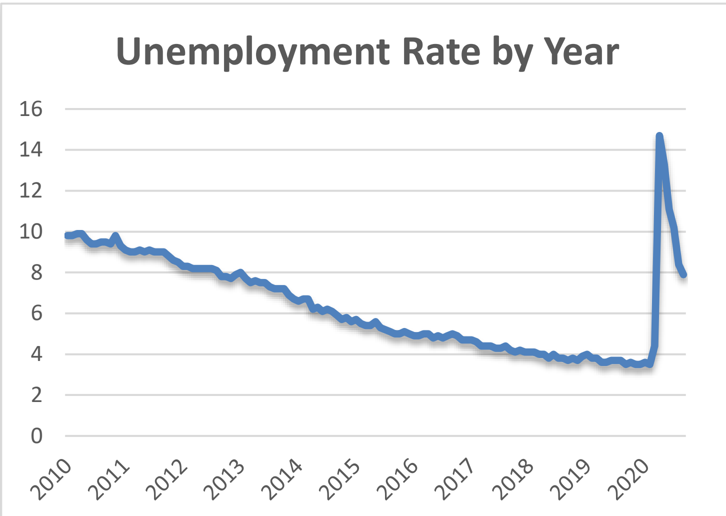
During the 2nd quarter of the year job losses and economic decline peaked at the highest levels in recorded history. Recovery of jobs and economic activity began in the 3rd quarter but have not made up for their initial declines. Gross Domestic Product (GDP) posted two consecutive quarters of records. The 2nd quarter of 2020 was the largest quarterly decline and the 3rd quarter was the largest quarterly increase on record.

The stimulus programs from the CAREs act were distributed and there were almost immediate calls for further federal support. Many believe the need for stimulus to support recovery outweighs any deficit concerns in the short term. **(Hansen, 2020)**



## Unemployment Rate

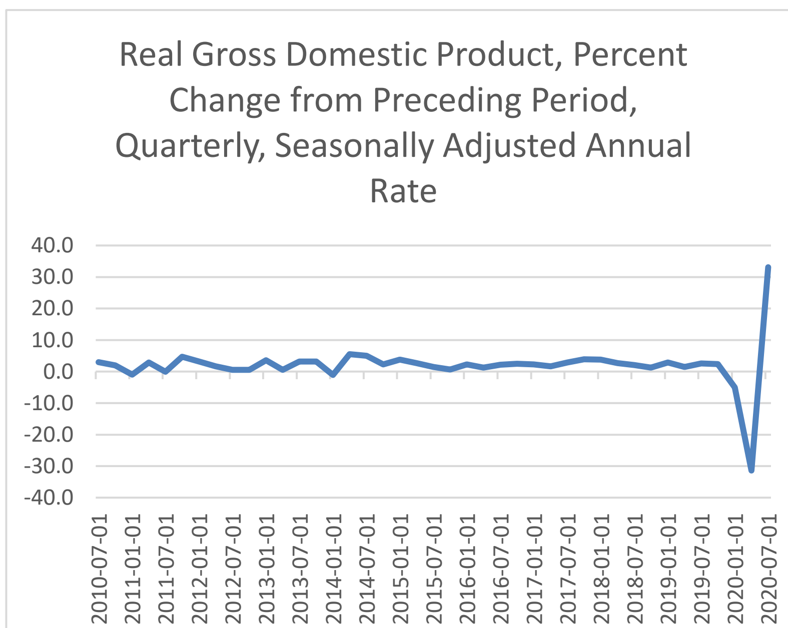
The unemployment rate has dropped consistently since 2009 as the economy moved further away from the "great recession." This number peaked at 10% in late 2009 as the United States was in the early stages of economic recovery, and as of September 2019 that number sat at 3.5%, signaling a healthy workforce. The unemployment rate decreased 50 basis points from 8.4% in August to 7.9% in September. This is largely due to the continued partial reopening of businesses across the country following months of quarantine. With some states opting to slow their reopening plans due to spikes in COVID-19, it remains to be seen how long it takes for unemployment and the economy as a whole to return to pre-pandemic levels.




