TEXAS OFFICE OF CONSUMER CREDIT COMMISSIONER

2019 Report on Availability, Quality, and Pricing of Certain Financial Services and Consumer Loan Products

12/1/2019

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Introduction

The Office of Consumer Credit Commissioner (OCCC) maintains regulatory oversight over several 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 2018 and lists general alternatives to those products.

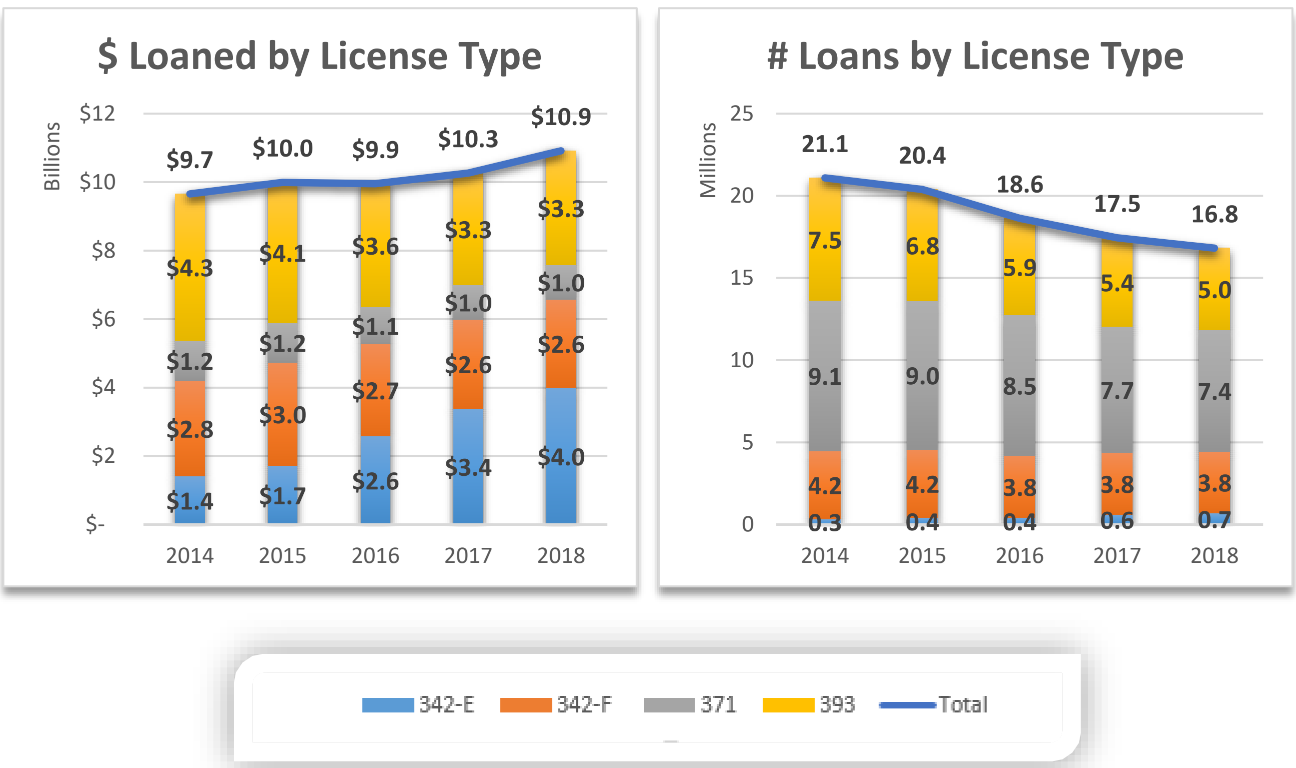
Industry (Statutory Provision)
Home Equity Loans - *Section 50(a)(6), Article XVI of the Texas Constitution*
Regulated Lenders -*Texas Finance Code (TFC) §342*
Large Installment Loans - *TFC §342 Subchapter E*
Small Installment Loans - *TFC §342 Subchapter F*
Credit Access Businesses/*Payday and Title Loans - TFC §393*
Pawn Loans - *TFC §371*
Motor Vehicle Sales Finance - *TFC §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 transact retail installment transactions, not loans. In addition, this report does not include consumer lending transactions that are made by non-depository institutions, most loans secured by real estate, or loans regulated by other federal or state agencies.

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 **16,815,661**[1] loans in 2018. This number does not reflect the number of borrowers as they may take out several loans during a year by refinancing an original loan.

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 current economic expansion. 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.



[1] *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.[2]

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.[3] In addition to interest, lenders may charge fees, including but not limited to, a credit report fee and an appraisal fee. These fees add to the overall cost of the home equity loan.

Allowable Charges	Interest Rates: up to 18% (current market rate 5.85%) (Bank Rate, 2019)
	Closing costs may not exceed 2% of the loan
	Late fees may apply
	Discount points are optional
Loan Terms	1-year prohibition on renewals
	Total loans may not exceed 80% of fair market value
	12-day waiting period on closing
	15-30 year repayment options common
	May be provided as a line of credit (HELOC)

[2] Preamble for 7 TAC §153.45

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

Default

The greatest risk the borrower faces is the foreclosure and loss of their homestead. The foreclosure must be performed through a judicial process or an expedited foreclosure procedure (Rule 736 Texas Rules of Civil Procedure). After foreclosure, the borrower does not face any recourse if the lender fails to recover the loan balance.

Alternatives

Low interest rates and flexible repayment terms make home equity loans advantageous to other types of borrowing. However, defaulting on this type of loan could end up in foreclosure posing a high risk to borrowers. Unsecured options such as personal loans, unsecured bank loans, credit cards, and peer-to-peer lending typically include higher interest rates, but are considered a less risky alternative for borrowers. Another alternative is a reverse mortgage available to homeowners 62 years and older.

2018 Home Equity Lending Report

Data contained in this report is reported on a calendar year basis and reflects data through CY 2018. 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	2018	2017	2016	2015	2014
1st Lien Home Equity Loans	15,612	14,326	12,294	10,486	7,916
Total Dollar Amount Loaned	$2,783,790,222	$2,642,734,493	$2,395,184,911	$1,880,161,381	$1,247,699,984
Average Loan Amount	$178,311	$184,471	$194,826	$179,302	$157,617
2nd Lien Home Equity Loans[4]	-	-	-	69	84
Total Dollar Amount Loaned	-	-	-	$7,278,703	$9,794,487
Average Loan Amount	-	-	-	$105,488	$116,601
342.G Loans[4]	-	-	-	86	83
Total Dollar Amount Loaned	-	-	-	$8,258,489	$5,726,317
Average Loan Amount	-	-	-	$96,029	$68,992

Figure 5:

LOANS BROKERED	2018	2017	2016	2015	2014
1st Lien Home Equity Loans[4]	36	66	-	36	38
Total Dollar Amount Loaned	$7,330,620	$15,164,997	-	$6,695,767	$15,198,621
Average Loan Amount	$203,628	$229,773	-	$185,994	$399,964
2nd Lien Home Equity Loans[4]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-
342.G Loans[4]	-	-	-	-	482
Total Dollar Amount Loaned	-	-	-	-	$28,726,643
Average Loan Amount	-	-	-	-	$59,599

Figure 6:

LOANS RECEIVABLE	2018	2017	2016	2015	2014
1st Lien Home Equity Loans	15,472	16,494	20,775	35,818	23,787
Total Dollar Amount Loaned	$1,279,891,075	$1,266,599,503	$1,475,281,981	$1,924,839,808	$1,380,126,187
Average Loan Amount	$82,723	$76,792	$71,012	$53,739	$58,020
2nd Lien Home Equity Loans	1,579	1,016	15,199	4,202	4,252
Total Dollar Amount Loaned	$43,989,976	$23,464,395	$459,501,786	$90,021,578	$93,698,291
Average Loan Amount	$27,859	$23,095	$30,232	$21,424	$22,036
342.G Loans	5,332	6,278	6,420	8,835	3,122
Total Dollar Amount Loaned	$271,577,094	$290,702,903	$281,972,192	$230,200,880	$107,701,710
Average Loan Amount	$50,933	$46,305	$43,921	$26,056	$34,498
Number of Companies Reporting	**781**	**810**	**802**	**778**	**777**

