2018 Report on Availability, Quality, and Pricing of Certain Financial Services and Consumer Loan Products

12/1/2018

Page intentionally left blank

Introduction

The Office of Consumer Credit Commissioner (OCCC) maintains regulatory oversight over segments of the consumer-credit marketplace in Texas. Most non-depository lenders, non-real estate lenders and small segments of the home equity industry 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. This report highlights six of the most common credit transactions that Texas consumers received from OCCC licensees in 2017 and lists general lower-cost alternatives to those products. The report is organized as follows:

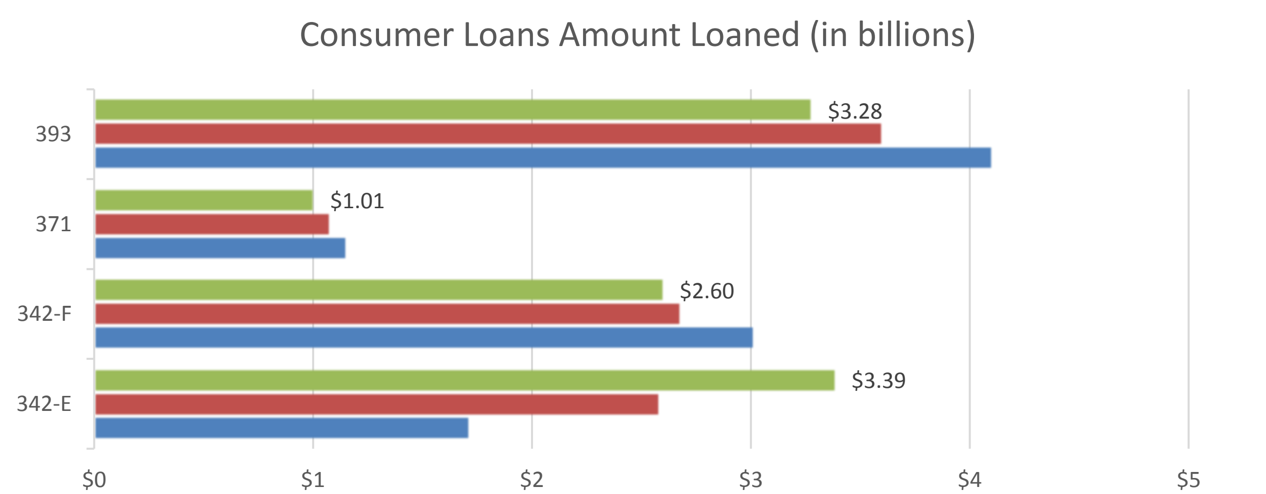
Of the six types of consumer credit listed above, the OCCC possesses exclusive jurisdiction over pawn loans, and annual report data should reflect trends in the entire industry. Home equity loans are common products offered by depository institutions and other mortgage lenders not regulated by the OCCC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

As shown in Figure 1, the OCCC licensed lenders and financial service providers profiled in this report made **17,452,718** loans in 2017. This number does not reflect the number of borrowers as they may take out several loans during a year by refinancing an original loan.

Figure 1:

