2021 Report on Availability, Quality, and Pricing of Certain Financial Services and Consumer Loan Products

12/1/2021

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Introduction

Since Texas's establishment as an independent republic some form of consumer credit regulation has existed in the state. Since its creation in 1963 the Office of Consumer Credit Commissioner (OCCC) has seen the depth and breadth of its regulatory oversight increase to encompass the expanding financial marketplace in Texas. Each industry has its own unique and specific consumer benefits as well as unique compliance concerns. The agency works to ensure that the non-depository financial services industry that it regulates provides compliant financial products. Participants within this dynamic and diverse industry range from small independent providers to international publicly-traded corporations engaging in an extensive array of financial transactions. Most non-depository lenders, non-real estate lenders, and small segments of real property loans are supervised by the OCCC. Exempt lenders (authorized lenders that are exempt from OCCC licensing, *e.g.* banks) and exempt transactions (*e.g*. loans at rates lower than 10%) contribute to the remaining marketplace.

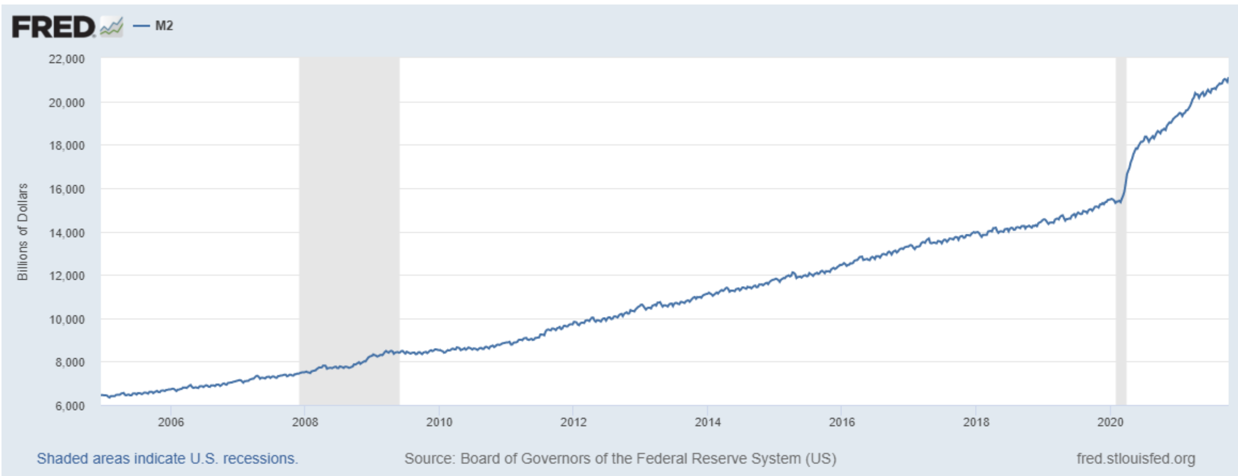
Several types of credit products are available and range from those frequently used by Texas consumers to niche offerings. Most of these industries must file annual reports for the preceding year that detail the growth or decline in their transactions. This report highlights seven of the most common credit transactions that Texas consumers received from OCCC licensees in 2020 and lists general alternatives to those products.

Industry (Statutory Provision)
Home Equity Loans - *Section 50(a)(6), Article XVI of the Texas Constitution*
Regulated Lenders -*Texas Finance Code (TFC) ch. 342*
Large Installment Loans - *TFC ch. 342 subch. E*
Small Installment Loans - *TFC ch. 342 subch. F*
Property Tax Loans – *TFC ch. 351*
Credit Access Businesses/*Payday and Title Loans - TFC ch. 393*
Pawn Loans - *TFC ch. 371*
Motor Vehicle Sales Finance - *TFC ch. 348*

Of the seven types of consumer credit listed above, the OCCC possesses exclusive jurisdiction over pawn loans, property tax loans, and credit access business transactions. The annual report data for those two loan types 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 and holders of motor vehicle retail installment contracts are the OCCC's largest licensee base and originate or hold retail installment transactions, not loans. In addition, this report does not include consumer lending transactions that are made by depository institutions, most loans secured by real estate, or credit exempt by other law.

Special Note on Economic Outlook of 2022

OCCC data from annual reports reflect licensee activity through December 31, 2020. The global coronavirus pandemic has caused a significant disruption in the global economy, and while America has overcome several obstacles there are many that remain to be cleared. The shutdown of businesses and manufacturing plants during 2020 initially caused a major shock in the unemployment rate, number of housing starts, and GDP. A year later these shocks have been largely reduced due to vigorous intervention from the Federal Reserve and the CARES Act, but with several side effects: labor shortages, aggressive monetary policy, and companies struggling to adapt to the "new normal" have created a number of supply chain issues, leading to an inflationary spike.



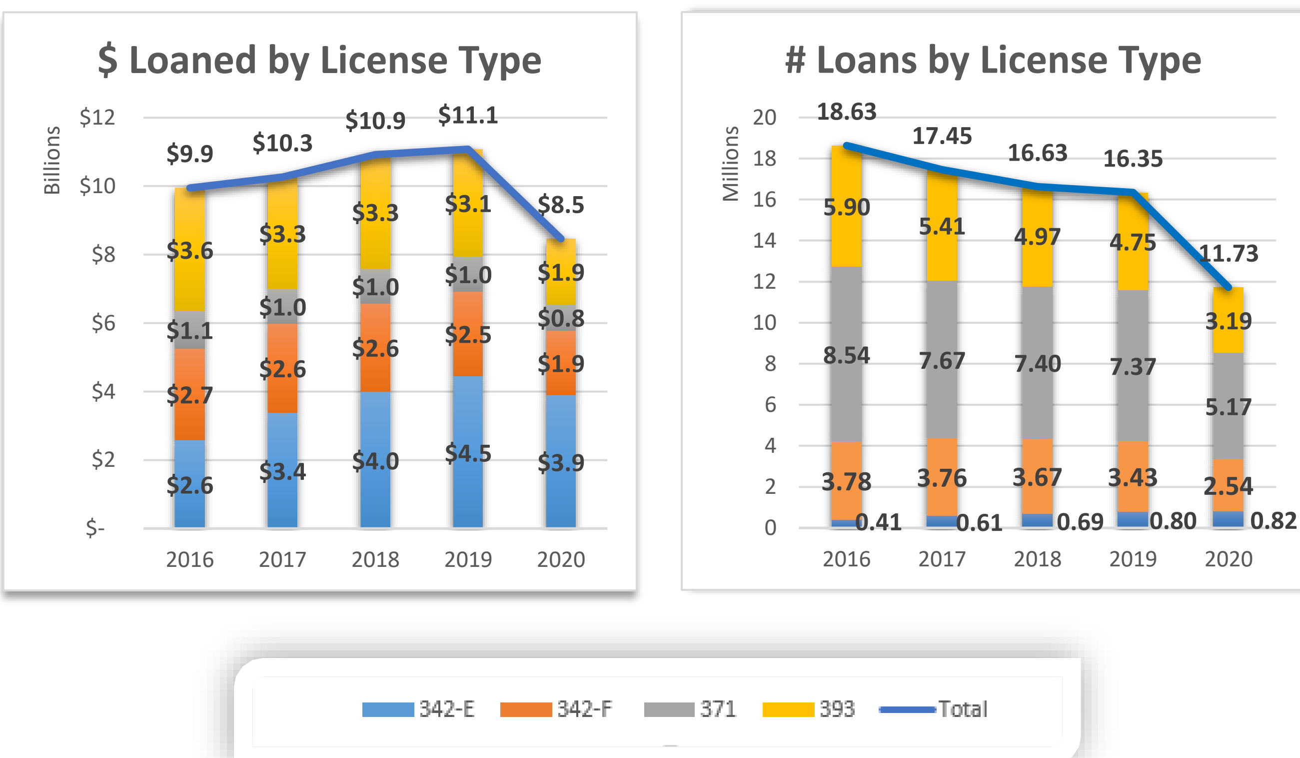
Data suggests that workers are more willing to quit their jobs now than ever before. According to the Bureau of Labor Statistics, resignations have risen to 4.3 million in August. (US Bureau of Labor Statistics, 2021) Annual inflation has climbed at its fastest pace in 30 years, and the Fed expects the inflation to persist well into next year. (Egan, 2021) This decreases real wages, making people demand higher pay and causing a labor shortage, thus potentially creating more inflation in the price of goods.

Inflationary pressures make current debt less expensive but typically correspond with a rise in interest rates for future debt. Consumers will borrow more on credit cards, installment loans, and auto loans if the prices of goods and services continue to increase in 2022. The velocity of mortgage refinances that occurred in 2020-2021 will slow down due to the quantity of borrowers already locking in low rates. After almost two years of low inventories of goods and service supply shortages the demand for consumer credit in 2022 is likely to be strong.

Lending Volumes

Non-real estate loans account for most consumer loans (Installment Loans, Pawn Loans, and Payday/Title Loans). The OCCC licensed lenders and financial service providers profiled in this report made **11,730,000**[1] loans for **$8.5 billion** in 2020. This number does not reflect the number of borrowers as they may take out several loans during a year by refinancing a loan or receiving multiple loans throughout the year.

Loan volumes decreased by approximately 25% in 2020, a year that featured social distancing, stay at home recommendations, and consumer stimulus due to the Covid-19 pandemic. Payday and title loans were the most impacted declining more than 30% from the previous year. During the year, licensees of all types reported intermittent closures due to staffing shortages and possible Covid-19 exposures. Expanded unemployment benefits and direct pandemic assistance payments to consumers were likely large contributors to the decline in payday and title loans. Historically, consumer demand for payday and title loans is lowest in the first quarter of the year (a time that coincides with income tax refunds). The government stimulus that occurred throughout the year in 2020 reduced demand for the most expensive type of credit, measured by Annual Percentage Rate, in the form of payday and title loans.



[1] *Data submitted by OCCC licensees is aggregated and published on the OCCC 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 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 5.36%) (Bank Rate, 2021)
	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.

2020 Home Equity Lending Report

Data contained in this report is reported on a calendar year basis and reflects data through CY 2020. 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 the Texas Department of Savings and Mortgage Lending.

Home Equity Lending Data

Figure 4:

LOANS MADE	2020	2019	2018	2017	2016
1st Lien Home Equity Loans	24,639	15,840	15,612	14,326	12,294
Total Dollar Amount Loaned	$5,334,114,525	$3,144,035,892	$2,783,790,222	$2,642,734,493	$2,395,184,911
Average Loan Amount	$216,491	$198,487	$178,311	$184,471	$194,826
2nd Lien Home Equity Loans[4]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-
342-G Loans[4]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-

Figure 5:

LOANS BROKERED	2020	2019	2018	2017	2016
1st Lien Home Equity Loans[4]	-	58	36	66	-
Total Dollar Amount Loaned	-	$13,631,906	$7,330,620	$15,164,997	-
Average Loan Amount	-	$235,033	$203,628	$229,773	-
2nd Lien Home Equity Loans[4]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-
342-G Loans[4]	-	-	-	-	-
Total Dollar Amount Loaned	-	-	-	-	-
Average Loan Amount	-	-	-	-	-

Figure 6:

LOANS RECEIVABLE	2020	2019	2018	2017	2016
1st Lien Home Equity Loans	9,824	10,093	15,472	16,494	20,775
Total Dollar Amount Loaned	$669,234,312	$692,430,754	$1,279,891,075	$1,266,599,503	$1,475,281,981
Average Loan Amount	$68,122	$71,230	$82,723	$76,792	$71,012
2nd Lien Home Equity Loans	673	1,027	1,579	1,016	15,199
Total Dollar Amount Loaned	$14,899,211	$66,964,593	$43,989,976	$23,464,395	$459,501,786
Average Loan Amount	$22,139	$65,204	$27,859	$23,095	$30,232
342-G Loans	1,663	2,616	5,332	6,278	6,420
Total Dollar Amount Loaned	$60,155,317	$294,665,056	$271,577,094	$290,702,903	$281,972,192
Average Loan Amount	$36,172	$112,640	$50,933	$46,305	$43,921

Number of Companies Reporting[5]	**801**	**772**	**794**	**810**	**802**

[4] *Certain transactions were reported by five or less locations. Data was withheld to protect confidentiality of reporting businesses. All brokered loans in 2020 secondary home equity loans since 2016, and 342.G loans since 2016 were reported by five or less companies.*

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

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

In 2020, 816,133 personal/secured loans were issued under Chapter 342-E. These loans offer higher advance amounts and lower annual interest rates compared to signature and small installment loans. The cost to refinance these obligations is also typically lower than alternative products. Collateral for 342-E loans is not required; however, lenders may choose to request security from borrowers. Loan applications are normally processed and closed in the same day. Subchapter E loans are typically more affordable than subchapter F loans or payday loans. Lenders are typically located in business districts and suburban areas. An increasing amount of loans are offered online.