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

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

Overview

In 2018, 688,110 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 2018, 3,670,161 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: $1,420
	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

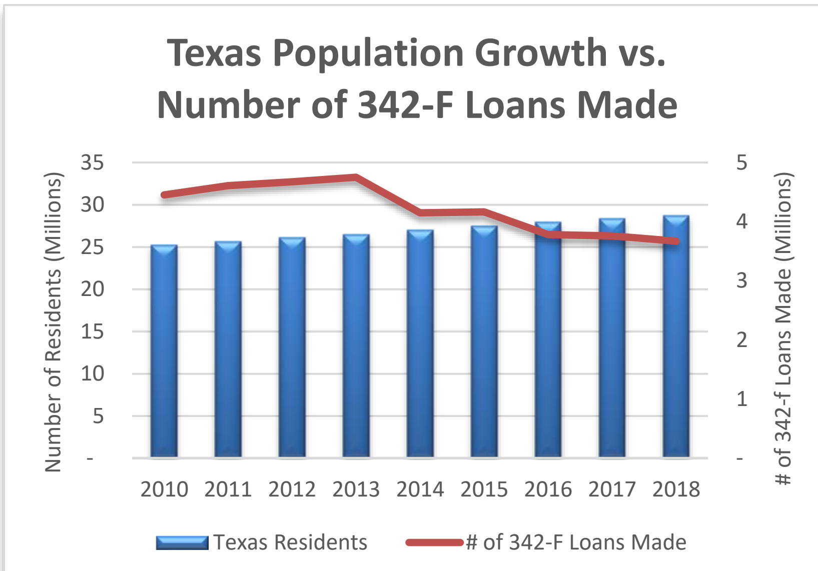
Borrowers utilizing secured loans risk losing their personal property, motor vehicle, or other security to the lender. The lender or third party debt collector may pursue the remaining deficiency balance after the collateral has been disposed of or the entire remaining outstanding balance of unsecured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



Regulated Lender Consolidated Volume Report
Calendar Year 2018

Figure 7:

Loans Made	Number of Loans	Dollar Value of Loans
Chapter 342-E	688,110	3,993,086,735
Chapter 342-F	3,670,161	2,585,452,057
Chapter 342 G – Secondary Mortgages[5]		
Home Equity Loans – 1st Lien	15,612	2,783,790,222
Home Equity Loans – 2nd Lien[5]		
Chapter 346 – Revolving Credit Accounts	4,419	23,263,550
Chapter 348 – Motor Vehicle Sales Finance	230,192	6,677,369,987
Chapter 345 – Retail Installment Sales/Contracts	2,233,894	2,825,079,942
Chapter 347 Loans – Manufactured Housing	8,057	536,417,513

Figure 8:

Loans Receivables	Number of Loans	Dollar Value of Loans
Chapter 342-E	525,105	3,403,917,969
Chapter 342-F	1,866,110	1,186,489,181
Chapter 342 G – Secondary Mortgages	5,332	271,577,094
Home Equity Loans – 1st Lien	15,472	1,279,891,075
Home Equity Loans – 2nd Lien	1,579	43,989,976
Chapter 346 – Revolving Credit Accounts	73,258	122,263,557
Chapter 348 – Motor Vehicle Sales Finance	637,072	12,436,113,787
Chapter 345 – Retail Installment Sales/Contracts	3,910,203	965,961,018
Chapter 347 Loans – Manufactured Housing	41,694	2,028,165,785

Number of Companies Reporting: 781

[5] 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

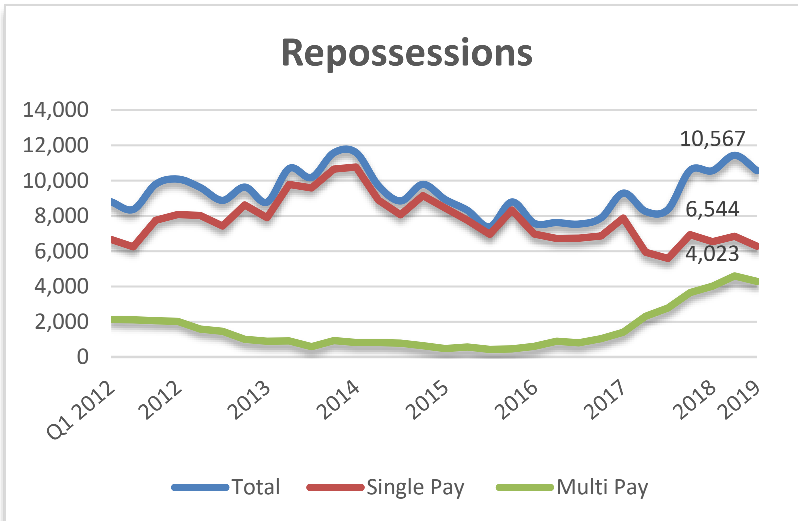
The majority of the loan cost is not capped. Fees charged to borrowers by the CAB typically depend on the amount of the loan and the length of the term. CAB agreement terms are limited to 180 days or less. The entire loan may be due in a matter of days, or the loan may be due over several equal payments. 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 totaled 8,000 to 12,000. Total repossessions in Q4 2018 and the first two quarters of 2019 approached the historical highs reached in 2014 of around 11,000 repossessions per quarter. The difference between the two time periods is that a much higher percentage of repossessions are occurring in the multiple payment title loan sector.



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 2018

Data contained within the below summary represents aggregated statewide annual data reported by credit access businesses (CABs) ***as of 3/18/2019.*** *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 18, 2019.

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 2018 that did not refinance.	576,060	605,119	39,882	81,787
2	Number of refinances of extensions of consumer credit before paid in full or otherwise closed for reduced payoff in the report year.[6]				
2A	Refinancing 1 time	132,940	81,260	10,526	15,480
2B	Refinancing 2-4 times	199,731	61,529	18,004	9,410
2C	Refinancing 5-6 times	30,155	8,656	7,043	1,132
2D	Refinancing 7-10 times	27,332	5,718	7,443	963
2E	Refinancing more than 10 times	60,178	5,184	14,954	1,233
3	Total amount of CAB fees charged by the CAB on all CAB contracts during 2018.	$259,825,258	$1,145,451,186	$116,107,651	$336,879,935
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.	472,183	662,460	88,289	60,721

(Table continued on next page)

[6] 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 2018.	422,528	838,262	100,014	144,408
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	269,982	228,265	5,295	8,259
6B	$251 - $500	446,174	400,432	21,640	36,705
6C	$501 - $750	117,676	219,670	20,944	29,623
6D	$751 - $1000	79,956	165,681	15,962	28,328
6E	$1001 - $1500	40,115	92,660	25,476	30,314
6F	$1501 - $2000	10,072	37,865	15,984	17,041
6G	$2,001 - $2,500	12	6,410	12,273	9,337
6H	$2,501 - $3,000	8	5,361	7,930	5,943
6I	$3,001 - $5,000	15	37	15,690	8,688
6J	$5,001 - $7,500	0	3	6,571	2,511
6K	Over $7,500	3	0	3,554	1,224
7	Total dollar amount of new extensions of consumer credit during the report year for each of the following loan ranges.				
7A	$0 - $250	$48,574,328	$39,709,741	$1,003,630	$1,587,947
7B	$251 - $500	$183,611,271	$154,643,441	$8,656,582	$15,193,413
7C	$501 - $750	$74,584,614	$135,530,482	$12,991,045	$18,476,834
7D	$751 - $1000	$72,115,526	$147,758,781	$14,158,439	$25,981,050
7E	$1001 - $1500	$51,176,448	$116,342,165	$30,609,731	$38,058,084
7F	$1501 - $2000	$17,378,203	$69,715,106	$27,307,367	$30,601,910
7G	$2,001 - $2,500	$27,151	$14,178,871	$26,843,266	$21,017,816
7H	$2,501 - $3,000	$21,855	$15,234,496	$21,461,935	$16,687,951
7I	$3,001 - $5,000	$55,732	$132,009	$58,691,325	$33,453,157
7J	$5,001 - $7,500	$0	$16,053	$38,659,857	$14,941,192
7K	Over $7,500	$24,336	$0	$32,832,798	$12,255,773
8	Total number of refinances on extensions of consumer credit originated in 2018.	1,127,401	253,485	358,485	74,927
9	Total dollar amount of extensions of consumer credit for 2018.	$447,569,380	$693,261,202	$273,215,961	$228,255,154
10	Total dollar amount of refinances for 2018.	$641,105,494	$254,084,581	$678,873,858	$116,444,342