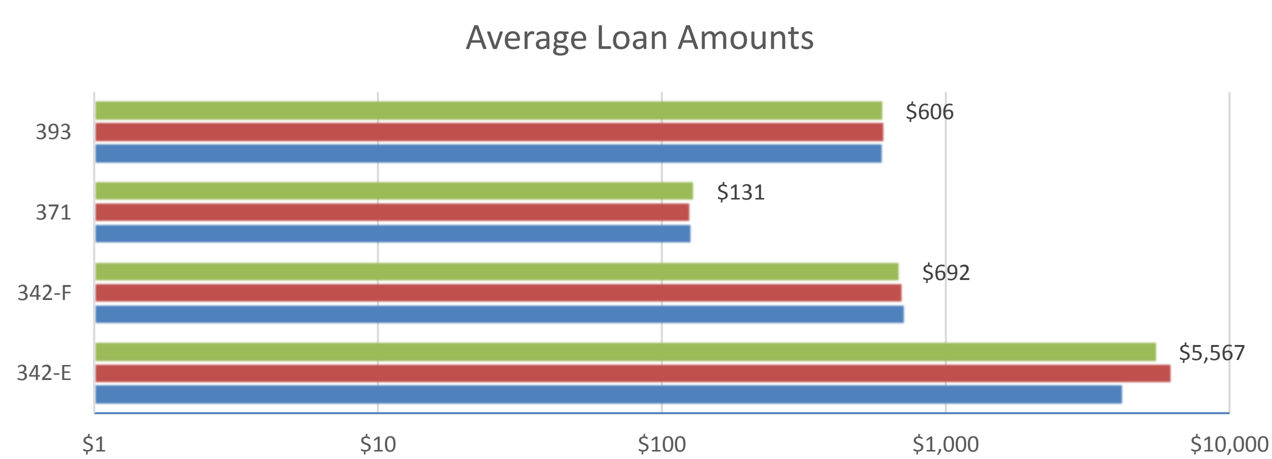
CONSUMER LOANS MADE	2017	2016	2015
Personal/Secured Loans (342-E)	608,371	412,786	407,244
Small Installment/Signature Loans (342-F)	3,758,774	3,783,125	4,167,450
Pawn Loans (371)	7,674,390	8,539,593	9,027,201
Credit Access Businesses (393)	5,411,183	5,898,326	6,786,025
Total	**17,452,718**	**18,633,830**	**20,389,935**

Figure 2:



	342-E	342-F	371	393
2017	$3,387,076,267	$2,602,080,594	$1,005,695,472	$3,278,414,020
2016	$2,583,684,922	$2,682,241,667	$1,084,037,541	$3,600,596,352
2015	$1,717,205,663	$3,016,541,921	$1,156,123,635	$4,104,203,472

Figure 3:



	342-E	342-F	371	393
2017	$5,567	$692	$131	$606
2016	$6,259	$709	$127	$610
2015	$4,217	$724	$128	$605

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. With a home equity line of credit (HELOC), the borrower is provided a draw period and a credit limit.

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

Type of Customer

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

Typical Rates

Home equity loans are generally the least expensive loan option offered by OCCC regulated lenders. Lenders are able to offer lower interest rates because the borrower's home is used as security. Home equity loans typically have a fixed rate whereas HELOCs use adjustable interest rates. Lenders may charge up to 18% in interest, but the rates are generally set similar to other mortgage products.[1] Non-interest closing costs are limited to 2% of the original principal balance of the home equity loan.[2] 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 5.95**%**)
	Closing costs may not exceed 2% of the loan[2]
	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)

[1] Bankrate, Current Home Equity Interest Rates, available at http://www.bankrate.com/finance/home-equity/current-interest-rates.aspx Retrieved 10/29/2018.

[2] 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.

2017 Home Equity Lending Report

Data contained in this report is reported on a calendar year basis and reflects data through CY 2017. Data in this report only includes information reported by OCCC licensees and may not reflect data or trends for the mortgage industry as a whole.

Section 50(s), Article XVI of the Texas Constitution requires that home equity lending data be reported. Additionally, Texas Finance Code §11.305 creates a responsibility for research on the availability, quality, and prices of financial services. Mortgage activity has long been used by economists as an economic indicator. This section presents data on mortgage activity conducted by lenders licensed by the Office of Consumer Credit Commissioner (OCCC), including information about home equity and Texas Finance Code Chapter 342, Subchapter G (second-lien mortgage) loans. Home equity loans fall into two broad categories: second mortgage and first mortgage. A first-lien home equity loan allows a consumer to refinance an existing mortgage and receive cash (commonly called a 'Cash Out Refinance'). A second-lien home equity loan typically is made at a higher interest rate than a first-lien transaction. Most 342.G loans are typically home improvement or purchase money loans. Secondary mortgage loans (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. Information on each of these categories is provided in the following data tables (*Figures 4-6*). 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	2017	2016	2015	2014	2013
1st Lien Home Equity Loans	14,326	12,294	10,486	7,916	7,902
Total Dollar Amount Loaned	$2,642,734,493	$2,395,184,911	$1,880,161,381	$1,247,699,984	$1,318,968,869
Average Loan Amount	$184,471	$194,826	$179,302	$157,617	$166,916
2nd Lien Home Equity Loans[3]	-	-	69	84	99
Total Dollar Amount Loaned	-	-	$7,278,703	$9,794,487	$2,957,603
Average Loan Amount	-	-	$105,488	$116,601	$29,875
342.G Loans[3]	-	-	86	83	2,244
Total Dollar Amount Loaned	-	-	$8,258,489	$5,726,317	$121,924,122
Average Loan Amount	-	-	$96,029	$68,992	$54,175