While this figure is more of a lagging indicator that echoes recent economic performance, it does back up the notion that the US economy has performed admirably pre-pandemic. (Bureau of Labor Statistics, 2020)

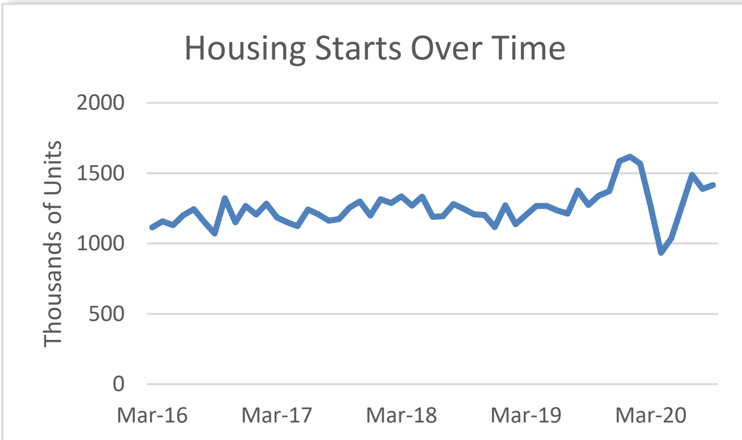
## Real GDP

Real GDP growth is another lagging indicator that does not predict future economic performance but it proves how well the US economy has performed in the lookback period. In the second quarter of 2020, real GDP decreased 31.4 percent. Real GDP increased at an annual rate of 33.1 percent in the third quarter of 2020 as efforts continued to reopen businesses and resume activities that were postponed or restricted due to COVID-19.
(Federal Reserve Bank of St. Louis, 2020)



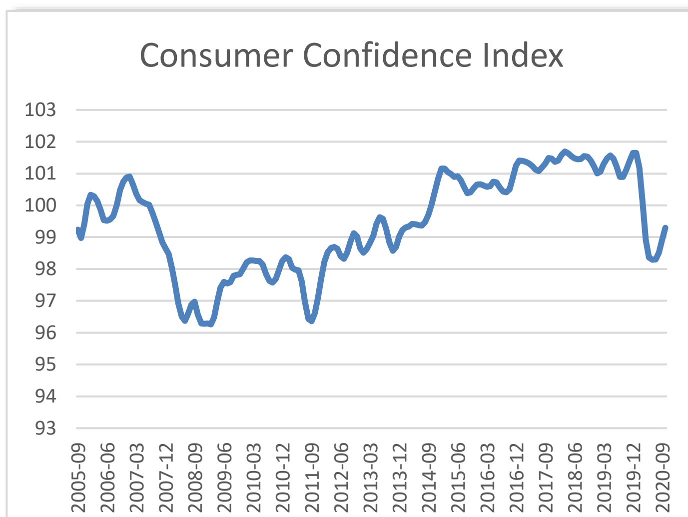
## Housing Starts

Housing starts is a good leading indicator because it shows how real estate developers feel about consumer spending habits in the near future. A rising housing starts number is a sign of increasing confidence and this is mirrored in this chart here. Consumer spending and confidence have been high in recent years, and homes were built accordingly. The number of housing starts increased from 1,388,000 in August to 1,415,000 in September (seasonally adjusted) after taking a significant pause at the start of the pandemic. Some parts of the country experienced construction freezes as government officials attempted to curb COVID-19 from spreading, which may have affected the level of housing starts to a degree. Consumer demand for new homes may also come into question in the present and future, as many people remain unemployed and lose their ability to pay for a new residence. However, low mortgage rates may encourage other consumers to buy homes in the coming months**.**
(Federal Reserve Bank of St. Louis, 2020)




## Consumer Confidence Index

The Consumer Confidence Index has steadily been rising in the 10 years following the "great recession." As the economy recovered during this time frame, consumers' confidence increased with improved performance and conditions. In 2019, the consumer confidence index fluctuated 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. During 2020, the pandemic dropped the index below 100 where it has stayed. (Organisation for Economic Co-operation and Development, 2020)




*OECD (2020), Consumer confidence index (CCI) (indicator). doi: 10.1787/46434d78-en (Accessed on 16 November 2020)*

# Economic Reports and Forecasts: State of Texas

## Overview

The state's unemployment rate remains nearly double what it was at the start of the year, and more than 3.7 million Texans have filed for unemployment relief since mid-March. On August 6, the Federal Reserve Bank of Dallas said the state will recover some of the lost jobs during the rest of the year, "but not enough to overcome the sharp declines in March and April." (Ferman, 2020)

**Unemployment Claims**

**3.7 million**

As of October 24, 3.7 million Texans have filed for unemployment relief since mid-March