Number of locations reporting activity in each category:	**883**	**901**	**1,006**	**856**
		Total Number of Companies Reporting:		**2,029**

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 $213
	180% for loans up to $1,420
	30% for loans for up to $2,130
	12% for loans up to $17,750
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

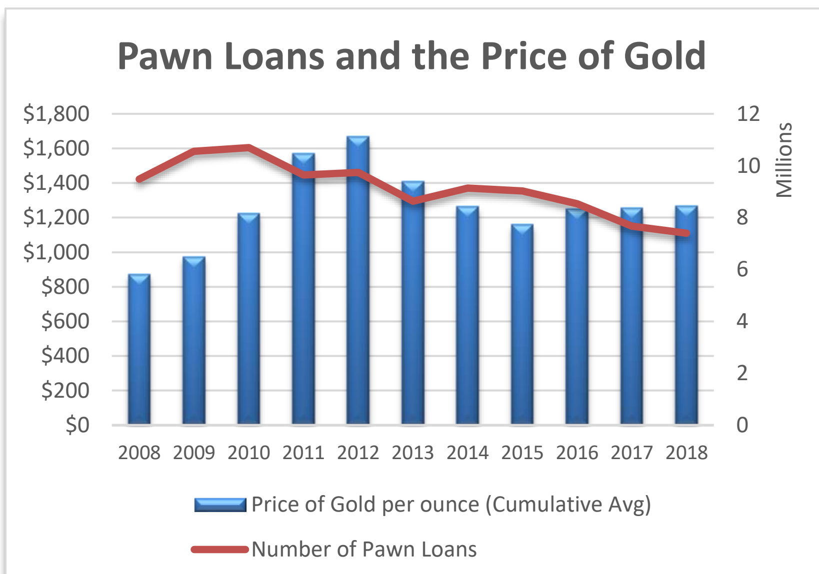
In order to reclaim possession of the pledged goods, the pledgor must repay the entire loan. If the customer does not redeem pledged items at the end of the loan term, those items may then become part of the pawnshop's inventory and are offered for sale to the general public. In the event of forfeiture, 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, 2019) is also an important factor for any pawnshop. Generally, in times of economic uncertainty the price of gold increases (Amadeo, 2019). 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
2018	7,400,239	$1,002,291,887	$135
2017	7,674,390	$1,005,695,472	$131
2016	8,539,593	$1,084,037,541	$127

Figure 11:

Loans Outstanding	Number of Loans	Dollar Value of Loans	Average Loan
2018	1,698,304	$275,124,093	$162
2017	1,653,975	$268,603,076	$162
2016	2,170,763	$343,677,720	$158

Number of Companies Reporting in CY 2018: 1,369

Number of Companies Reporting in CY 2017: 1,367

Number of Companies Reporting in CY 2016: 1,488

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

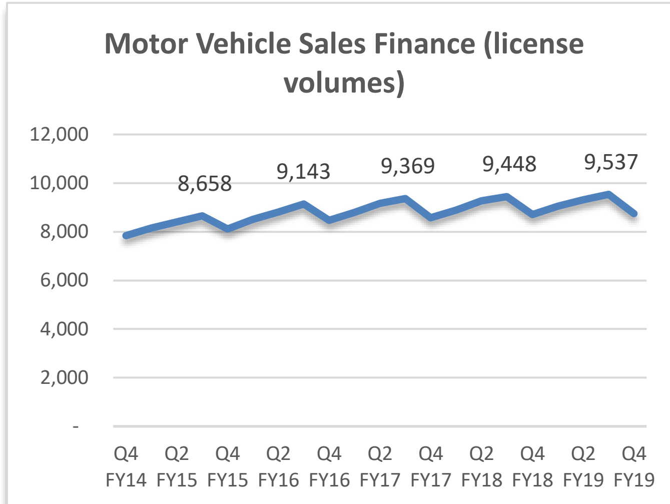
A buyer risks repossession for late payment, failing to maintain insurance, filing for bankruptcy, or any other provisions of default as listed in the contract. In addition to losing the vehicle, a repossession can negatively impact a consumer's credit history. The buyer might be required to pay the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

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, the buyer can provide the loan approval to the dealer to draft up to the approved amount.

Motor Vehicle Sales Industry Data

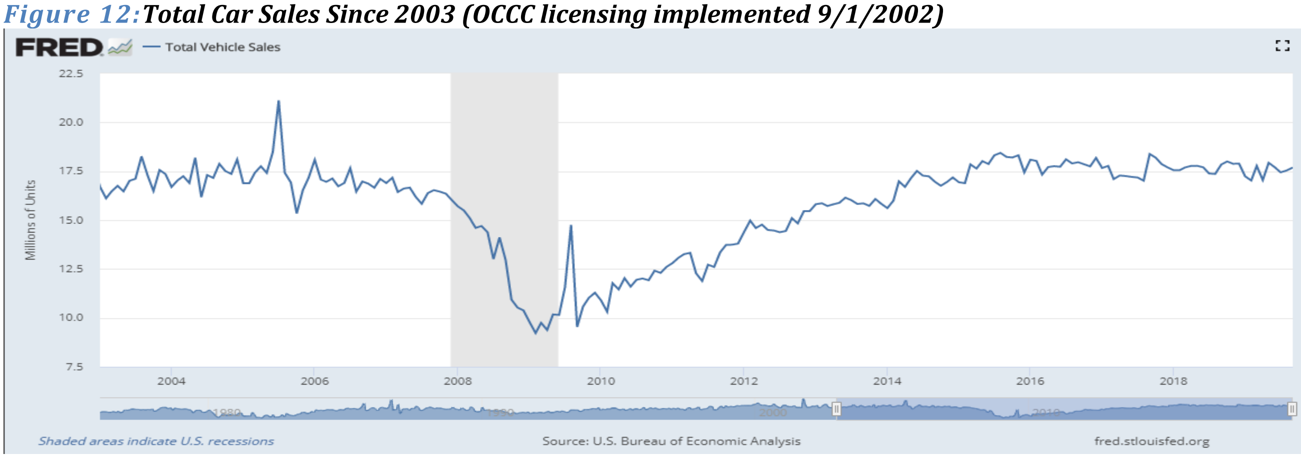
The OCCC does not currently collect annual report data from motor vehicle sales finance dealers who hold a chapter 348 license. Industry monitoring is primarily completed through examinations, stakeholder meetings and the change in license levels. The highest licensing levels occur in the third fiscal 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 (FY19) saw a small increase of 0.94% licensee growth.



National Trends

United States motor vehicle sales increased every year from 2009 to 2016 but rising vehicle prices may be capping consumer enthusiasm at the moment. Seasonally adjusted sales have stagnated since 2016, with figures hovering around the 17-18 million vehicles range. Consumers may have been driven away by rising auto interest rates that have increased the price of cars over the last few years. With a greater amount of debt to pay off on a new vehicle, it is clear to see why consumers may be encouraged to hold off on buying a new car until they can find more favorable loan terms.