Figure 5:

LOANS BROKERED	2017	2016	2015	2014	2013
1st Lien Home Equity Loans[3]	66	-	36	38	118
Total Dollar Amount Loaned	$15,164,997	-	$6,695,767	$15,198,621	$29,861,758
Average Loan Amount	$229,773	-	$185,994	$399,964	$253,066
2nd Lien Home Equity Loans[3]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-
342.G Loans[3]	-	-	-	482	603
Total Dollar Amount Loaned	-	-	-	$28,726,643	$40,801,887
Average Loan Amount	-	-	-	$59,599	$67,665

Figure 6:

LOANS RECEIVABLE	2017	2016	2015	2014	2013
1st Lien Home Equity Loans	16,494	20,775	35,818	23,787	29,216
Total Dollar Amount Loaned	$1,266,599,503	$1,475,281,981	$1,924,839,808	$1,380,126,187	$1,989,944,193
Average Loan Amount	$76,792	$71,012	$53,739	$58,020	$68,111
2nd Lien Home Equity Loans	1,016	15,199	4,202	4,252	4,931
Total Dollar Amount Loaned	$23,464,395	$459,501,786	$90,021,578	$93,698,291	$110,595,057
Average Loan Amount	$23,095	$30,232	$21,424	$22,036	$22,429
342.G Loans	6,278	6,420	8,835	3,122	6,877
Total Dollar Amount Loaned	$290,702,903	$281,972,192	$230,200,880	$107,701,710	$208,361,139
Average Loan Amount	$46,305	$43,921	$26,056	$34,498	$30,298
Number of Companies Reporting	**810**	**802**	**778**	**777**	**778**

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

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

Overview

In 2017, 608,371 personal/secured loans were issued under Chapter 342-E. These loans offer higher loan amounts and lower annual interest rates compared to signature and small installment loans. The cost to refinance these obligations is also typically lower than alternative products. Collateral for 342-E loans is not required; however, lenders may choose to request security from borrowers. Loan applications are normally processed and closed in the same day. Subchapter E loans are typically more affordable than subchapter F or payday loans. Lenders are typically located in business districts and suburban areas. 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 2017, 3,758,774 small installment loans 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: $1,400
	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.

Regulated Lender Consolidated Volume Report
Calendar Year 2017

Figure 7:

Loans Made	Number of Loans	Dollar Value of Loans
Chapter 342-E	608,371	3,387,076,267
Chapter 342-F	3,758,774	2,602,080,594
Chapter 342 G – Secondary Mortgages[4]		
Home Equity Loans – 1st Lien	14,326	2,642,734,493
Home Equity Loans – 2nd Lien[4]		
Chapter 346 – Revolving Credit Accounts	4,031	14,349,686
Chapter 348 – Motor Vehicle Sales Finance	227,058	6,409,919,159
Chapter 345 – Retail Installment Sales/Contracts	1,041,911	549,719,558
Chapter 347 Loans – Manufactured Housing	6,613	399,924,027

Figure 8:

Loans Receivables	Number of Loans	Dollar Value of Loans
Chapter 342-E	732,942	3,245,278,444
Chapter 342-F	1,555,025	1,032,242,377
Chapter 342 G – Secondary Mortgages	6,278	290,702,903
Home Equity Loans – 1st Lien	16,494	1,266,599,503
Home Equity Loans – 2nd Lien	1,016	23,464,395
Chapter 346 – Revolving Credit Accounts	73,947	115,505,391
Chapter 348 – Motor Vehicle Sales Finance	505,308	10,285,744,785
Chapter 345 – Retail Installment Sales/Contracts	2,839,833	1,148,480,188
Chapter 347 Loans – Manufactured Housing	36,421	1,667,730,337

Number of Companies Reporting: 810

[4] 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. The creditor may file suit against the borrower for non-payment, and some may report the repayment history to consumer reporting agencies. A borrower may also face attorney fees, repossession fees, and court costs added to the loan balance.