Type of Customer

Borrowers of 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 2020, 2,541,930 small installment loans averaging $744 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: $1,480*
	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

*Finance charge brackets and maximum effective rates as of July 1, 2021. Loan ceilings adjust each July 1 based upon the Consumer Price Index.

Default

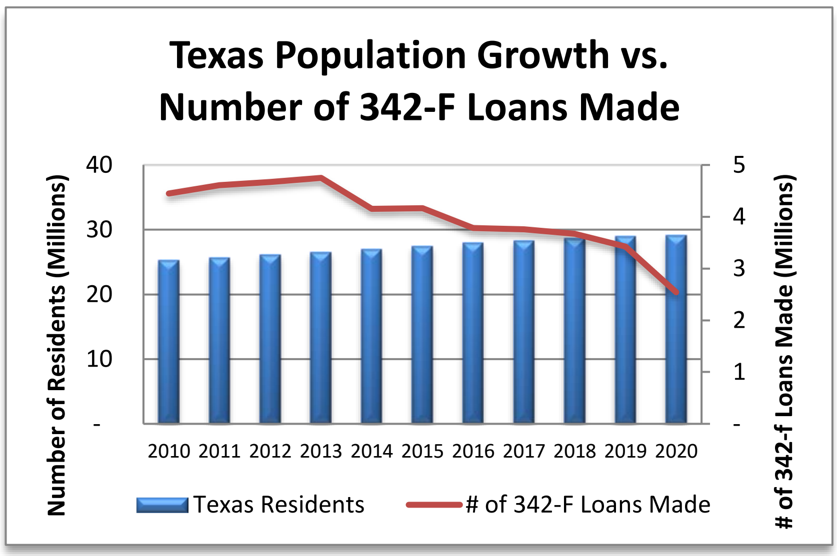
Borrowers utilizing secured loans risk losing their personal property, motor vehicle, or other security to the lender. The lender or third-party debt collector may pursue the remaining deficiency balance after the collateral has been disposed of or the entire remaining outstanding balance of unsecured loans. A lender may file suit against the borrower or repossess the collateral, and some lenders report the repayment history to consumer reporting agencies.

Alternatives

Small consumer loan borrowers may run into eligibility issues with other credit products. Possible alternatives are pawn loans, credit card advances, and payday loans.

Factors Affecting Consumer Loans

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, and (4) impacts of the Covid-19 pandemic. The industry will have to consider ways to meet the needs of new and younger customers to stabilize loan volumes.



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

Regulated Lender Consolidated Volume Report
Calendar Year 2020

Figure 7:

Loans Made	Number of Loans	Dollar Value of Loans
Chapter 342-E	816,133	$3,895,401,923
Chapter 342-F	2,541,930	$1,892,134,396
Chapter 342 G – Secondary Mortgages[6]		
Home Equity Loans – 1st Lien	24,639	$5,334,114,525
Home Equity Loans – 2nd Lien[7]		
Chapter 346 – Revolving Credit Accounts	13,549	$85,494,948
Chapter 348 – Motor Vehicle Sales Finance	344,796	$11,420,816,560
Chapter 345 – Retail Installment Sales/Contracts	1,838,797	$1,064,882,717
Chapter 347 Loans – Manufactured Housing	9,031	$691,442,649

Figure 8:

Loans Receivables	Number of Loans	Dollar Value of Loans
Chapter 342-E	907,709	$4,308,394,981
Chapter 342-F	1,115,315	$844,438,668
Chapter 342 G – Secondary Mortgages	1,663	$60,155,318
Home Equity Loans – 1st Lien	9,824	$669,234,312
Home Equity Loans – 2nd Lien	673	$14,899,211
Chapter 346 – Revolving Credit Accounts	134,401	$224,982,195
Chapter 348 – Motor Vehicle Sales Finance	933,753	$20,798,036,649
Chapter 345 – Retail Installment Sales/Contracts	2,782,544	$1,131,729,555
Chapter 347 Loans – Manufactured Housing	52,863	$2,801,440,982

Number of Companies Reporting: 801

[6] Volume below reportable activity

Property Tax Loans (351)

Overview

In 2020, 7,747 property tax loans averaging $12,942 were made under Chapter 351 on residential properties. With the consent of the property owner, a property tax lender is allowed to transfer and assume the special lien generated by taxing units of the property by paying the delinquent taxes. The special lien retains its superior lien position (e.g. priority position in front of a purchase mortgage) after transfer and is foreclosable.

The industry relies on direct mail solicitation, web search results, and repeat customers for business. Property owner information is generally public record and can be used in mail solicitations; however, specific advertisement rules in 7 Texas Administrative Code §89.208 apply. Property Tax Loans on residential properties must be closed by licensed residential mortgage loan originators.

Type of Customer

Property owners 65 and older claiming a homestead exemption on the property may defer their property taxes and are not eligible for a property tax loan. Property tax loan borrowers either own their house without a mortgage or have at least one mortgage but do not escrow their taxes.

Typical Rates

The maximum allowable rates for Chapter 351 loans are determined by statute. The average rate is lower than the maximum interest rate of 18%. Lenders can also charge closing costs associated with the review and preparation of the loan documents.

Allowable Charges	Interest Rate of 18% or less:
	General Closing Cost limit of $900
	Additional Closing Costs of $100 per additional parcel of real property
	Reasonable fee required to repair a title defect
	A late charge of 5% of the scheduled installment assessed 10 days after the due date
	Additional fees paid to attorneys for foreclosure and bankruptcy actions that can be substantial
Loan Terms	Maximum loan amount is based on the definition of Funds Advanced in Texas Tax Code §32.06 and limited to items on the tax receipt, fees to record the lien, and closing costs
	Loan terms vary from one year to several years
	Notification to any pre-existing lienholders required after transfer and after 90 days of delinquency
	Prepayment allowed (without penalty on homestead property) and loans that become delinquent by 90+ days are often paid by the borrower's pre-existing mortgage company

Default

Similar to a mortgage or home equity loan, borrowers risk foreclosure for non-payment. After a foreclosure sale, the original residential property owner has a right to redeem by paying 125 percent of the foreclosure sale price during the first year of the redemption period or 150 percent of the foreclosure sale price during the second year of the redemption period with cash or cash equivalent funds.

Alternatives

1. Taxing Unit Payment Plan for Residence Homesteads[7]

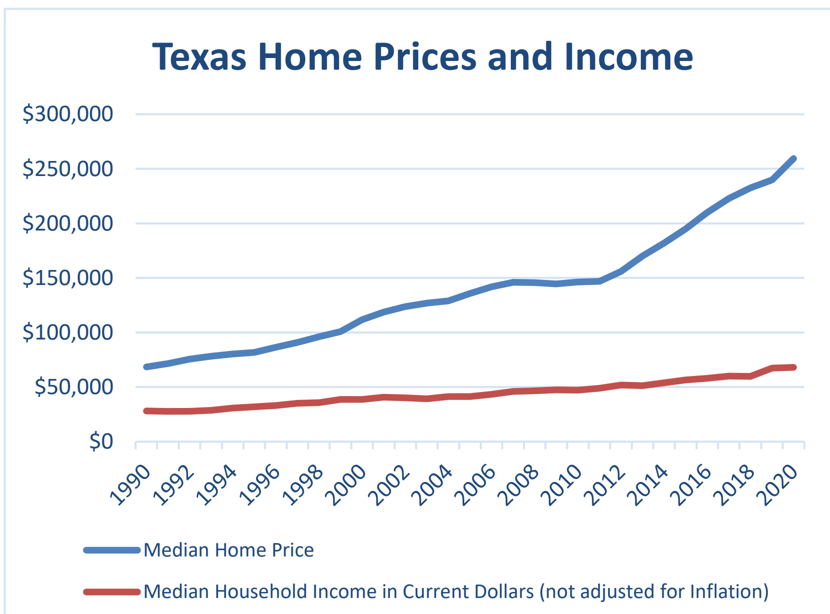
2. Credit Card with a low interest rate

3. Home Equity Loan

4. Other options may be offered by individual County Tax Collectors or Texas Tax Code Chapter 31 (some options may have eligibility requirements)

Factors Affecting Property Tax Loans

Texas is in the top 10 states for highest property tax rates. An analysis of 2019 tax payment data concluded that the median taxes on a median priced Texas home produced an effective tax rate of 1.80%. (Kiernan, 2021) High tax rates on property and increasing property values would generally raise the cost of home ownership through increasing taxes.



Increased property values represent unrealized gains to Texans maintaining residency. Texas property values have seen a dramatic increase over the last 10 years (Texas Real Estate Research Center - Texas A&M University, 2021) largely outpacing both real and nominal wages. (US. Census Bureau, 2021)

Homestead exemptions are another important tool in mitigating the rise in taxes as they limit assessed value increases from year to year and provide a reduction in the taxable value of the property. Effective November 3, 2015, Texas voters approved an increase on the homestead exemption from $15,000 to $25,000 on school taxes. In May 2022, Texans will vote on whether to increase the homestead exemption on school taxes from $25,000 to $40,000.

Important public policy decisions affecting taxes on homesteads, property owners on fixed incomes (aged 65 and older, disabled, surviving spouses), and payment options at the tax office all impact the amount of taxes owed and the demand for property tax loans.

[7] Texas Tax Code §33.02

Property Tax Lending
Consolidated Volume Report
Calendar Year 2020

Loans Made Statistics	Residential	Non-Residential	Total
Number of Loans	7,747	1,765	9,512
Amount of Loans	$100,259,930	$65,093,414	$165,353,344
Average Loan Amount	$12,942	$36,880	$17,384
Total Closing Costs	$7,251,206	$3,287,361	$10,538,567
Average Closing Costs	$822	$1,565	$960
Average Interest Rate	13.09%	11.87%	

Total Volume Statistics	
Number of Loans Receivable	27,525
Amount of Loans Receivable	$481,419,698
Number of Loans 90+ Delinquent	8,217
Amount of Loans 90+ Delinquent	$204,522,830
Number of Foreclosures	295
Amount of Foreclosures	$9,613,339

Number of Companies Reporting: 69

Data as of 6/2/2021

Credit Access Businesses (Payday and Title Loans) Chapter 393

Overview

Credit access businesses (CABs) obtain credit for a consumer from an independent third-party lender in the form of a deferred presentment transaction or a motor vehicle title loan, more commonly referred to as "payday loans" or "title loans." In Texas, the actual third-party lender is not licensed; rather, the credit access business that serves as the broker is the licensee in this regulated industry.