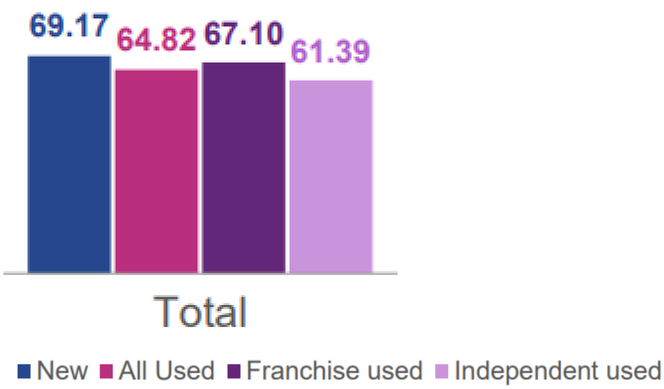
Figure 12: ***Total Car Sales Since 2003 (OCCC licensing implemented 9/1/2002)***

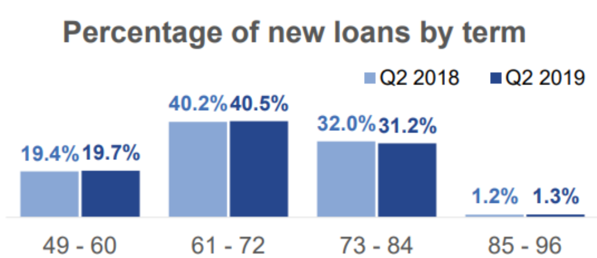


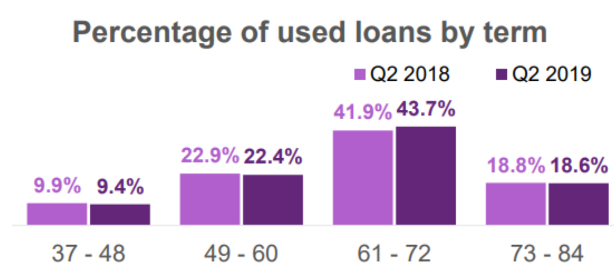
Repayment Terms

Car repayment terms have been changing slowly over the past 10 years. The average length for motor vehicle financing currently sits at 69.17 months according to Experian[7], with the highest concentration of new and used car loans centered at 61-72 months. At the same time, the average new-car monthly payment hit an all-time high the second quarter of 2019, topping out at $550 [7]. With higher rates on car loans, 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 makes sense in the short term, there is a higher interest payment in the long term due to the increased length of the loan.

Figure 13 [7]:

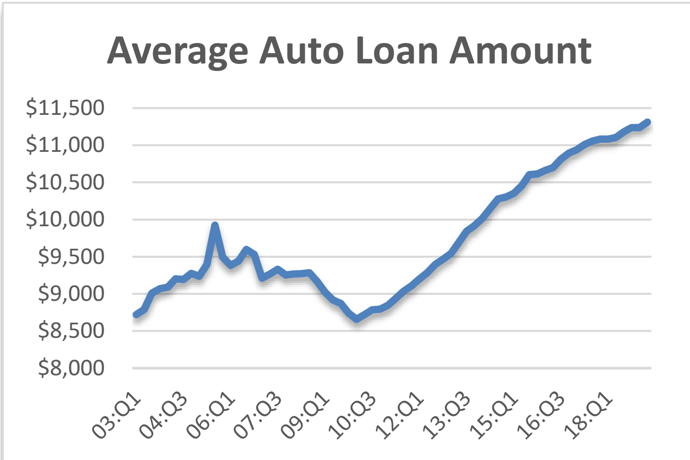






[7] Experian, State of the Auto Finance Market, https://www.experian.com/content/dam/marketing/na/automotive/quarterly-webinars/credit-trends/experian-auto-q2-2019-safm.pdf

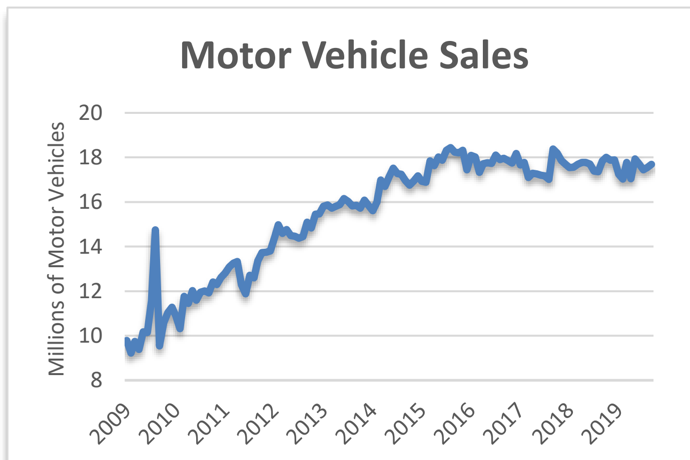
Average Auto Loan Amount



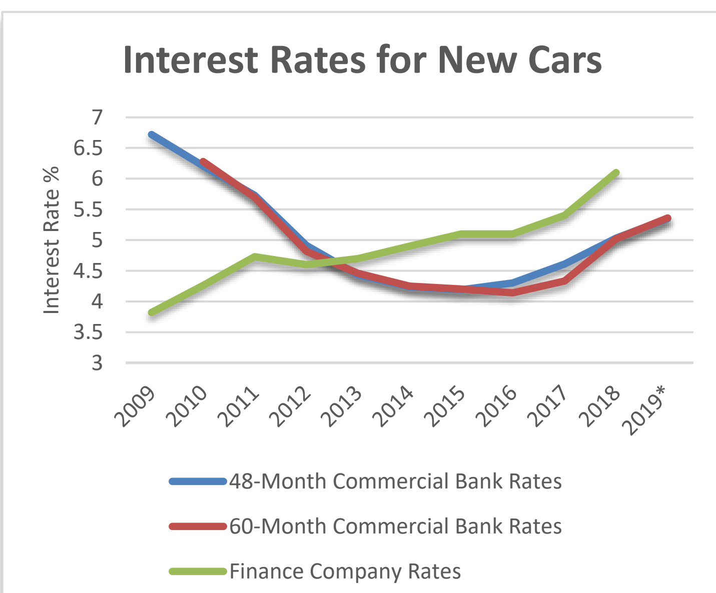
The average auto loan amount increased to $11,311.70 in 2019 Q2 and it has increased from $8,657 in early 2010. The rising cost of cars and longer term loans have contributed to this jump. This average represents the amount that a person has left to pay on an auto loan, not the amount of a brand new loan. (Federal Reserve Bank of New York, 2019)

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. Although this has been a favorable environment for sellers and buyers in the motor vehicle industry, sales have mostly been level since about 2016. (Federal Reserve Bank of St. Louis, 2019)



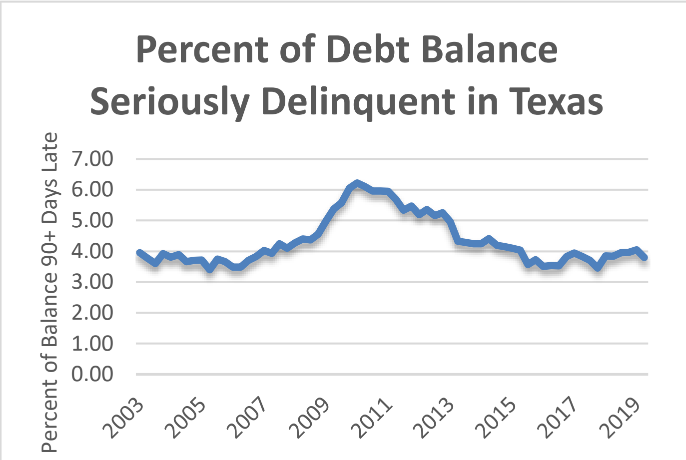
Interest Rates for New Cars



Rates dipped following the recession but have been rising for the last few years. This has encouraged consumers to continue shopping for cars, but rising rates over the last 3 years may be curbing that enthusiasm to a degree. Depending on the future of interest rate levels, this could tell the future of motor vehicle sales, among other industries. (Board of Governors of the Federal Reserve System, 2019)

*2019 numbers through Q2

Debt Balance Delinquency



The serious-delinquency (90+ days) rate in Texas leveled off from about 2015 to 2019 after spiking in the post-recession years. The auto loan debt in Texas that is 90-plus days delinquent is about 0.9 percentage points higher than the national rate. (Federal Reserve Bank of New York, 2019)

Auto Loan Balance and Delinquency

Texans bought more vehicles following the recession as the economy recovered and a shale oil boom swept the state. However, even with this boost to the motor vehicle industry, delinquency rates never reached prerecession lows. Delinquency rates actually began to rise in 2015 both in Texas and nationwide. This is somewhat counterintuitive considering the Texas economy has performed well in the years leading up to 2019 with historically low unemployment rates and a consumer-friendly credit environment. But, by looking at the ever-increasing number and dollar amount of the average auto loan balance, rising delinquencies have raised concerns about consumers' ability to repay.