Alternatives

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

Credit Access Business (CAB) Annual Data Report, CY 2017

Data contained within the below summary represents aggregated statewide annual data reported by credit access businesses (CABs) ***as of 3/26/2018.*** *The OCCC reviewed the data for reasonableness. The OCCC continues to receive amended or corrected data submissions and periodic revisions are published when significant. The OCCC will request verification from the licensee of any data that is found to be questionable or unreasonable.*

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

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

Data Limitations

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

The data presented in the following summary represents CAB submissions via electronic and manual reporting, to include any corrected data, of annual activity as of March 26, 2018.

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 2017 that did not refinance.	647,793	670,716	38,006	57,818
2	Number of refinances of extensions of consumer credit before paid in full or otherwise closed for reduced payoff in the report year.[5]				
2A	Refinancing 1 time	168,197	69,011	12,953	9,327
2B	Refinancing 2-4 times	252,853	49,336	21,873	6,874
2C	Refinancing 5-6 times	37,683	5,790	8,794	1,445
2D	Refinancing 7-10 times	36,540	3,281	9,808	1,249
2E	Refinancing more than 10 times	20,340	1,296	10,748	1,751
3	Total amount of CAB fees charged by the CAB on all CAB contracts during 2017.	$330,417,420	$949,896,262	$136,666,598	$234,801,022
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.	390,316	631,515	90,846	60,074

(Table continued on next page)

[5] 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 2017.	549,954	732,695	129,415	93,112
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	338,067	219,963	6,489	8,439
6B	$251 - $500	559,996	345,895	28,323	33,454
6C	$501 - $750	150,743	177,383	27,944	17,816
6D	$751 - $1000	97,765	133,898	19,822	20,056
6E	$1001 - $1500	49,253	67,669	30,709	15,353
6F	$1501 - $2000	9,685	28,666	19,187	8,996
6G	$2,001 - $2,500	23	4,876	14,059	3,917
6H	$2,501 - $3,000	12	4,253	8,081	2,932
6I	$3,001 - $5,000	6	22	15,540	3,878
6J	$5,001 - $7,500	0	0	5,686	898
6K	Over $7,500	0	0	2,728	560
7	Total dollar amount of new extensions of consumer credit during the report year for each of the following loan ranges.				
7A	$0 - $250	$61,636,177	$38,313,269	$1,248,044	$1,581,315
7B	$251 - $500	$226,123,703	$135,122,364	$11,340,128	$13,730,069
7C	$501 - $750	$94,639,780	$112,636,212	$17,285,538	$11,190,720
7D	$751 - $1000	$88,623,756	$117,759,554	$17,518,371	$18,596,908
7E	$1001 - $1500	$62,926,865	$87,549,660	$36,760,093	$20,042,006
7F	$1501 - $2000	$16,941,162	$52,737,077	$32,608,556	$16,738,157
7G	$2,001 - $2,500	$53,684	$11,085,397	$30,601,172	$9,128,268
7H	$2,501 - $3,000	$34,991	$12,373,383	$21,830,421	$8,430,303
7I	$3,001 - $5,000	$23,757	$79,806	$57,490,911	$15,423,856
7J	$5,001 - $7,500	$0	$0	$32,804,940	$5,461,177
7K	Over $7,500	$0	$0	$25,446,244	$6,186,372
8	Total number of refinances on extensions of consumer credit originated in 2017.	1,511,874	221,232	336,753	56,993
9	Total dollar amount of extensions of consumer credit for 2017.	$551,003,931	$567,656,822	$284,934,478	$126,509,160
10	Total dollar amount of refinances for 2017.	$846,647,697	$208,653,553	$622,908,720	$70,099,659

Number of locations reporting activity in each category:	**984**	**1,004**	**1,174**	**797**
			Total Number of Companies Reporting:	**2,193**

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 $210
	180% for loans up to $1,400
	30% for loans for up to $2,100
	12% for loans up to $17,500
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.