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

Type of Customer

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

Typical Rates

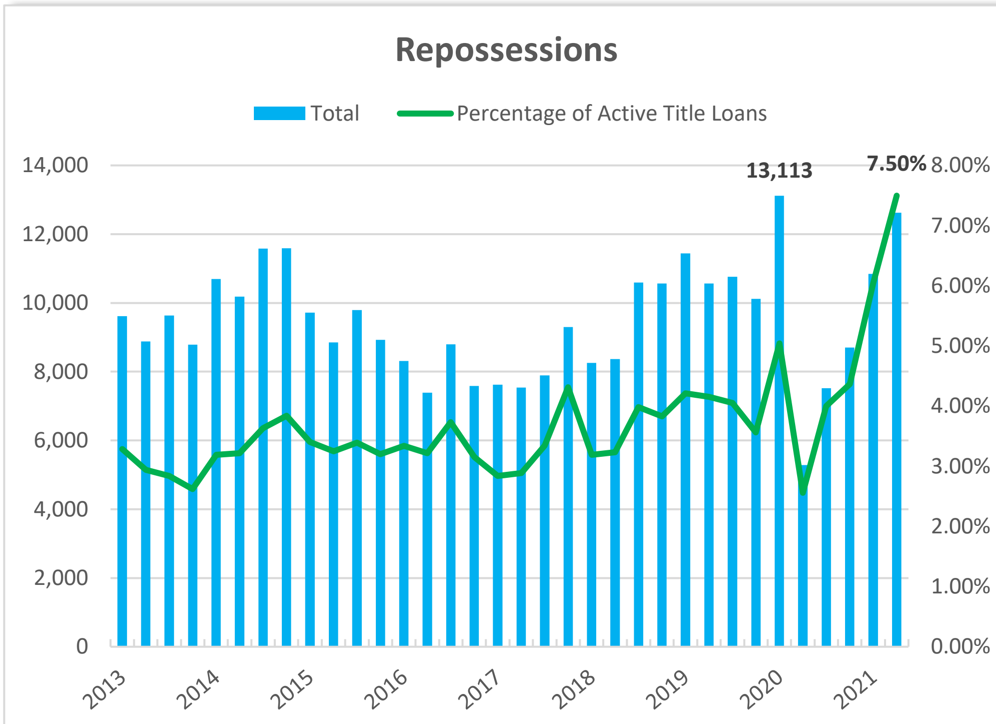
The majority of the loan cost is not capped. Fees charged to borrowers by the CAB typically depend on the amount of the loan and the length of the term. CAB agreement terms are limited to 180 days or less. The entire loan may be due in a matter of days, or the loan may be due over several equal payments.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

Allowable Charges	Fees charged by broker are uncapped (lender interest is 10% or less)
	APR can exceed 400%
	Late charge is 5% of payment or $7.50 (whichever greater). Late charges may be assessed 10 days after the due date.
	Filing fees and non-sufficient fund fees
	Consumer may have the option to purchase insurance or motor club memberships
Loan Terms	No maximum loan amount (typically $400 - $1,200)
	Loan terms range from 3 - 180 days
	Entire amount may be due in a single payment
	Prepayment allowed (without penalty) but fees may be non-refundable

Default

Borrowers utilizing title loans risk losing their motor vehicle to the lender or to the CAB. The loan is usually guaranteed by the CAB and the borrower will be pursued for the deficiency balance. Creditors may file suit against the borrower for non-payment and some may report the repayment history to consumer reporting agencies. A borrower may also face attorney fees, repossession fees, and court costs added to the loan balance.

The prevalence of motor vehicle repossessions in the CAB industry is reported by quarter and have typically totaled 8,000 to 12,000. However, total repossessions in Q1 2020 peaked at about 13,100. This number then fell significantly in Q2 2020 as lenders worked with borrowers at the height of the coronavirus pandemic. Many people lost their jobs; however federal stimulus and loan forbearance played a large role in limiting Q2 repossessions. In 2021, total and rate of repossessions increased. In the past, 2-5% of active motor vehicle title loans had repossessions in a quarter. In the second quarter of 2021 this rate increased to 7.50% of all title loans. The combination of less CAB loan volume and a high number of repossessions increases this rate.



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 2020

Data contained within the below summary represents aggregated statewide annual data reported by credit access businesses (CABs) ***as of 3/3/2021.*** *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 3, 2021.

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 2020 that did not refinance.	425,468	504,022	17,065	54,214
2	Number of refinances of extensions of consumer credit before paid in full or otherwise closed for reduced payoff in the report year.[8]				
2A	Refinancing 1 time	79,439	57,316	2,710	7,958
2B	Refinancing 2-4 times	105,262	39,953	11,008	17,100
2C	Refinancing 5-6 times	13,470	5,310	5,617	1,921
2D	Refinancing 7-10 times	9,741	2,610	7,373	1,388
2E	Refinancing more than 10 times	6,633	1,186	14,440	1,208
3	Total amount of CAB fees charged by the CAB on all CAB contracts during 2020.	$95,561,491	$889,739,597	155,304,705	$253,972,678
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.	278,711	455,077	89,784	51,961

(Table continued on next page)

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

Item #	Item Description	Single Payment Deferred Presentment Transactions	Installment Deferred Presentment Transactions	Single Payment Auto Title Loans	Installment Title Loans
5	Number of consumers for whom the CAB obtained or assisted in obtaining an extension of consumer credit during 2020.	384,140	991,690	96,477	139,060
6	Total number of new extensions of consumer credit during the report year for each of the following loan ranges (cash advance amounts).				
6A	$0 - $250	160,091	138,276	8,702	5,467
6B	$251 - $500	297,607	279,433	19,193	21,119
6C	$501 - $750	57,228	151,947	12,142	15,273
6D	$751 - $1000	42,114	143,493	15,672	17,885
6E	$1001 - $1500	16,083	65,527	14,550	17,822
6F	$1501 - $2000	6,501	22,595	9,791	10,359
6G	$2,001 - $2,500	10	4,146	5,401	5,766
6H	$2,501 - $3,000	5	2,650	4,686	4,619
6I	$3,001 - $5,000	4	194	7,530	6,204
6J	$5,001 - $7,500	1	7	2,726	1,542
6K	Over $7,500	0	1	2,190	841
7	Total dollar amount of new extensions of consumer credit during the report year for each of the following loan ranges.				
7A	$0 - $250	$29,243,050	$23,779,462	$1,367,498	$1,011,164
7B	$251 - $500	$120,405,612	$112,197,940	$7,741,135	$8,655,313
7C	$501 - $750	$36,235,712	$96,484,011	$7,696,129	$9,668,436
7D	$751 - $1000	$38,843,513	$130,805,611	$14,529,888	$16,520,256
7E	$1001 - $1500	$20,471,390	$82,580,923	$18,869,501	$22,691,668
7F	$1501 - $2000	$11,827,412	$42,166,570	$18,029,985	$18,738,942
7G	$2,001 - $2,500	$22,336	$9,299,786	$12,553,737	$13,178,036
7H	$2,501 - $3,000	$15,000	$7,605,816	$13,396,230	$13,068,216
7I	$3,001 - $5,000	$28,900	$637,352	$30,025,019	$24,393,219
7J	$5,001 - $7,500	$6,400	$42,054	$16,699,902	$9,236,407
7K	Over $7,500	$0	$9,114	$20,579,315	$8,279,177
8	Total number of refinances on extensions of consumer credit originated in 2020.	439,858	162,441	136,723	43,147
9	Total dollar amount of extensions of consumer credit for 2020.	$257,099,324	$505,608,662	$161,488,315	$145,440,882
10	Total dollar amount of refinances for 2020.	$241,224,062	$192,860,227	$310,914,967	$102,043,767

Number of locations reporting activity in each category:	**646**	**674**	**952**	**750**

Total Number of Companies Reporting: **1,972**

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 $222
	180% for loans up to $1,480
	30% for loans for up to $2,222
	12% for loans up to $18,500
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 as of July 1, 2021. Rates adjust each July 1 based upon the Consumer Price Index.

Default

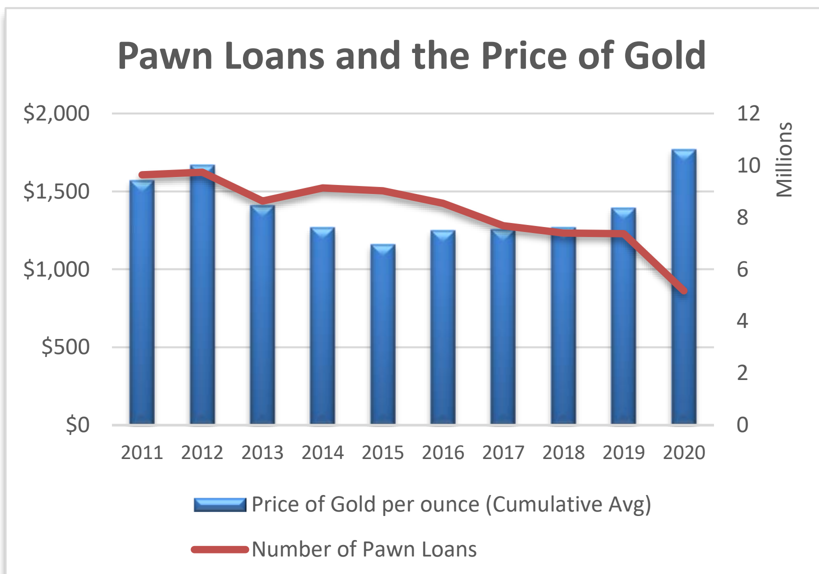
To reclaim possession of the pledged goods the pledgor must repay the entire loan. If the customer does not redeem pledged items at the end of the loan term those items may then become part of the pawnshop's inventory and are offered for sale to the public. In the event of forfeiture, the pledgor has no further obligations and the pawnshop is prohibited from seeking a deficiency, filing suit, or reporting the default of 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, 2021) is also an important factor for any pawnshop. Generally, in times of economic uncertainty the price of gold increases (Amadeo, 2020). In conjunction with consumer need for borrowing in economic downturns, high gold prices offer higher loan amounts on gold jewelry. Pawnshops are willing to lend more on gold when prices are expected to increase or stay elevated. Low gold prices can be a driver in less pawn demand because it indicates a strong US economy and carries the opportunity cost of risking gold assets on a lower dollar loan.



Instead of borrowing against gold customers may choose to sell to pawnshops instead which may decrease the number of pawn loans. Covid-19 also affected pawn loans since many customers who may normally use pawn services received government stimulus money.

Pawn Industry Consolidated Volume Report by Calendar Year

Figure 10:

Loans Made	Number of Loans	Dollar Value of Loans	Average Loan
2020	5,174,572	$761,250,480	$147
2019	7,373,149	$1,012,421,749	$137
2018	7,400,239	$1,002,291,887	$135

Figure 11:

Loans Outstanding	Number of Loans	Dollar Value of Loans	Average Loan
2020	1,258,157	$221,982,276	$176
2019	1,691,458	$275,993,630	$163
2018	1,698,304	$275,124,093	$162

Number of Companies Reporting in CY 2020: 1,374

Number of Companies Reporting in CY 2019: 1,381

Number of Companies Reporting in CY 2018: 1,369

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 transaction.