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 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 $1,420 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:

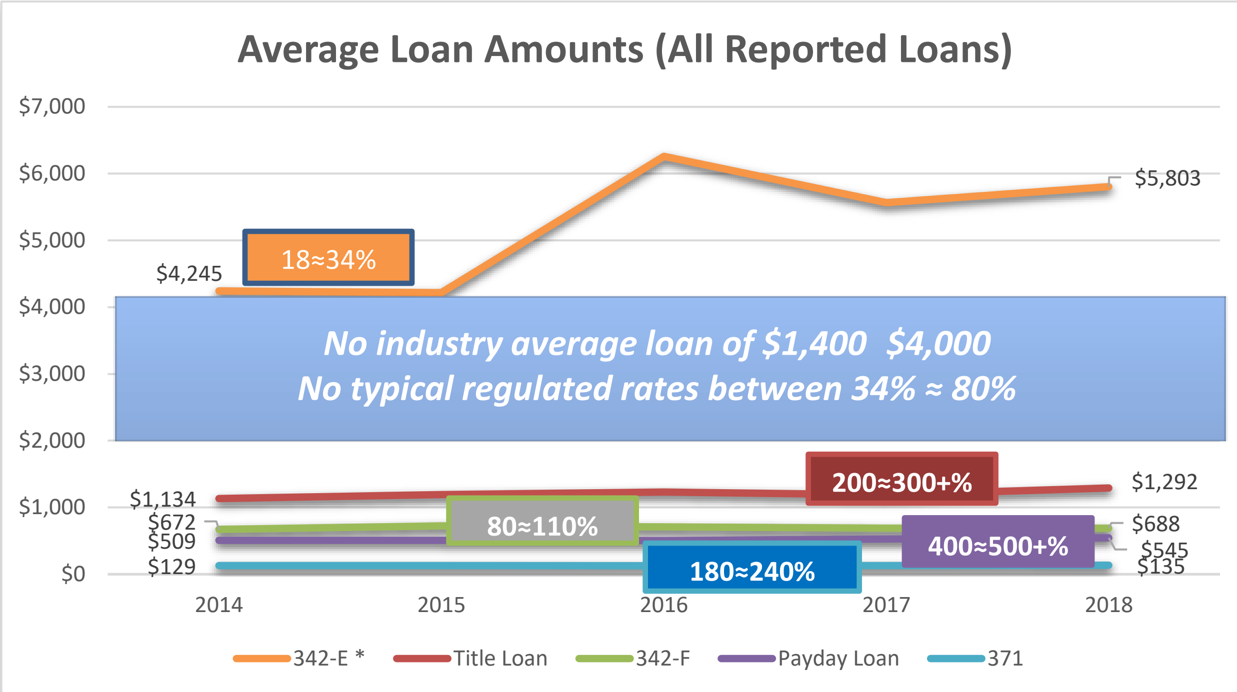
- an add-on interest rate up to 18% for the loan amount up to $2,130 and 8% for the amount over $2,130 up to $17,750,
- a simple interest rate up to 18%, or
- a three-tiered interest rate up to 30% for the loan amount up to $3,550, 24% for the amount over $3,550 up to $7,350, and 18% for the loan amount over $7,450 up to $17,750.

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 $1,420, 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.

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, and/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

Approximately 41% of Texans report utilizing non-bank borrowing methods within the past five years[i]. 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.

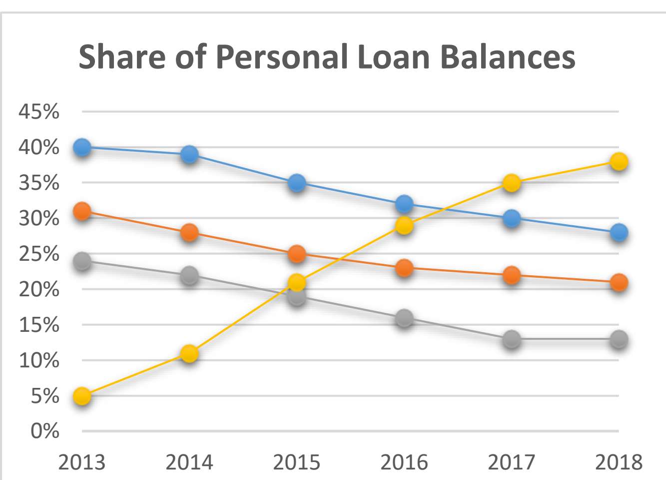
To assist consumers who utilize high cost financial products, many organizations have developed products to provide consumers with lending choices other than high cost borrowing methods. Additionally, many organizations are delivering financial education to help individuals develop the skills and tools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

Community and Employer Lending Programs

Community Loan Centers are licensed non-profit organizations that partner with Texas employers to offer low-interest, low fee personal loans. Currently, there is a community lending program in Texas that partners with employers that offers loans of up to $1000 with an interest rate of 18% per year. Payments are reported to credit bureaus to help consumers increase credit scores and build a positive financial history. These organizations strive to partner with Texas employers to encourage economic prosperity by providing individuals with alternatives to high cost lending.

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.

Low-cost lending programs

Although low cost lending through financial institutions is not widespread, there are credit unions that offer members affordable small dollar loans. Currently there are credit unions offering loans of up to $1000, with an application fee of $20, and a maximum APR for 28% to help their members avoid costly high cost alternatives. This option provides a viable alternative to several of the higher cost products that may seem like the only option for consumers who may not qualify for traditional lending products.

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.

In October 2017, the Texas Finance Commission awarded $250,000 in funds to nine organizations across the state for the 2018-2019 TFEE Grant Cycle. These organizations are actively delivering and encouraging financial capability throughout Texas in the form of seminars, one on one financial coaching, K-12 programs, and group classes. The 2018-2019 TFEE Grant Cycle ends on December 31, 2019.

On June 21, 2019, the Finance Commission approved $300,000 in grant awards for the 2020-2021 TFEE Grant Cycle. The Office of Consumer Credit Commissioner is accepting applications for the 2020-2021 TFEE Grant Cycle until December 31, 2019. The 2020-2021 TFEE Grant Cycle will begin on March 1, 2020 and run through December 31, 2021.

Reporting Requirements

The report has been prepared in response to and fulfills certain constitutional, statutory, and administrative regulation requirements.[7]

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.

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

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	0.38	1.00					
371	0.60	0.57	1.00				
342-G /A-6	-0.02	0.09	0.01	1.00			
348	0.44	0.55	0.63	0.01	1.00		
393	0.60	0.51	0.65	0.02	0.50	1.00	
351	-0.01	0.04	0.02	0.13	0.03	0.00	1.00

Excluding motor vehicle sales finance licenses, the industries that share a large positive correlation are:

371 and 393 (0.65)
342-F and 371 (0.60)
342-F and 393 (0.60)
342-E and 371 (0.57)
342-E and 393 (0.51)

Zip codes that contain the most OCCC licenses

The distribution of 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 **10/10/2019**.