Pawn Industry Consolidated Volume Report by Calendar Year

Figure 10:

Loans Made	Number of Loans	Dollar Value of Loans	Average Loan
2017	7,674,390	$1,005,695,472	$131
2016	8,539,593	$1,084,037,541	$127
2015	9,027,201	$1,156,123,635	$128

Figure 11:

Loans Outstanding	Number of Loans	Dollar Value of Loans	Average Loan
2017	1,653,975	$268,603,076	$162
2016	2,170,763	$343,677,720	$158
2015	1,939,976	$288,680,354	$149

Number of Companies Reporting in CY 2017: 1,367

Number of Companies Reporting in CY 2016: 1,488

Number of Companies Reporting in CY 2015: 1,564

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 business 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

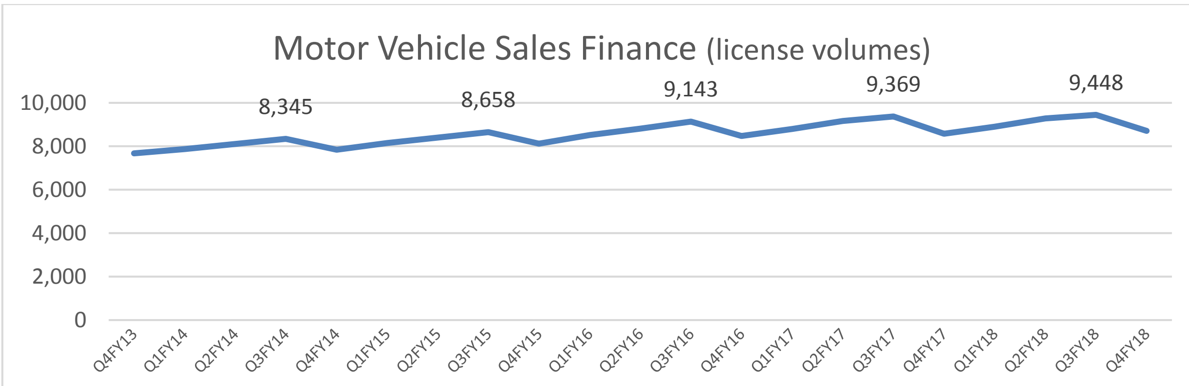
A buyer risks repossession for late payment, failing to maintain insurance, filing for bankruptcy, or any other provisions of default as listed in the contract. In addition to losing the vehicle, a repossession can negatively impact a consumer's credit history. The buyer might be required to pay the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

Alternatives

Instead of obtaining financing through a dealership, perspective 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, they buyer can provide the loan approval to the dealer to draft up to the approved amount.

Motor Vehicle Sales Industry Data

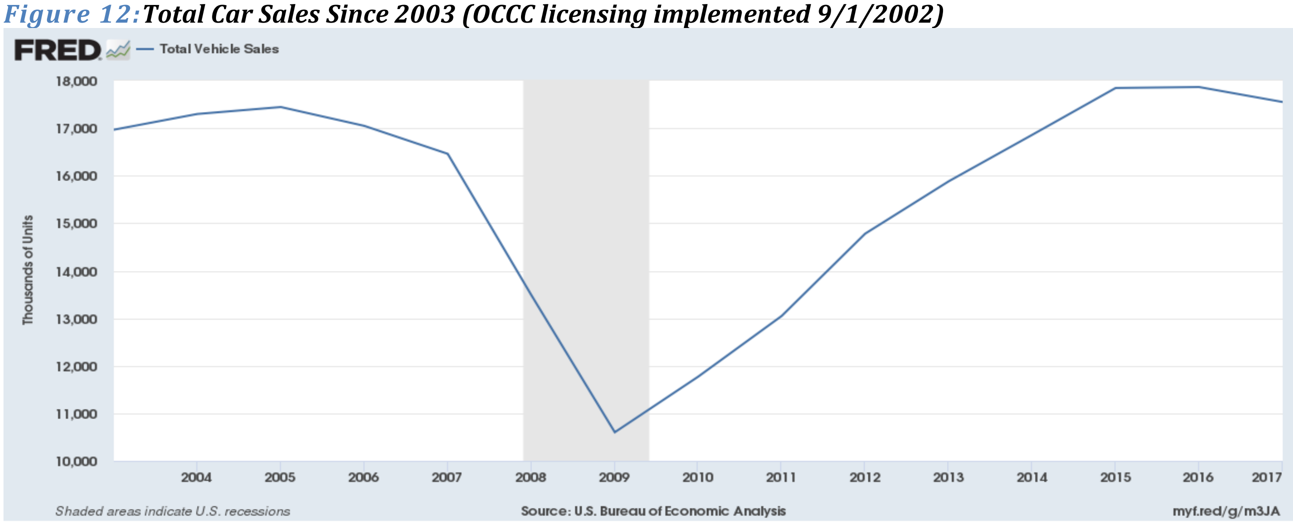
The OCCC does not currently collect annual report data from motor vehicle sales finance dealers who hold a chapter 348 license. Industry monitoring is primarily completed through examinations, stakeholder meetings and the change in license levels. The highest licensing levels occur in the third fiscal 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 below 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 (FY18) saw the smallest increase of 0.84% licensee growth.