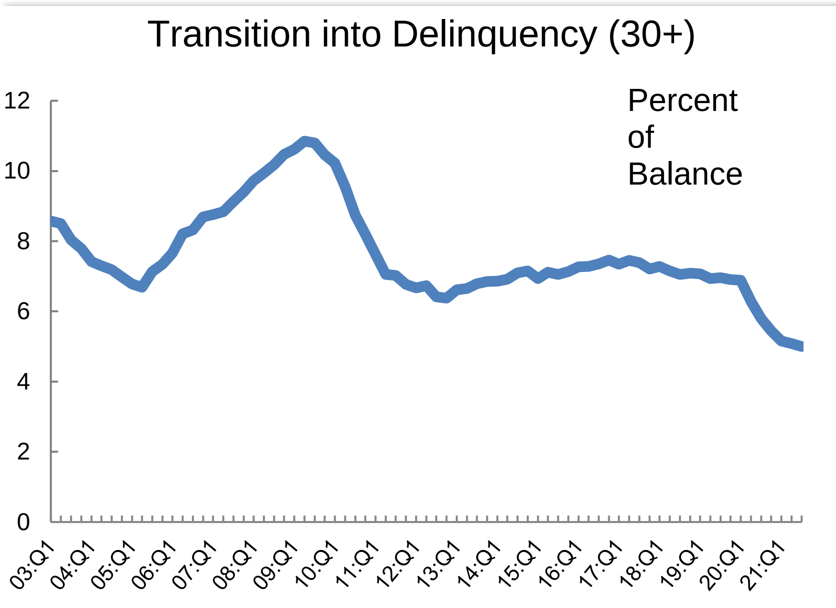
Typical Rates

The maximum allowable rates for motor vehicle sales finance are determined by statute as add-on rates. Most dealerships convert the add-on rates to equivalent rates that depend on term of the contract and age of the vehicle. The current maximum rates are as follows:

Maximum Rates	18% for New Cars
	~ 18% for cars one to two years old
	~ 22% for cars three to four years old
	~ 26% for cars five years and older
Example Other Charges	5% late fee for payments more than 15 days late
	Actual government official fees for taxes, title, license, inspection
	Reasonable Documentary Fee (normally $150)
	Ancillary products may be purchased
	Out of pocket expenses required for repossession of the vehicle

Default

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



Source: New York Fed Consumer Credit Panel/Equifax

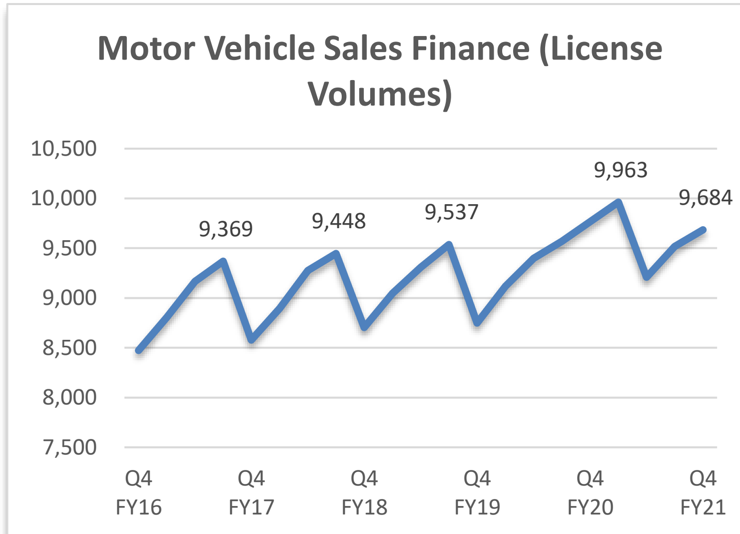
Initial delinquencies generally rise during times of economic stress. However, after the recovery of the "great recession" auto financing that was 30+ days delinquent remained relatively stable. The most recent data (Q2 2021) indicates the current economic environment has not affected initial delinquencies due to relief from the CAREs Act and voluntary concessions from lienholders as some consumers were able to work with creditors. In a New York Fed survey, 13.6% of borrowers reported receiving some form of assistance (deferment, reduction of payment, interest rate reduction, etc.) from their auto loan servicer. (Haughwout, Lee, Scally, & Klaauw, 6) As credit assistance plans end new delinquencies should be watched as a leading indicator as the economy attempts to recover.

Alternatives

Instead of obtaining financing through a dealership, prospective buyers can first shop for car loans at banks and credit unions. If their application is approved by an outside financial institution, rates can then be negotiated at the dealership. If the buyer's outside financing is more favorable the buyer can provide the loan approval to the dealer for up to the approved amount.

Motor Vehicle Sales Industry Data

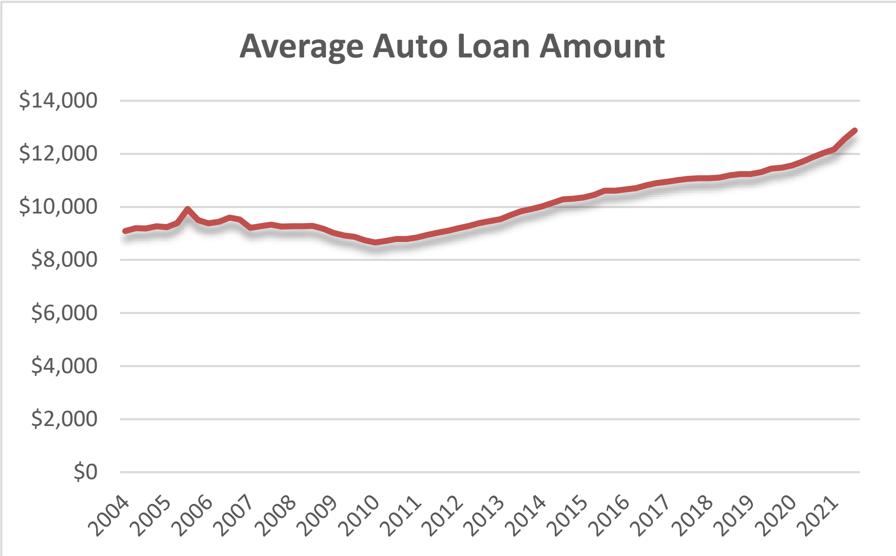
The OCCC does not currently collect annual report data from motor vehicle sales finance dealers who hold a chapter 348 license. Industry monitoring is primarily completed through examinations, stakeholder meetings, and the change in license levels. The highest licensing levels used to occur in the third fiscal quarter every year. Renewals occurred in the fourth fiscal quarter and there is an anticipated drop for those companies that have closed and do not renew their license. Starting in 2020, renewals were moved to the first quarter of the year and now the highest levels should be at the beginning of the fiscal year. The chart represents the peak licensing levels for the last five years. Although the license count has been increasing each year, the most recent fourth quarter (FY21) indicates licenses will not surpass their peak reached in FY21.



National Trends

United States motor vehicle sales increased every year from 2009 to 2016 but rising vehicle prices may have capped consumer enthusiasm in the ensuing years. Seasonally adjusted sales stagnated from 2016 through 2019, with figures hovering around the 17-18 million vehicles range. Sales dropped off significantly in the early days of the pandemic but began to rebound until supply chain disruptions occurred. Shortages effected both the new and used car market since an important source of used cars is trade-ins on the purchase of a new car.

Due to the rising prices of cars and limiting inventory many potential buyers were forced to hold onto cars they otherwise would have upgraded. Supply chain shortages have also affected parts to repair older vehicles and its unclear when the auto market will return to normal. One mitigating factor has been the increased remote work opportunities that has reduced the need for daily commuter vehicles in the short term.

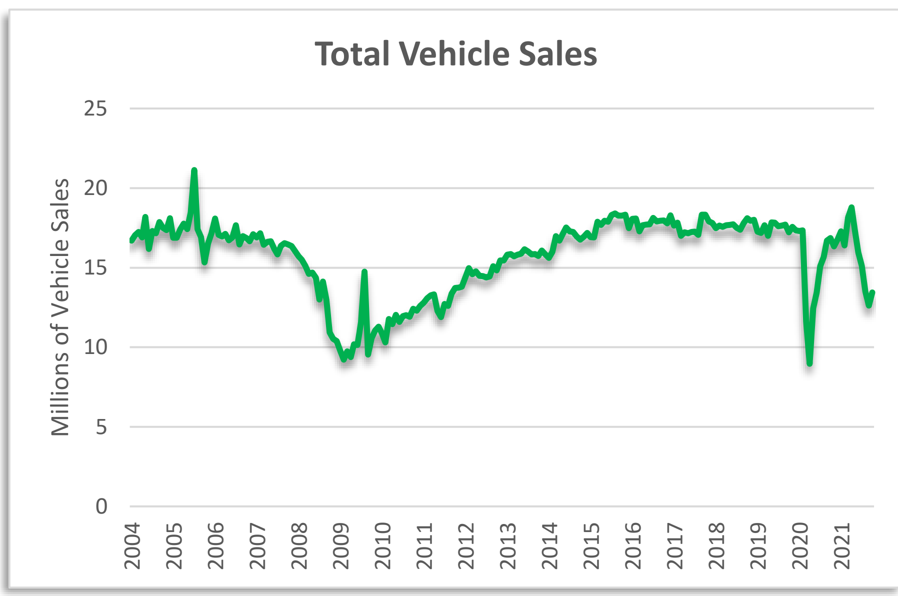


Average Auto Loan Amount

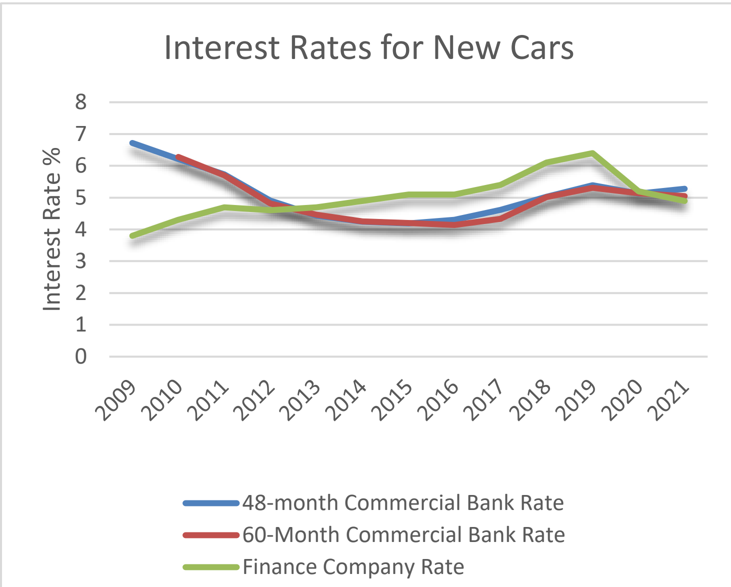
The average auto loan amount increased to $12,881.63 in 2021 Q3. Since early 2010, the average loan amount has increased from $8,657. General inflation of the dollar over time and longer-term loans have contributed to this jump. This average represents the amount that a person has left to pay on an auto loan, not the amount of a brand new loan.
(Federal Reserve Bank of New York, 2021)

Motor Vehicle Sales

Motor vehicle sales steadily increased following the great recession before stalling around 2015. After a massive drop in motor vehicle sales in the early months of 2020, there were signs of a V-shaped recovery. However, the recent spike in auto prices due to supply chain shortages has caused the number to recede once again. We can expect car sales to remain low as long as supply chain issues continue to cause an increase in car prices. (Federal Reserve Bank of St. Louis, 2021)