Demographic information about each zip code was obtained from the American Community Survey 2017 5-year estimates of the US Census Bureau. (United States Census Bureau, 2019) 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	77037	20,038	$41,491	N Houston /Aldine	5	7	6	0	***102***	4	0	***124***
2	78501	64,340	$34,853	McAllen	***39***	5	7	0	47	***22***	1	121
3	75211	77,600	$38,760	SW Dallas	4	***10***	3	0	93	6	0	116
4	75217	85,249	$35,282	SE Dallas	2	4	7	0	87	5	0	105
5	78521	92,975	$28,935	Brownsville	22	3	8	0	61	10	1	105
6	78572	78,770	$40,705	McAllen	25	4	4	0	52	8	0	93
7	78550	52,746	$36,069	Harlingen	31	2	5	0	38	18	0	94
8	79915	35,622	$30,101	El Paso	10	1	5	0	73	4	0	93
9	76011	22,953	$35,681	Arlington	2	1	4	0	74	8	0	89
10	75050	42,670	$50,889	Grand Prairie	2	2	3	0	76	5	0	88
11	78520	62,804	$32,612	Brownsville	30	7	8	1	36	4	0	86
12	78415	40,496	$42,995	South Corpus Christi	25	1	6	0	40	9	0	81
13	78041	46,671	$41,912	Laredo	16	1	5	0	48	10	0	80
14	78577	76,821	$39,388	Pharr	19	2	5	0	49	5	0	80
15	75229	32,390	$88,062	NW Dallas	0	1	2	0	73	0	1	77
16	79925	39,455	$46,870	El Paso	11	7	4	0	48	5	0	75
17	77055	45,003	$52,269	Spring Branch Houston	8	4	7	0	49	3	0	71
18	78221	40,249	$39,531	South San Antonio	30	1	5	0	25	9	0	70
19	75220	42,642	$43,001	NW Dallas	3	7	4	0	50	5	0	69
20	78212	28,664	$42,789	North Central San Antonio	6	1	5	0	48	2	4	66
21	78539	34,991	$55,507	Edinburg	19	3	3	0	27	13	0	65
22	76117	31,298	$44,040	NE Fort Worth	0	2	6	0	55	2	0	65
23	75901	31,647	$47,081	Lufkin	11	1	4	0	39	10	0	65
24	78130	70,055	$60,370	New Braunfels	10	2	6	0	38	8	0	64
25	77074	39,915	$36,593	SW Houston	1	5	2	0	54	1	0	63
26	78596	65,013	$34,339	Weslaco	27	3	5	0	17	10	0	62
27	78201	47,500	$36,844	NE San Antonio	21	2	7	0	23	9	0	62
28	75006	50,788	$57,415	Carrollton	2	3	1	0	46	10	0	62
29	77587	16,901	$44,371	City of South Houston	1	2	3	0	54	1	0	61
30	78043	44,762	$33,252	Laredo	17	2	6	0	30	6	0	61
				Top 30 Zip Totals	399	96	146	1	1,552	212	7	2,413
				Remainder of Texas	1,869	733	1,111	63	7,062	1,653	64	12,554
				Out of State	69	205	0	151	266	54	6	752
				All Active	**2,337**	**1,034**	**1,257**	**215**	**8,880**	**1,919**	**77**	**15,719**

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
	75060	47,922	$52,749	Irving	1	1	***9***	0	21	3	0	35
	75063	38,383	$85,165	Irving	0	4	0	***3***	13	2	1	23
	78731	27,447	$89,099	NW Austin	0	0	0	0	1	0	***13***	14

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.

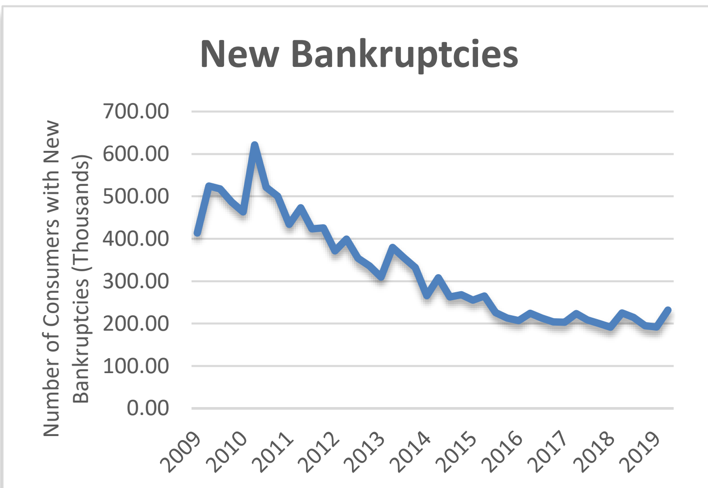
	Zip	Population	Median Household Income	Location	342-F	342-E	371	342-G/A-6	348	393	351	Total by Zip
	76092	30,138	$207,127	Southlake	0	0	0	0	0	0	0	0
	79901	10,284	$13,087	El Paso	35	2	2	0	2	0	0	41
	77449	119,204	$72,397	Katy	7	1	2	0	12	7	0	29

National Credit Trends

Overview

The demand for consumer lending remains high. The Federal Reserve's July Senior Loan Officer Opinion Survey shows that American consumers demanded more mortgages, auto, and credit card loans. People are borrowing more for their household debt, which is a sign of a healthy economy in which consumers are willing to spend their money instead of save it. Specifically, over the last year, the demand for mortgages has risen as rates have dropped more than 100 basis points since the end of 2018. (Board of Governors of the Federal Reserve System, 2019)

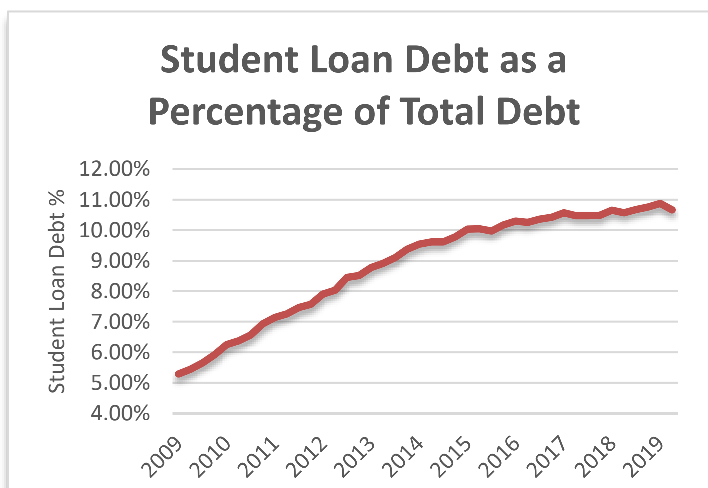
Bankruptcies



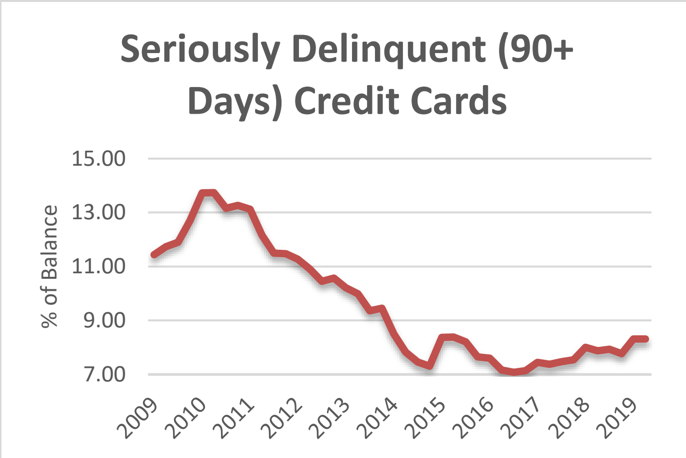
New bankruptcies peaked in 2010 following the recession as US consumers struggled to make ends meet. Since that time, new bankruptcies have plateaued around 200,000 per quarter. This isn't surprising, considering there has been a more favorable economic environment, including low unemployment and low interest rates. (Federal Reserve Bank of New York, 2019)

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, 2019)