National Trends

United States motor vehicle sales increased every year from 2009 to 2016 but new economic factors will influence how this trend will fare through 2018 and beyond. Sales took a slight dip from 2016 to 2017 (from 17.86 million to 17.55 million)[6] indicating a possible market top. Current economic factors such as the 2017 tax cuts will compete against rising interest rates and potential tariffs in influencing futures sales.

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



[6] U.S. Bureau of Economic Analysis, Total Vehicle Sales [TOTALNSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/TOTALNSA, November 14, 2018.

Repayment Terms

Car repayment terms have been changing slowly over the past 10 years. The average length for motor vehicle financing currently sits at about 69 months [7], with longer-term loans (6+ years) more common than ever. While the average term is at 69 months, the most common term is for 72 months with 84-month terms also frequently used. Ten years ago, the most common new-car financing term was 60 months [8]. The CFPB also found that 42% of auto financing made in the last year carried a payback term of six years or more, compared to just 26% in 2009 [9]. At the same time, the average new-car monthly payment hit an all-time high in August of 2018, topping out at $531 [8].

Figure 13 [10]***:***

[7] CNBC, A $523 monthly payment is the new standard for car buyers, https://www.cnbc.com/2018/05/31/a-523-monthly-payment-is-the-new-standard-for-car-buyers.html

[8] Edmunds, How Long Should a Car Loan Be, https://www.edmunds.com/car-loan/how-long-should-my-car-loan-be.html

[9] CFPB, CFPB Finds Sharp Increase In Riskier Longer-Term Auto Loans, https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-finds-sharp-increase-riskier-longer-term-auto-loans/

[10] Bloomberg, U.S. Average Auto Loan Length Balloons to All-Time High, https://www.bloomberg.com/news/articles/2017-07-05/u-s-average-auto-loan-length-balloons-to-all-time-high

Availability Gap

The largest gap between average loan offerings is between 342-E and title loans. Although lenders make 342-E loans a 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 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 $1,400 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:

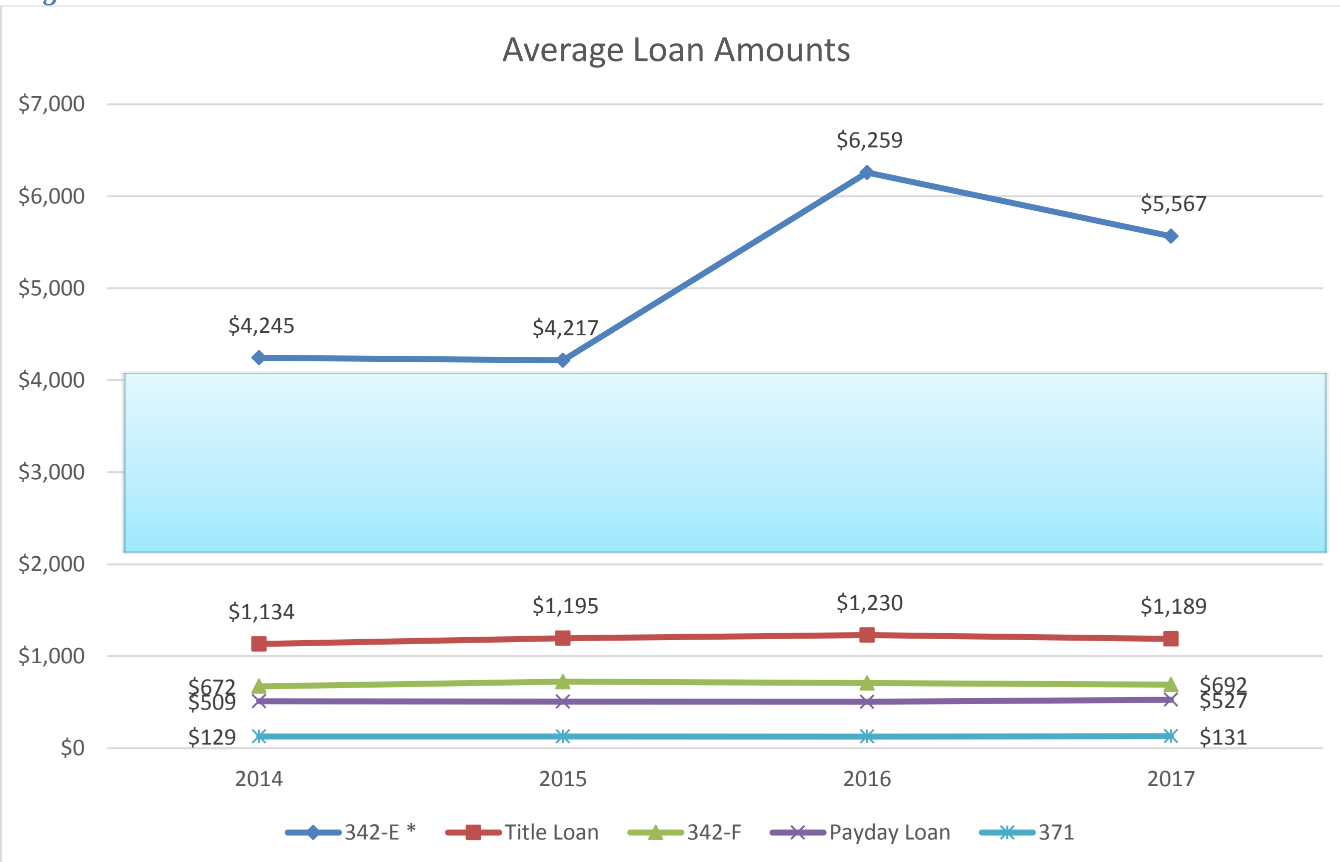
- an add-on interest rate up to 18% for the loan amount up to $2,100 and 8% for the amount over $2,100 up to $17,500,
- a simple interest rate up to 18%, or
- a three-tiered interest rate up to 30% for the loan amount up to $3,500, 24% for the amount over $3,500 up to $7,350, and 18% for the loan amount over $7,350 up to $17,500.

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 $1,400, 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 has found that only 36 companies made loans under both subchapters in 2017.

Figure 12 shows average loan amounts for 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:

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

Approximately one-third of Texas consumers have reported using non-bank borrowing such as the credit products profiled in this report (auto title loans, payday loans, pawnshops).[11] Non-bank borrowing typically involves higher interest rates and fees compared to traditional borrowing; however, these high-cost alternatives may seem to be the only option to individuals who are unable to obtain traditional forms of credit. In an effort to assist individuals who frequent non-bank borrowing, lower-cost credit products have emerged in the marketplace. Non-profit and for-profit groups alike are providing lower-cost alternatives specifically designed for individuals who are not able to obtain traditional forms of credit. In addition, numerous organizations are promoting financial literacy to increase the financial capability of Texas consumers. This report does not provide an inclusive list of all the available options but instead profiles the more commonly known lower-cost lending models available to users of high-cost lending products.

Employer-based loan programs

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

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

Low-cost lending programs

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

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

Financial literacy

Across the state of Texas, numerous school systems, social service programs and nonprofit organizations provide financial capability and education services. These programs provide education to a wide variety of citizens, ranging from the youth to the elderly. The focus of these programs is to provide participants with the necessary behavioral habits and skills to enable them to (1) make informed financial decisions (2) utilize basic financial products to best fit a specific set of circumstances, and (3) to best plan for their personal financial future. Often times, course curriculums include topics such as building or rebuilding credit, budgeting monthly expenses, paying for big purchases, planning for retirement, and savings. One topic that is heavily emphasized is the importance of savings to prepare for emergency expenses, as most Texans are unprepared to meet a financial emergency of $500.[12]