**Unemployment Rate**

**8.3%**

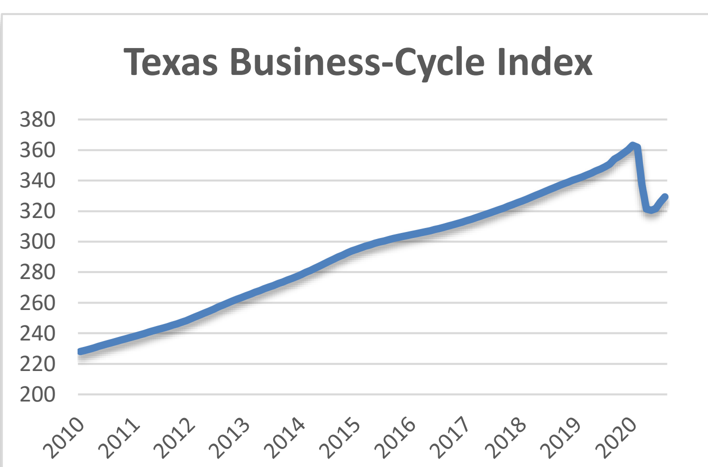
Texas' unemployment rate was 8.3% in September, up from 3.5% in September 2019

**Sales Tax Revenues**

**6.1%**

In September, Texas' sales tax revenues were down 6.1% from September 2019

Initial unemployment claims have been falling but continue to remain elevated from pre-pandemic levels. The decreased sales tax collection and lower state royalties due to current oil prices are likely to present challenges for the 2021 Texas Legislative Session. (Ferman, 2020)

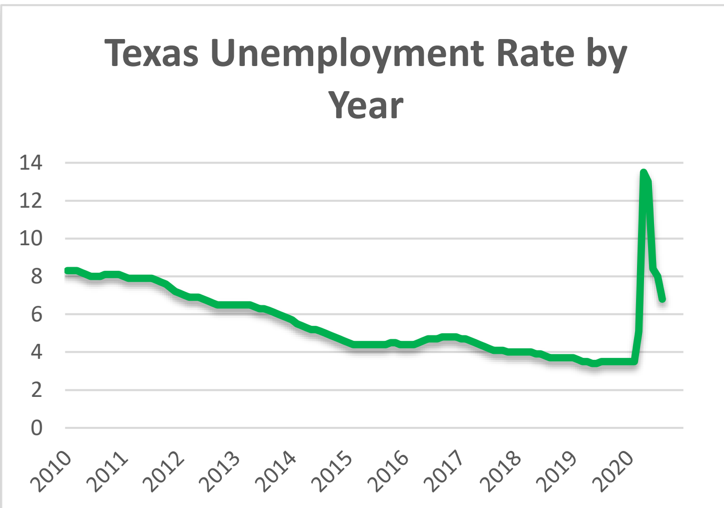



### Texas Business-Cycle Index

Some of the OCCC licensees operate out of sync or against the normal business cycle, so when the economy is not doing so well, more people need loans and bring business to licensees. The economy has been doing well over the last 10 years. The shock the pandemic caused to the Texas economy did not increase borrowing in the short term but the length of the pandemic and downturn in economic activity is not over. (Federal Reserve Bank of Dallas, 2020)

## Texas Unemployment Rate

The unemployment rate in Texas peaked in late 2009/early 2010 as the state, and country as a whole, struggled to pull itself out of the "great recession." The Texas unemployment rate then fared better than the United States unemployment rate as whole over the last 10 pre-pandemic years, with the state rate topping out at 8.3% and the national rate peaked at about 9.9%. In April of 2020 the Texas unemployment rate stood at 13.5% while the national rate was 14.7%. As of September 2020, the Texas rate of 8.3% was slightly underperforming the national rate of 7.9%. (Bureau of Labor Statistics, 2020) Right now, the quick control of Covid through a vaccine is the greatest impacting factor on the state and national economy. Texas counts on the energy industry as a large employer and reduced economic activity is multiplying the effects on Texas.



## Reporting Requirements

The report has been prepared in response to and fulfills certain constitutional, statutory, and administrative regulation requirements.[10]

**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.

[10] Sec.50(s), Art XVI, Texas Constitution
Texas Finance Code §393.627
Texas Finance Code §342.559
7 Texas Administrative Code §85.502

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