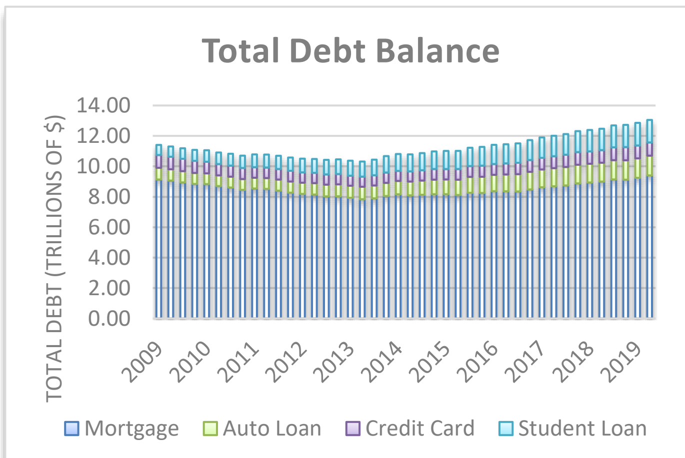
Credit Card Delinquencies

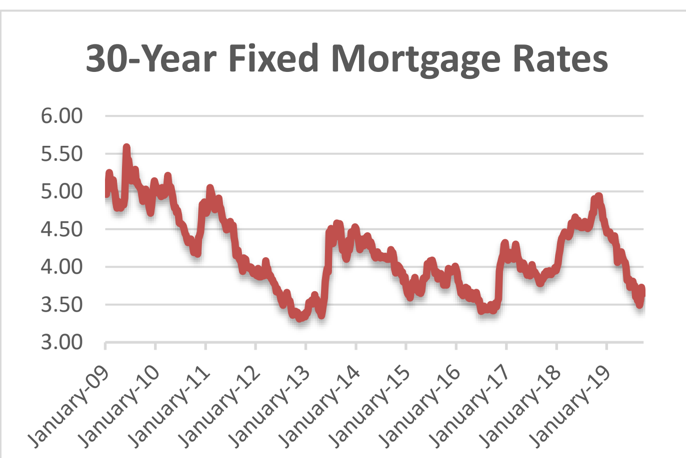


Seriously delinquent credit cards peaked in 2010 but dropped dramatically for about 4 years. This balance has stayed relatively flat since that time. That is expected alongside a friendly economic environment, with consumers having an easier time paying off their household debt on time. (Federal Reserve Bank of New York, 2019)

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. (Federal Reserve Bank of New York, 2019)





Mortgage Rates

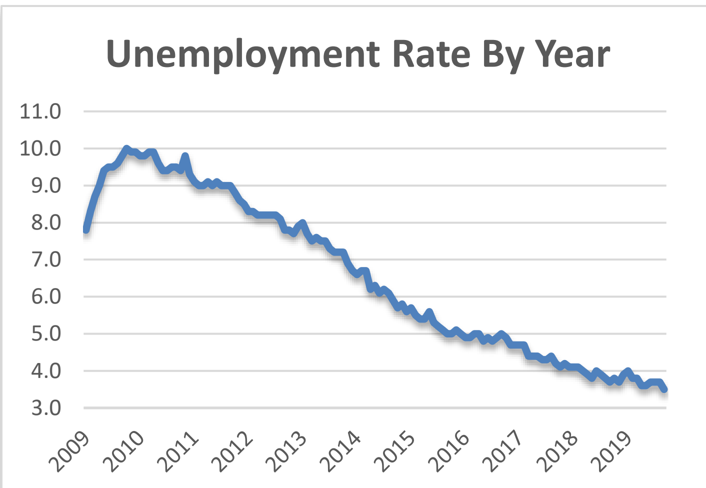
Mortgage rates have dropped since 2009 following the financial crisis. Mortgage rates topped out at over 6% in the early-to-mid 2000's but dropped to historic lows in the last 10 years and have remained at that level. Thirty year fixed-rate mortgages hit a record low of 3.31% in 2012 but is about 30 basis points higher as of October 2019. Thirty year rates have not hit 6% since 2008, and it remains to be seen when that could happen again. (Freddie Mac, 2019)

Economic Reports and Forecast: United States

Overview

The United States economy is in a healthy state at the moment and has been that way for about 10 years now. Decreased interest rates and positive job growth have created a favorable environment for businesses and consumers alike that have led to an increased willingness to demand credit, spend money, and boost the economy. This sentiment is backed up by a milestone that hit in June of 2019, when the United States economy broke the record for the longest economic expansion in the history of the country. That month marked the 121st month of expansion, breaking the previous record of 120 months that was set from 1991 to 2001. (CNBC, 2019)

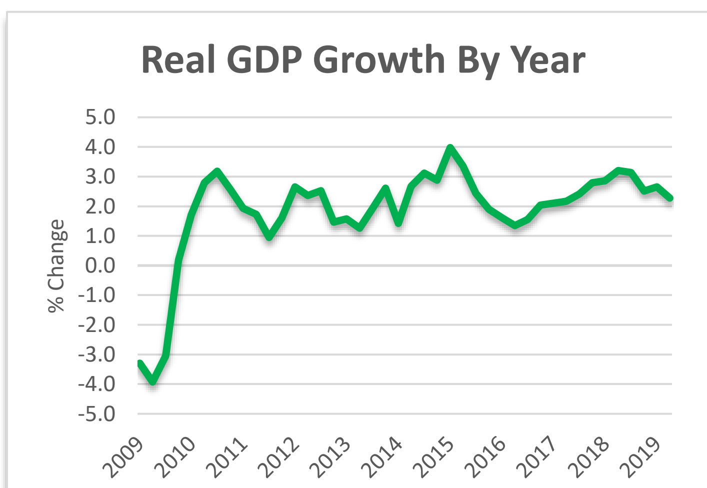
Unemployment Rate



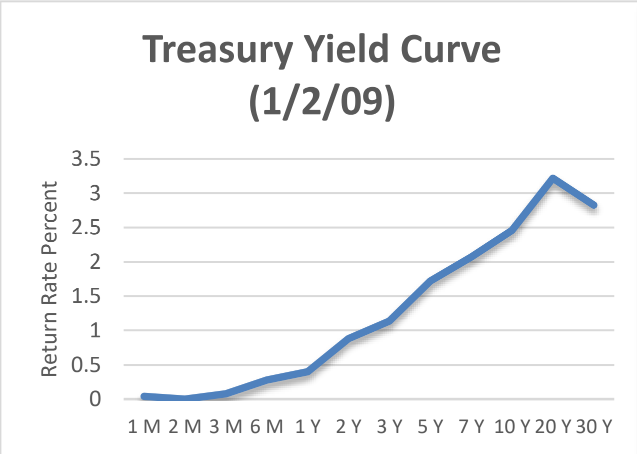
The unemployment rate has dropped consistently since 2009 as the economy moves further away from the recession. This number peaked at 10% in late 2009 as the United States was in the early stages of economic recovery, and as of September 2019 that number sits at 3.5%, signaling a healthy workforce. While 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 in recent years. (Bureau of Labor Statistics, 2019)

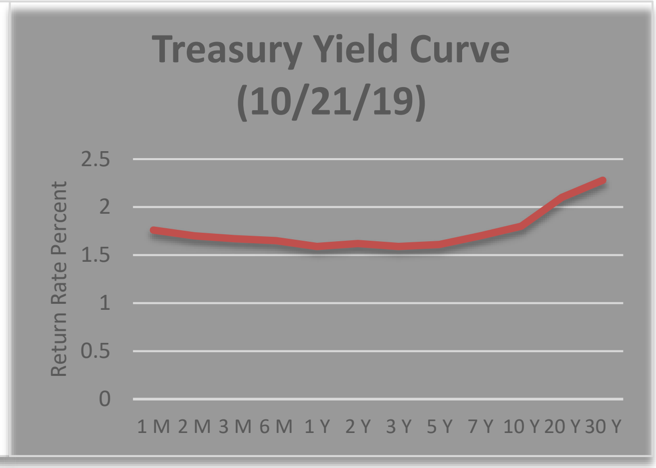
Real GDP

Real GDP growth is another lagging indicator that does not predict future economic performance, but, nonetheless, it further proves how well the US economy has looked this decade. Following contraction in 2009, the GDP has seen positive growth since October of that same year and hasn't looked back. A favorable consumer environment, including low interest rates, has spurred this growth. (Federal Reserve Bank of St. Louis, 2019)