Interest Rates for New Cars

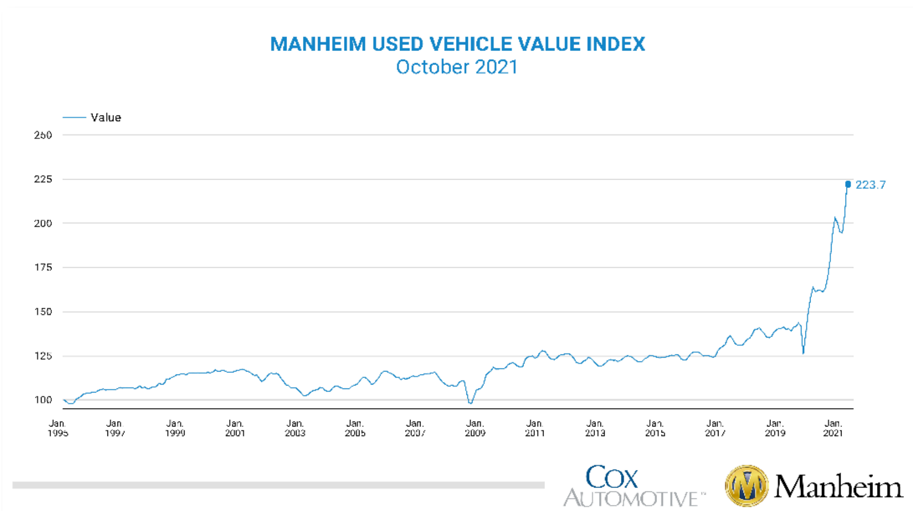


Bank Rates dipped following the recession but had been rising for the last few years. Now with the auto industry (among others) disruption, interest rates remained low to encourage consumer spending. Higher car prices are driving up payment amount or extending payment terms to remain affordable. If interest rates increase on vehicles that will put more pressure to extend loans out to longer lengths. (Board of Governors of the Federal Reserve System, 2021)

*2021 numbers through Q2

Current Outlook of Motor Vehicle Sales

Recessions tend to depress sales of motor vehicles like many other household purchases. The "great recession" of 2008 also impacted credit markets causing a dramatic decrease in new car sales. (Kellogg Insight, 2016) The current economic conditions present their own challenges for car sales.



The Manheim Used Vehicle Value Index increased 38.1% from one year ago, and plans to purchase a vehicle in the next six months increased to a higher level than a year ago. (Manheim, 2021) The strength in wholesale prices of used cars indicate cars will be more expensive for consumers in the future and could prove a challenge for the auto industry to make up for the decline in sales. Sellers are experiencing higher margins on existing inventory in the near term.

Installment Loan Comparisons – Examples of Pricing and Restrictions

The Texas Constitution authorizes the Legislature to set maximum interest rates (usury) and to define what constitutes interest. Except as otherwise provided by law (OCCC licensing or exemption) the maximum rate of interest is 10% per year. Texas Finance Code chapter 342 outlines various pricing options and rates structures for loan products that exceed 10% per year. Loan ceilings place restrictions on the amount borrowed at specially authorized rates and are revised each year to represent changes in the Consumer Price Index.

For **Subchapter E** loans, interest rates would start at rates above 10% and could reach a maximum rate of 30%[9]. 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 $2,220 and 8% for the amount over $2,220 up to $18,500,
- a simple interest rate up to 18%, or
- a three-tiered interest rate up to 30% for the loan amount up to $3,700, 24% for the amount over $3,700 up to $7,770, and 18% for the loan amount over $7,770 up to $18,500.

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. The terms of the loan would impact the maximum effective interest rate as illustrated in the following terms[10]:

- 12 months – 79.38%
- 24 months – 75.22%
- 36 months – 71.09%

Credit Access Businesses (**CABs**) assist customers in obtaining payday or title loans. These loans do not have maximum loan ceilings but are limited in term to no more than 180 days[11]. Additionally, these loans are subject to Texas Finance Code chapter 302 (*not chapter 342)* and carry interest rates of 10% or less with non-interest fees added on.

APR and Finance Charges

In addition to interest, in most cases, borrowers are charged pre-paid finance charge. In some transactions that could be a small part of the finance charge compared to the interest and in other transactions it could be the majority of the finance charge. Prepaid finance charge limitations for each referenced loan are:

- **Subchapter E (342-E)** - $100 administrative fee with timing restrictions on refinances
- **Subchapter F (342-F)** - Acquisition charge that does not exceed the lesser of $100 or 10% of the loan amount with some timing restrictions on how often it may be charged
- **CABs** - No limit on non-interest fees or how often they may be charged

Product limitations for specific loan amounts and payment amounts could restrict consumer choice and credit availability. The following charts provide a comparison of installment consumer credit products authorized by the Texas Finance Code and regulated by the OCCC. Included in the comparisons are the prices a consumer would expect to pay and the restrictions on borrowing they would face based on the product.

[9] *Depending on the loan terms the add-on rate structure can produce a higher yield than 30%*

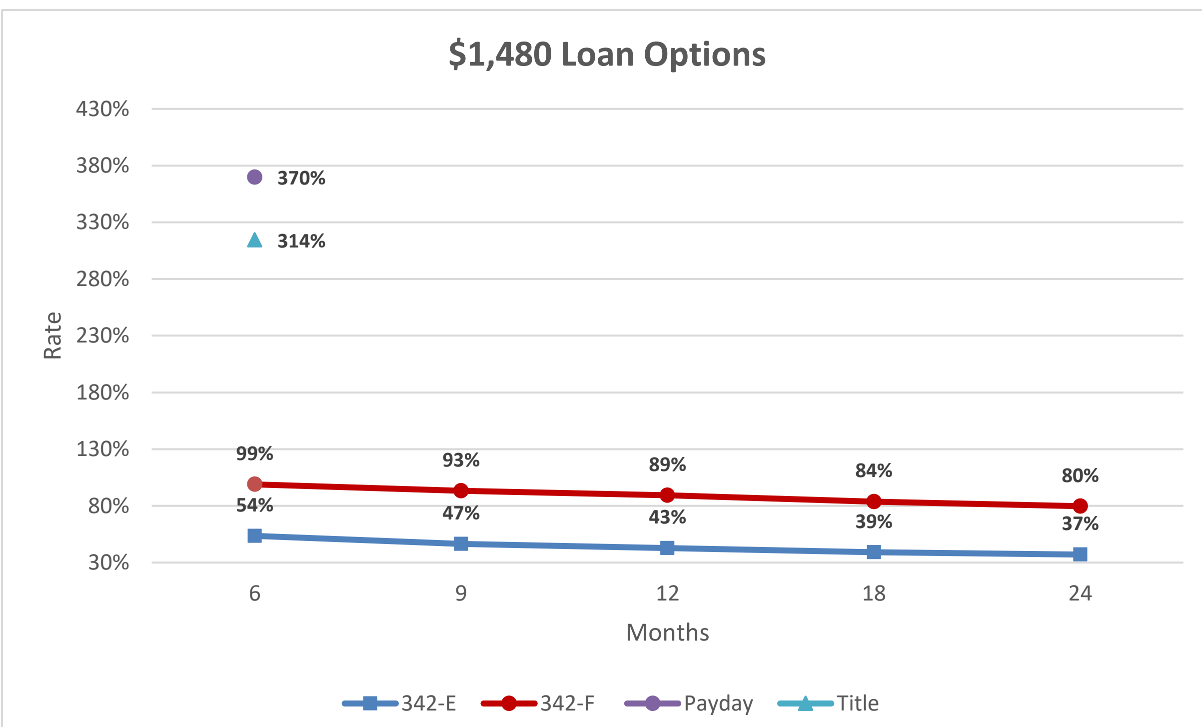
[10] *Figure: 7 TAC §83.606(f)(4)*

[11] *Texas Finance Code §393.201(b)(2*)

Customers Seeking $1,480

	APR (e) for Term in Months of a $1,480 Loan						Payment for Term in Months of a $1,480 Loan				
	6	**9**	**12**	**18**	**24**		**6**	**9**	**12**	**18**	**24**
342-E	53.85%	46.82%	43.09%	39.20%	37.17%		$286.82	$198.16	$153.98	$110.05	$88.31
342-F	98.94%	93.36%	89.45%	83.83%	79.73%		$322.53	$234.76	$190.87	$146.98	$125.03
Payday	369.66%	CAB Loans cannot exceed 180 days					$569.64	CAB Loans cannot exceed 180 days			
Title	314.45%						$515.37				

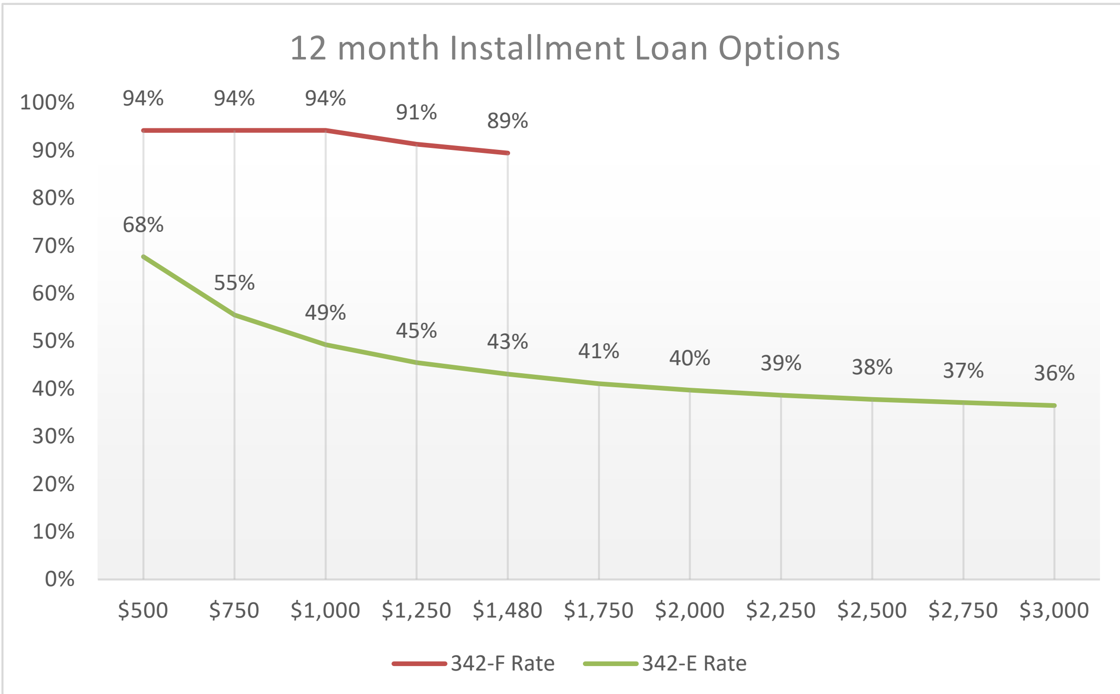
CAB[12]
Customers seeking $1,480 loans could take out a CAB loan for 180 days or less; however, affordability becomes a concern even for installment payments that would cost over a $500 monthly.
342-F
The current maximum loan amount ($1,480) would allow a borrow to obtain one loan at one lender and not violate duplicate loan restrictions. The prepaid finance charge is limited to $100 on loan amounts over $1,000 and a monthly payment would equal about $125 for 24 months or $191 for 12 months.
342-E[13]
A borrower could receive a loan and have a monthly payment of less than $90 if the loan was extended for 24 months or a $154 payment for 12 months.



[12] *CAB loan details are based on average terms reported in the Finance Commission Report on 10/15/2021 and assumes payments decrease principal balance.*
[13] *Assumes administrative fee is financed in principal and slightly increases costs*

Customers Seeking above $1,480

Although three products are compared they represent three distinct types of installment lending: (1) CABs - short term, (2) 342-F – small dollar, and (3) 342-E – large dollar lending *(there are no prohibitions from offering the 342-E product in the short term or small dollar market)*. Once borrowers begin seeking larger or longer advances their options are reduced and may encounter qualification issues.