[11] Texas Survey Data. Finra Investor Education Foundation. Managing Financial Products 2015, http://www.usfinancialcapability.org/results.php?region=TX

[12] https://www.forbes.com/sites/maggiemcgrath/2016/01/06/63-of-americans-dont-have-enough-savings-to-cover-a-500-emergency/#83023504e0d9

During the 82nd Session in 2011, the Texas Legislature established the Texas Financial Education Endowment (TFEE) to support statewide financial capability and consumer credit building activities and programs. In October 2015, the Finance Commission awarded $249,000 in TFEE funds to eight organizations across the State for the 2016-17 grant cycle. Program activities for each grant cycle begin in January of even-numbered years and end in December of odd-numbered years. Since the program started, approximately $1.5 million has been awarded to support financial education activities across Texas.

Over the two-year grant term 2016-2017, grant recipients provided financial education services to 5,561 participants directly. A total of 69,434 hours of services were provided in order to reach over 60,500 Texas citizens. This figure includes direct participants and participants who were trained by trained participants of “Train-the-Trainer” Programs. Two Train-the-Trainer Programs were awarded funds for the 2016-17 (second) grant cycle: Texas Council on Economic Education (TCEE) and Texas State Affordable Housing Corporation (TSAHC.) These programs equip participants with the skills, tools and knowledge needed to provide financial education to others creating a multiplier effect. Additional details regarding program activity is available in the 2016-17 Impact Report .

In addition, the 2016-17 grant recipients utilized grant funds to implement new programs, increase participation, expand programs’ reach within communities, and support training for program staff in order to maintain the quality of service. The other six programs were focused on financial counseling and youth based education, which provided participants with the skills needed to lead to long-term, tangible improvements to financial health.

Reporting Requirements

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

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

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

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

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

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

(b)…

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

Distribution of Licensed Locations by Senate District

The distribution of licensed financial service providers by senatorial district is provided below pursuant to Texas Finance Code, Sec. 11.305. The table shows the number of licensed locations with the primary business designation. They are ordered from left to right: Small Consumer Loans (342-F), Personal Installment Loans (342-E), Pawn Loans (371), Secondary Mortgage Loans (342-G) & Home Equity Loans (A6), Motor Vehicle Sales Finance (348), Credit Access Businesses (393), and Property Tax Loans (351). Data as of **10/23/2018**.

Figure 13:

Senate District	342-F	342-E	371	342-G/A6	348	393	351	Total By District
1	136	26	61	3	308	128	0	**662**
2	42	31	46	2	253	56	0	**430**
3	101	13	53	0	225	71	0	**463**
4	34	29	31	0	211	47	2	**354**
5	72	13	45	1	199	53	0	**383**
6	91	89	82	0	538	68	0	**868**
7	16	19	32	2	174	55	2	**299**
8	17	24	9	15	174	42	2	**277**
9	30	26	57	4	379	69	2	**567**
10	34	24	71	3	303	65	2	**501**
11	50	25	57	1	179	64	0	**375**
12	12	19	24	7	184	52	4	**301**
13	49	40	52	3	245	52	2	**443**
14	34	32	57	3	202	50	22	**399**
15	45	39	58	1	292	63	3	**501**
16	16	46	34	16	428	65	13	**613**
17	29	32	43	5	216	51	2	**378**
18	104	6	37	0	195	42	1	**385**
19	159	28	42	0	293	45	1	**568**
20	164	28	72	1	342	101	3	**711**
21	183	21	61	1	302	64	0	**631**
22	85	18	53	0	322	62	0	**540**
23	56	52	57	1	431	57	1	**655**
24	68	13	61	1	236	49	0	**428**
25	36	23	30	4	203	42	4	**340**
26	119	36	70	1	324	76	15	**641**
27	239	35	53	2	363	85	1	**778**
28	114	20	40	0	280	55	0	**509**
29	152	36	48	1	284	67	2	**589**
30	84	16	55	0	271	61	0	**487**
31	93	13	37	1	291	47	0	**481**
Total by Type	**2,464**	**872**	**1,528**	**79**	**8,647**	**1,904**	**84**	**15,578**

Figure 14:

(Texas Legislative Council)