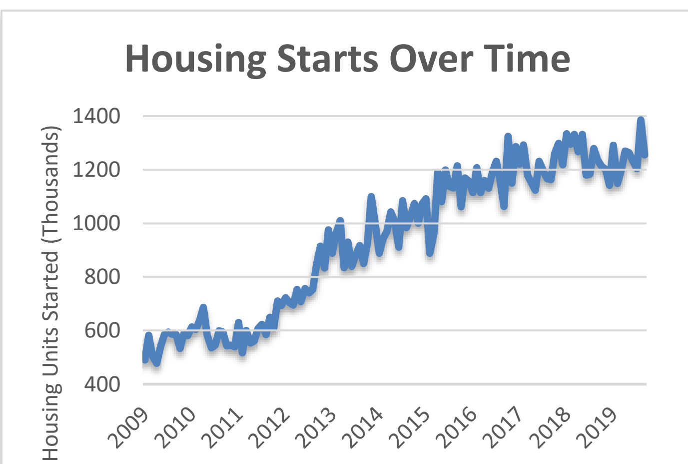
Yield Curve





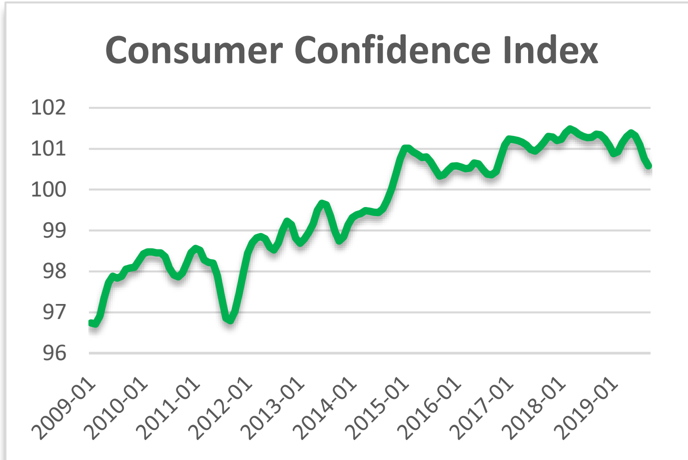
In a normal market, long term yields outperform short term yields. An inverted yield curve could be a signal of economic trouble, as consumers are unsure about short-term economic performance and drive long-term bond yields lower with increased demand. Long term yields are currently more flat, but the yield curve was inverted in late summer and early fall of 2019, and has been flirting with inversion throughout 2019. One potential reason for this inversion could be the negative interest rate bonds that have become popular since the last recession. Interest rates around the world were lowered following that recession, and banks have not been able to raise them to historically normal levels. In some cases, this led to government bonds offering negative interest rates, and trillions of dollars of negative debt is in circulation around the world today. With this being new territory in the global economy, it remains to be seen what long term effect this will have on US treasury bond yields and economic performance at large. (U.S. Department of the Treasury, 2019)

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. When real estate developers are less optimistic that new homes will be bought, this number can decline before the economy actually does.
(Federal Reserve Bank of St. Louis, 2019)

Consumer Confidence Index

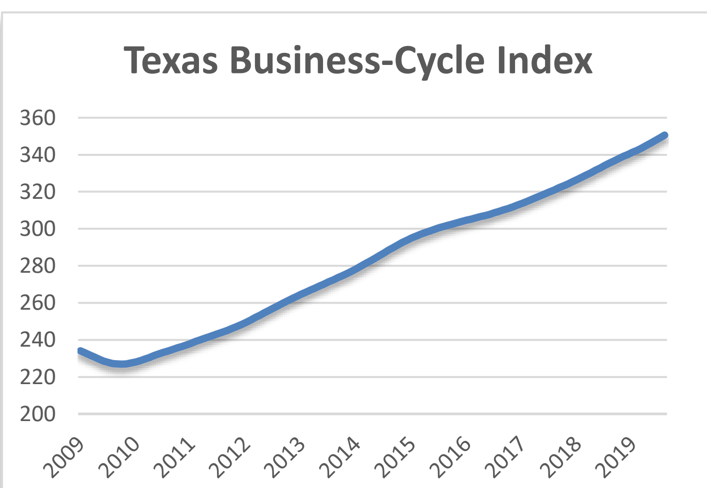


The Consumer Confidence Index has steadily been rising in the 10 years following the recession. As the economy recovered from the recession during this time frame, consumers' confidence increased with improved performance and conditions. In the last year, the consumer confidence index has fallen since June amid concerns about tariffs and weakening economies elsewhere in the world, but, the index is still trending upward in the long run. In this index, a number above 100 signals a boost in consumer confidence toward the economic situation which could portend more spending and less saving in the next 12 months. Inversely, values below 100 indicate a pessimistic attitude towards future developments in the economy, possibly resulting in a tendency to save more and consume less. (The Conference Board, 2019)

Economic Reports and Forecasts: State of Texas

Overview

While the United States as a whole has seen tremendous economic performance for the better part of 10 years now, the state of Texas has managed to outperform the rest of country in some key metrics. One metric in particular that deserves to be mentioned is the exceptional job growth that Texans have observed in recent years. Texas led the nation with a 2.6% annual job growth rate from July 2018 to July 2019 and that has contributed to the Texas labor market outperforming the nation for 29 consecutive months. Texas has also remained the top exporter in the United States for 18 consecutive years now. With such a strong state economy, Texans have reaped the benefits for the past decade as jobs have been plentiful and credit conditions are consumer-friendly. (Texas Workforce Commission, 2019)

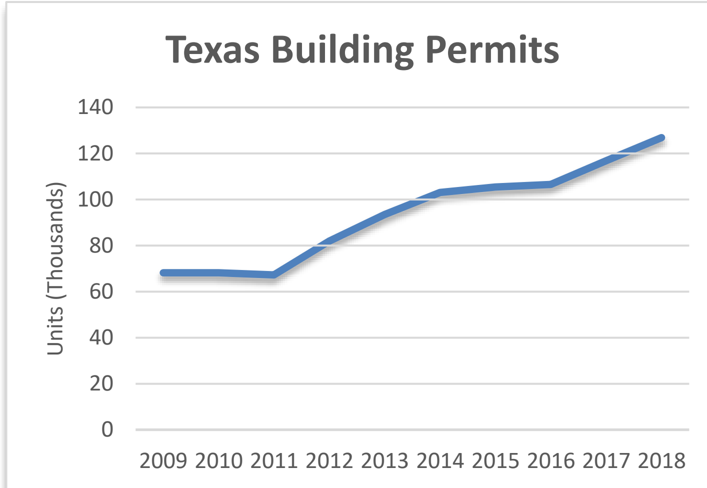


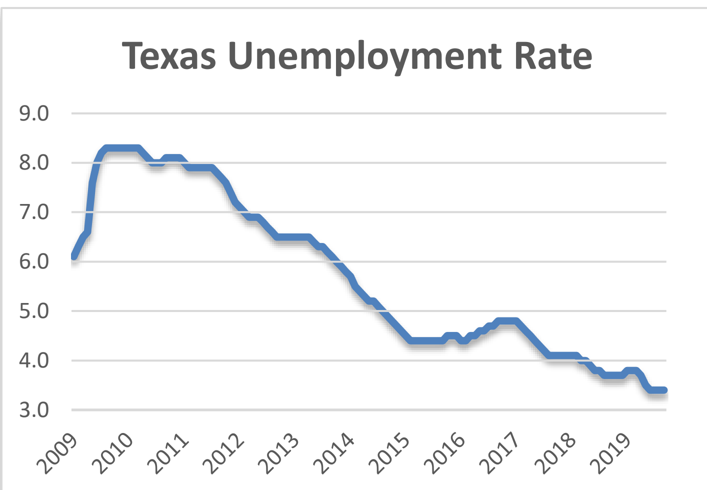
Texas Business-Cycle Index

Some of our 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, but if it were to dip, OCCC licensees could potentially see their business perform better as consumers seek lending alternatives. (Federal Reserve Bank of Dallas, 2019)

Texas Building Permit Data

Housing permits for single family homes bottomed out from 2009-2011 but has been on the rise since that time as the economy recovers. This trend aligns with the uptick in housing starts at the national level as well. (Texas A&M University, 2019)





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 a recession. The Texas unemployment rate has fared better than the United States unemployment rate as whole over the last 10 years, with the state rate topping out at 8.3% and currently sitting at 3.4%. The national rate peaked at about 9.9% and is at 3.5% today. (Bureau of Labor Statistics, 2019)

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