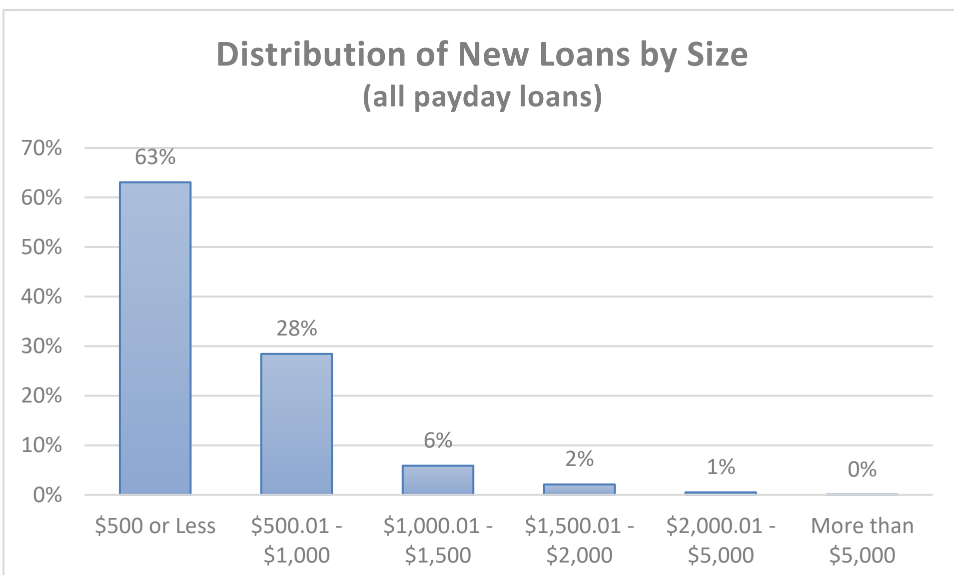
Consumers should choose the lower priced form of credit if both are equally available and accessible. Individual borrowers have different credit profiles and qualify for different products. In this case, the two different types of loans likely serve different borrowers and provide access across multiple credit profiles. One of the questions that remains is are there borrowers in between the two credit products? Those borrowers would still have access to the higher priced loans but might be better served if there were additional options.

Although the comparisons are based on the maximum authorized rates it is the experience of the OCCC that most 342-F loans are made at those rates. Borrowers may stack multiple smaller 342-F loans from different lenders to obtain a desired loan amount; however, the consumer is likely to face some additional effects that could include: (1) additional collection calls (2) additional credit inquires (3) logistical costs in making separate payments.

2020 Texas Credit Access Business (CAB) New Loan Originations by Size (excludes refinances)

"Payday Loans"

	Single Repayment Typically 1 month or Less		Multiple Payments Typically 4-5 months	
Loan Amount	Number of Loans	Share of Distribution	Number of Loans	Share of Distribution
$500 or Less	457,698	79%	417,709	52%
$500.01 - $1,000	99,342	17%	295,440	37%
$1,000.01 - $1,500	16,083	3%	65,527	8%
$1,500.01 - $2,000	6,501	1%	22,595	3%
$2,000.01 - $5,000	19	0%	6,990	1%
More than $5,000	1	0%	7	0%
Total Payday Loans	579,644		808,268	



In comparison to Texas Finance Code chapter 342 loans, CAB loans (even multiple installment loans) are much more likely to be less than $1,000. In 2020, 91% of all payday loans were under $1,000. These transactions contain 180-day terms limit pushing the payments outside affordability limits if a consumer wanted to borrow more. Its clear by the distribution that consumers should not look to CAB loans for large advances or for long term credit needs.

Alternatives to High-Cost Lending

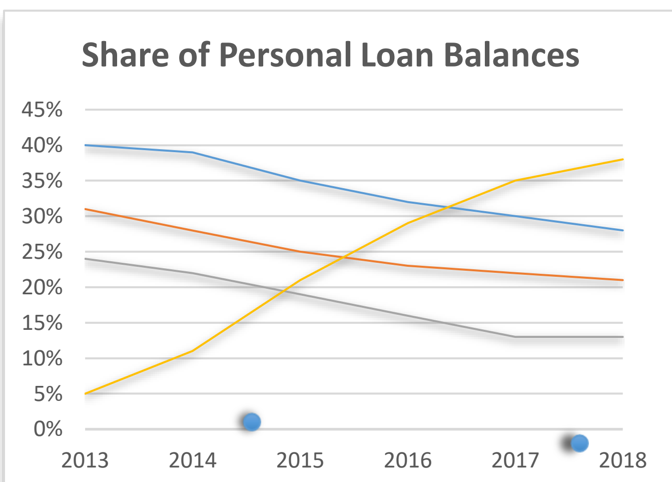
Overview

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

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

FinTech and RegTech

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



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

COVID-19, Fintech, and Innovation

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

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

Buy Now Pay Later (BNPL)

Third party financing options at checkout have proliferated throughout e-commerce websites and a recent survey found 42% of customers have used these options at least once. (Akeredolu, Braden, Friedman, & Udis, 2021) The industry known as Buy-Now-Pay-Later (BNPL) or Point-of-Sale Financial Services was vastly different just a few years ago. Historically, large purchases were made at big box retailers and many retailers offered a bank or private label credit card to finance the purchase. Now, fintech firms are partnering with merchants for online and in-store purchases. This is a paradigm shift that has non-traditional lenders leading the way in consumer finance. (McKinsey & Company Financial Services Practice, 2021)

Fintech BNPL's have diverted $8 billion to $10 billion in annual revenues from banks, according to McKinsey's Consumer Lending Pools data

BNPL fintech companies are often positioned as a payment option at online checkout in conjunction with the consumer's credit card, debit card, gift card, or other mobile pay options. The acceptance of this option is widespread by consumers. McKinsey & Company's POS Financing Survey found "About 60 percent of consumers say they are likely to use POS financing over the next six to 12 months." (McKinsey & Company Financial Services Practice, 2021)

A typical BNPL transaction offers the consumer the ability to purchase the merchandise now and pay in four interest free installments. Sellers subsidize interest free BNPL transactions by paying two or three times the merchant fees that are paid to traditional payment cards. The increased transaction costs are worth it to the sellers as studies have shown when consumer pay in installments they increase average order values and buy more frequently. (CB Insights, 2021)

In 2021, the retailer Walmart ceased their layaway program and partnered with a BNPL that charges between 0-30% depending on the customer's credit and store promotions. (Walsh, 2021) Layaway programs do not charge interest and do not require a credit qualification; however, customers do not have access to merchandise until they have made all layaway payments.

The current United States payment card industry (credit, debit, prepaid cards) transfers $8 trillion through the economy annually. BNPL is still a small percentage of those annual sales but tremendous growth is expected and up to 15 times BNPL current sales volume is estimated by 2025 that could total $1 trillion. (CB Insights, 2021)

Consumer Protections

Although positioned as similar options to credit and debit cards BNPL do not have the same protections. The CFPB advised:

1. BNPL transactions don't have the same dispute protections as credit cards (faulty merchandise or fraudulent purchases.
2. Returning merchandise can be complicated.
3. Customers may be responsible for the total cost of the purchase even after return.

(Akeredolu, Braden, Friedman, & Udis, 2021)

State laws may not apply to the transactions either. In Texas, loans must have a rate greater than 10% to require a regulated loan license. Several BNPL companies structured their products as retail installment agreements to avoid licensing and regulation by the state of California. Settlements reached in 2019 and 2020 between the California Department of Financial Protection and Innovation and BNPL companies required companies to obtain licenses under the California Financing Law. The newly licensed companies BNPL companies reported originating over 10 million California loans in 2020, representing 91% of all consumer loans originated in that year. (California DFPI, 2021)

Earned Wage Access (EWA)

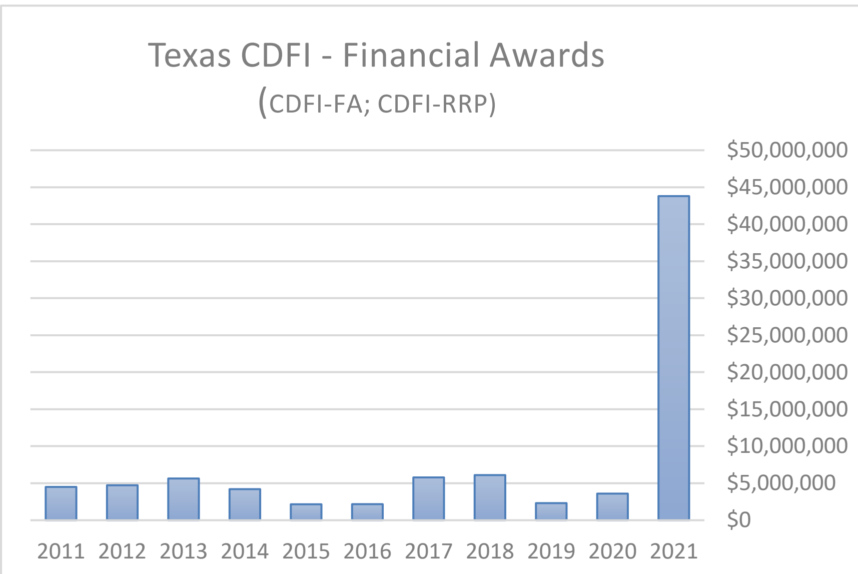
Another fintech development includes companies that allow workers to access their earned wages before the completion of their pay period. Earned Wage Access (EWA) companies either provide the earned wages directly or as a partnered benefit provided by the employer. (Godoy, 2021)

Consumer Protections

In 2020, the CFPB issued an advisory opinion that one specific EWA product was not an extension of credit. A coalition of 96 consumer advocates sent a letter to the CFPB in October 2021 asking them to review the issue and regulate the EWA industry (especially products that charge a fee). This industry has the potential to grow rapidly and the evolution of these products is likely to be monitored by federal and state regulators. (96 consumer, labor, civil rights, legal services, faith,, 2021)

Low-cost lending programs

There are a number of organizations licensed by the OCCC that are Community Development Financial Institutions (CDFIs) certified by the United States Department of Treasury (Community Loan Center of the Rio Grande Valley, 2020). CDFIs are mission driven financial institutions that serve economically disadvantaged communities by expanding access to credit in those communities. (U.S. Department of the Treasury, 2021) CDFIs are a diverse group of banks, credit unions, loan funds, microloan funds, and venture capital providers. (US Department of the Treasury, 2021) These organizations generally have access to federal funds in addition to private capital to expand access and financial opportunities.



Graph represents awards to Texas organizations. Some national CDFIs also serve Texas Communities

CDFIs are required to match dollar-for-dollar in non-federal funds financial assistance awarded in grants. (U.S. Department of Treasury, 2021) Since 2011, Texas CDFIs have received $85 million in targeted awards. Although specific missions may be different, (1) affordable housing, (2) alternatives to high cost loans, (3) and services for the traditionally non-banked are main goals.

A newly created award in 2021 was related to the Covid-19 pandemic through the CDFI-RRP or Rapid Response Program grant. The streamlined award is funded by Covid-19 relief appropriations and is designed to provide capital for CDFIs to respond to economic challenges created by the COVID-19 pandemic, particularly in underserved communities. (US Department of the Treasury, 2021)

Financial Education

The OCCC supports financial education by conducting financial education classes and by assisting organizations that develop and deliver financial education classes. There are several organizations throughout the state that offer financial education services. These programs ensure that participants are afforded with the knowledge necessary to make informed financial decisions.

The OCCC partners with other state agencies, non-profit organizations, community groups, and businesses to provide financial education services. The OCCC also offers financial education webinars directly to consumers. During fiscal year 2021, the OCCC provided 1,940 individuals with financial education services.

The OCCC administers the Texas Financial Education Endowment (TFEE) Grant. The 82nd Texas Legislature created the Texas Financial Education Endowment (TFEE) to support statewide financial capability and consumer credit building activities and programs. The endowment is funded through assessments on each credit access business and is administered by the Finance Commission of Texas.

The 2020-2021 TFEE Grant Cycle began on March 1, 2020 and will run through December 21, 2021. During this grant cycle, the Texas Finance Commission awarded $300,000 to ten organizations to support financial education opportunities. These organizations are working diligently to support and offer financial education opportunities to consumers.

The 2022-2023 TFEE Grant Cycle begins on January 1, 2021 and runs through December 31, 2021. The Finance Commission increased TFEE awards for the upcoming cycle, approving $409,000 in grant awards to twelve organizations.

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).

	348	*351*	*371*	*393*	*342-E*	*342-F*	*342-G/A6*
348	1.00						
351	0.03	1.00					
371	0.62	0.03	1.00				
393	0.47	0.00	0.63	1.00			
342-E	0.48	0.05	0.51	0.48	1.00		
342-F	0.47	-0.01	0.64	0.61	0.42	1.00	
342-G/A6	0.03	0.09	0.04	0.05	0.08	0.02	1.00

Excluding motor vehicle sales finance licenses, the industries that share a large positive correlation are 342-F (small installment lenders), 393 (payday and title lenders), and 371 (pawnshops).

342-F and 393 (0.61)
393 and 371 (0.63)
342-F and 371 (0.64)

Zip codes that contain the most OCCC licenses

The distribution of active and inactive licensed locations in the top 30 zip codes (ranked by total number of licenses) is provided in the next table. The table shows the number of licensed locations with their primary business designation. They are ordered from left to right: Motor Vehicle Sales Finance (348), Property Tax Loans (351), Pawn Loans (371), Credit Access Businesses (393), Personal Installment Loans (342-E), Small Consumer Loans (342-F), and real property related Secondary Mortgage Loans (342-G) & Home Equity Loans (A6).. Data is as of **11/03/2021**.

Demographic information about each zip code was obtained from ZipDataMaps estimates derived from US census data. (ZipDataMaps, 2021) Estimated population and median household income are presented by zip code.

	Zip	Population	Median Household Income	Location	348	351	371	393	342-E	342-F	342-G/A6	Grand Total
1	75211	73146	40675	SW Dallas	103	0	3	5	9	7	0	127
2	78501	61219	43650	McAllen	57	1	7	18	7	33	0	123
3	77037	19819	41757	N-Houston/Adeline	101	0	6	3	6	6	0	122
4	78521	93818	28583	Brownsville	76	0	8	9	2	22	0	117
5	79915	40057	28327	El Paso	89	0	5	3	1	9	0	107
6	75217	80324	38964	SE Dallas	88	0	7	3	3	3	0	104
7	75229	31571	77602	NW Dallas	94	1	2	0	2	1	0	100
8	78572	75221	31863	McAllen	61	0	4	9	3	23	0	100
9	75050	41041	51171	Grand Prairie	86	0	3	4	2	3	0	98
10	76011	21594	41024	Arlington	82	0	4	4	1	3	0	94
11	78577	70840	30629	Pharr	56	1	5	3	2	20	1	88
12	78550	53152	35668	Harlingen	38	0	5	13	1	27	0	84
13	78041	44153	40948	Laredo	54	0	5	8	2	14	0	83
14	77074	37267	38691	SW Houston	70	0	2	1	4	3	0	80
15	78415	39271	38582	South Corpus Christi	44	0	6	6	0	20	0	76
16	78520	59408	27565	Brownsville	35	0	8	2	4	25	1	75
17	77055	41989	46262	Spring Branch Houston	48	0	7	3	5	9	0	72
18	77063	34299	55905	West Houston	62	0	4	4	1	1	0	72
19	77083	70837	65222	SW Houston	54	0	1	8	7	2	0	72
20	78221	35990	33608	South San Antonio	25	0	6	7	2	30	0	70
21	75220	41891	41712	NW Dallas	52	0	5	4	4	4	0	69
22	76117	30645	44717	NE Fort Worth	57	0	6	2	2	1	0	68
23	77587	16568	39151	City of South Houston	58	0	3	2	2	2	0	67
24	79925	40641	45429	El Paso	47	0	3	4	3	10	0	67
25	77076	33803	34601	N Houston	54	0	1	2	2	7	0	66
26	78040	42083	21991	Laredo	39	0	7	3	1	16	0	66
27	78852	53040	26008	Eagle Pass	36	0	4	2	2	21	0	65
28	75041	30700	48497	NE Dallas	55	0	4	0	1	4	0	64
29	75702	27069	30813	Tyler	34	0	5	6	5	14	0	64
30	75901	29036	41803	Lufkin	41	0	4	9	1	9	0	64
				Top 30 Zip Totals	1796	3	140	147	87	349	2	2524
				Remainder of Texas	7645	81	1063	1452	749	1975	57	13022
				Out of State	303	7	1	51	237	92	134	825
				All Licenses	9744	91	1204	1650	1073	24	193	16371

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	348	351	371	393	342-E	342-F	342-G/A6	Total by Zip
342-E “In-State” Category Leader												
	76014	34,072	$56,507	Arlington	20	0	0	0	***12***	1	0	33
342-G/A-6 "In-State" Category Leader												
	75252	24,112	$77,201	N Dallas	6	2	0	0	0	0	***3***	11
351 Category Leader												
	78731	24,614	$78,109	NW Austin	0	***16***	0	0	1	0	0	17

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.

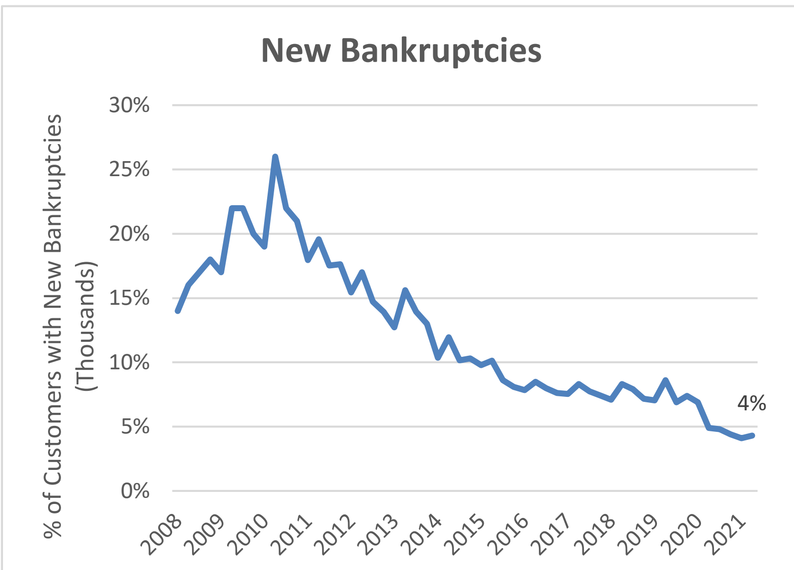
	Zip	Population	Median Household Income	Location	348	351	371	393	342-E	342-F	342-G/A6	Total by Zip
Highest Median Income with over 1,000 Households												
	76092	30,908	$230,750	Southlake	0	0	0	0	0	0	0	0
Lowest Median Income with over 1,000 Households												
	79901	10,284	$13,893	El Paso	6	0	2	0	1	28	0	37
Highest Population												
	77449	122,814	$75,911	Katy	13	0	2	4	1	7	0	27

National Credit Trends

Overview

The demand for consumer lending is currently recovering from a major fluctuation. The Federal Reserve's July Senior Loan Officer Opinion Survey shows that American consumer demand for mortgages is strong; but auto, credit card, and other consumer loans have experienced weaker demand. The total debt balance in the US fell slightly from Q1 to Q2 in 2020, but has since been on a strong uptrend as people feel safer about taking on new debt and most recently topped $15 trillion for the first time. Mortgage rates have dropped substantially due to intervention from the Federal Reserve, keeping the housing industry afloat. (Board of Governors of the Federal Reserve System, 2021)

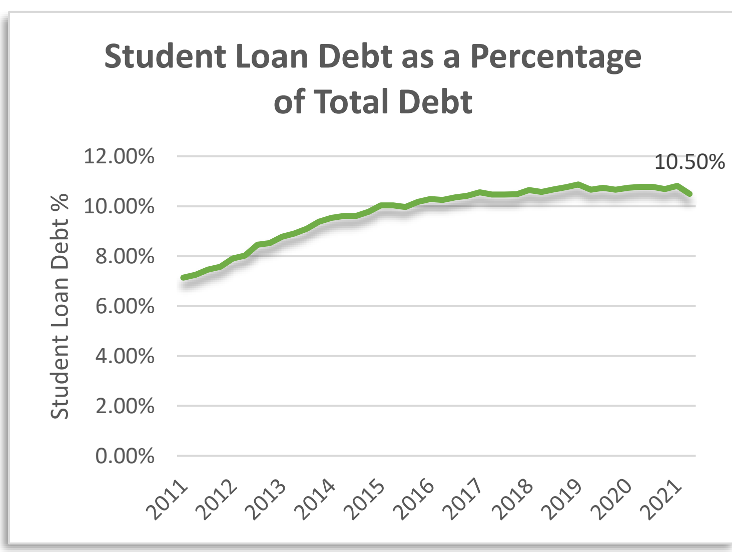
Bankruptcies



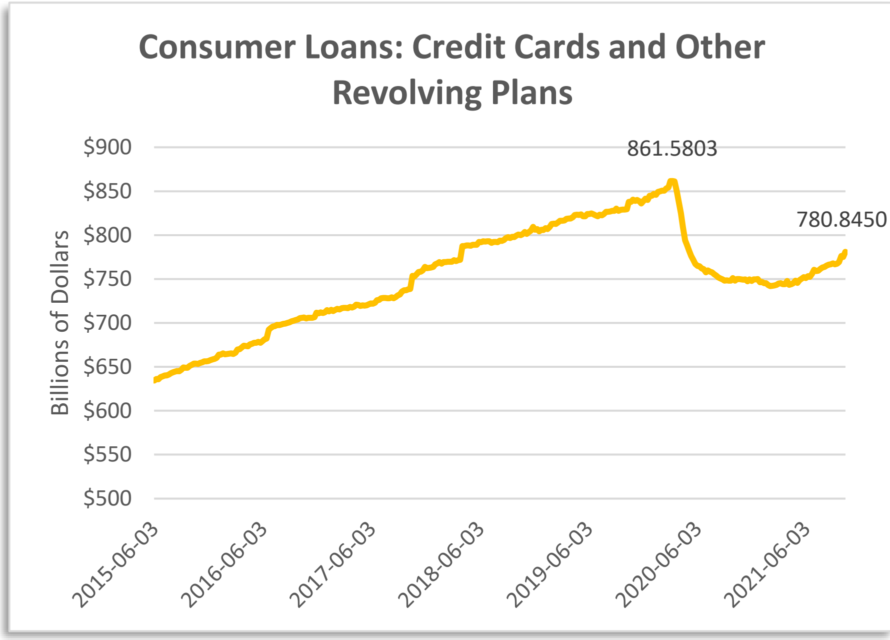
New bankruptcies peaked in 2010 following the recession as US consumers struggled to make ends meet. Since that time, consumers with new bankruptcies have decreased to just under 120 thousand per quarter. Much of the sudden drop in 2020 can be attributed to government coronavirus aid programs. Q1 2021 reported the lowest number of bankruptcies in the graph. (Federal Reserve Bank of New York, 2021)

Student Loan Debt

Student loan debt remains relatively high, leveling out between 10% and 11%. 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, 2021)



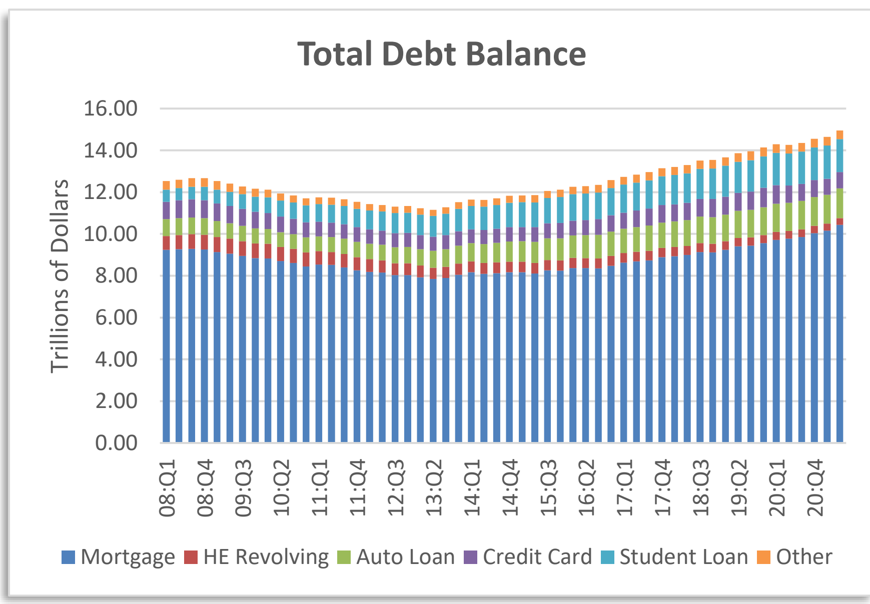
Credit Card Balances



Since the early stages of the pandemic Americans have been hesitant to rely on credit card debt. There was a spike in the personal savings rate during this period most likely attributable to federal stimulus and consumers anticipating an economic recession. However, this year we can see that the use of credit cards is on a strong path of recovery back to its pre-pandemic level. (Federal Reserve Bank of St. Louis, 2021)

Total Debt Balance

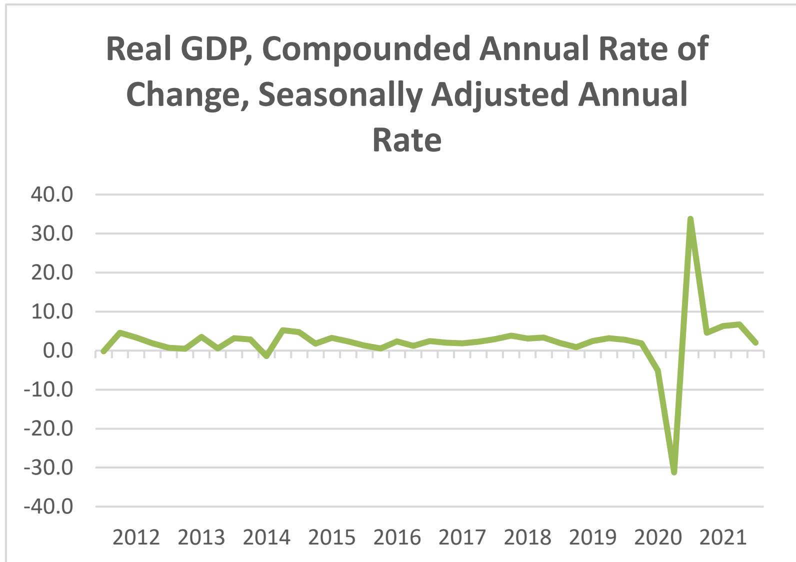
Total debt balance dipped from 2009-2013, but has been on the rise since then. While household debt fell in the early years of economic recovery in the United States, it has risen considerably alongside the decreasing interest rates. Total household debt rose 2.2% in 2021 Q2, compared to a 0.5% increase in 2021 Q1. The increase in household debt is being driven by rising mortgage and auto debt. In relation to CPI, credit card and student loan debt have been on the decline since the start of the coronavirus pandemic. (Federal Reserve Bank of New York, 2021)



Real GDP

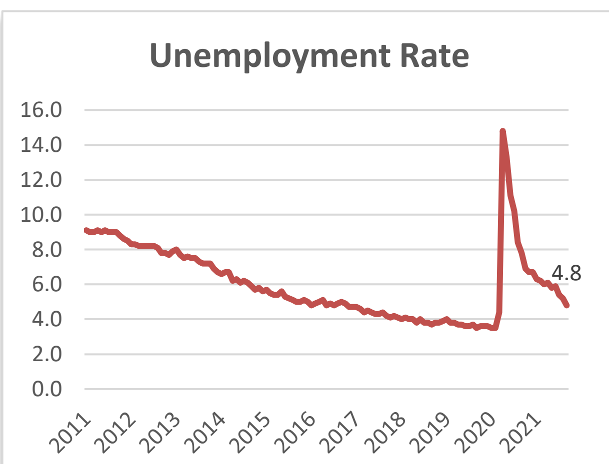
Real GDP growth is another lagging indicator that does not predict future economic performance but it demonstrates how well the US economy has performed in the lookback period. As can be seen in the graph, real GDP typically grows roughly 2-3% each quarter. In the second quarter of 2021, real GDP grew 2%. Although it may still be too early to tell, the data indicates a GDP growth similar to pre-pandemic levels, despite ongoing shortages and supply-chain issues.

(Federal Reserve Bank of St. Louis, 2021)



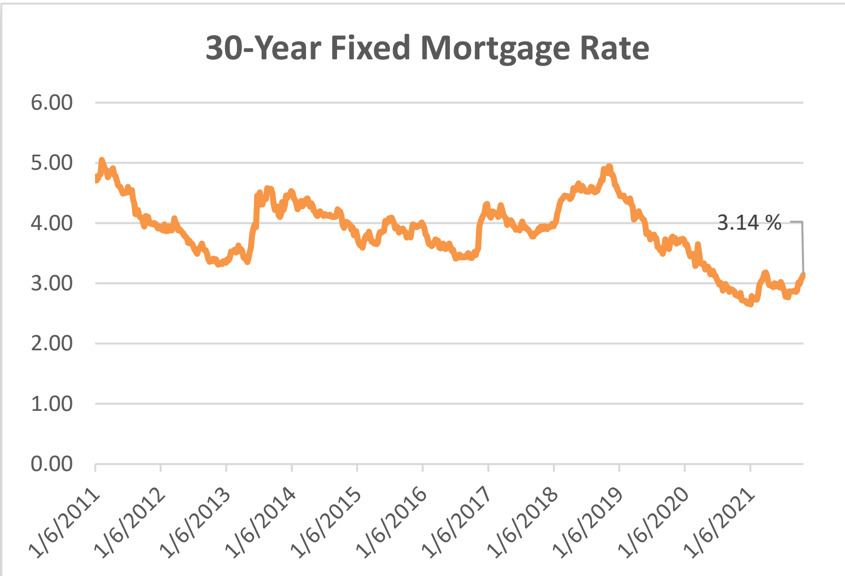
Unemployment Rate

The unemployment rate has dropped consistently since 2009 as the economy moved further away from the "great recession." This number peaked at 10% in late 2009 as the United States was in the early stages of economic recovery, and as of September 2019 that number sat at 3.5%, implying a healthy workforce. Unemployment numbers temporarily reached levels not seen in the modern economy due to the COVID-19 epidemic in 2020. In the latter half of 2020 and into 2021 companies begin hiring again and calling back laid off workers. The unemployment rate decreased 40 basis points from 5.2% in August to 4.8% in September of 2021. This is largely due to the continued partial reopening of businesses across the country following months of quarantine. However, it must also be noted that the unemployment rate only takes into consideration those who have still actively searched for work in the last 4 weeks. Thus, the recent labor shortages may be an indication of a higher underlying unemployment rate.



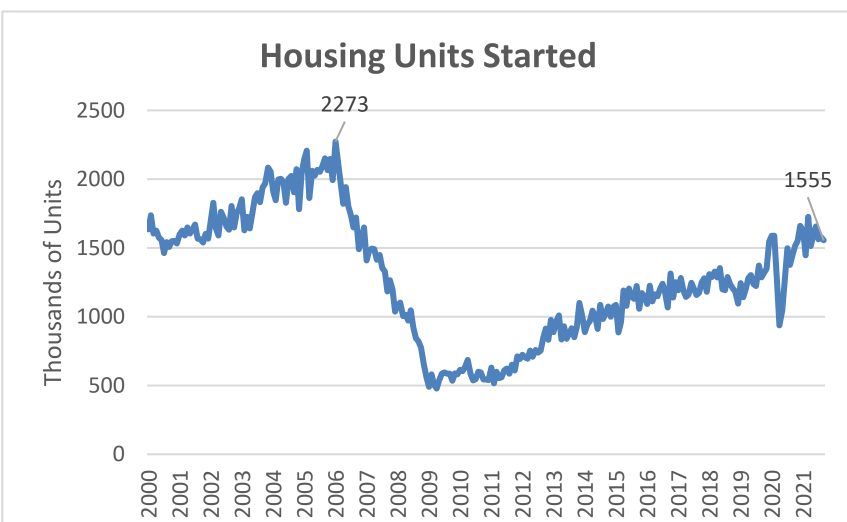
(Bureau of Labor Statistics, 2021)

Mortgage Rates

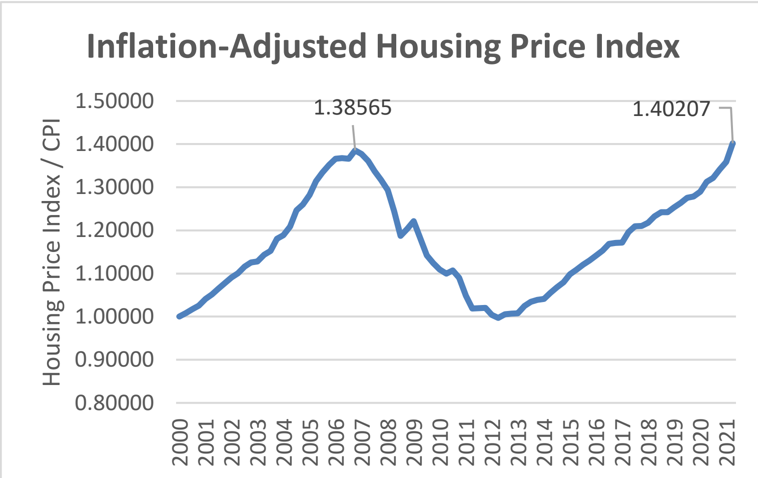


Mortgage rates have been in a gradual decline the past 10 years, with many fluctuations occurring along the way. Mortgage rates fell to historic lows at the beginning of the year, mainly due to the fed's attempts at stabilizing the housing market with the onset of the pandemic. This year, we have seen mortgage rates rise slightly from a historic low of 2.65% to 3.14%. Rates have generally been in decline since 1981, although conventional mortgages under 3% could be an anomaly that disappears in the near future. (Freddie Mac, 2021)

Housing Starts and Housing Price



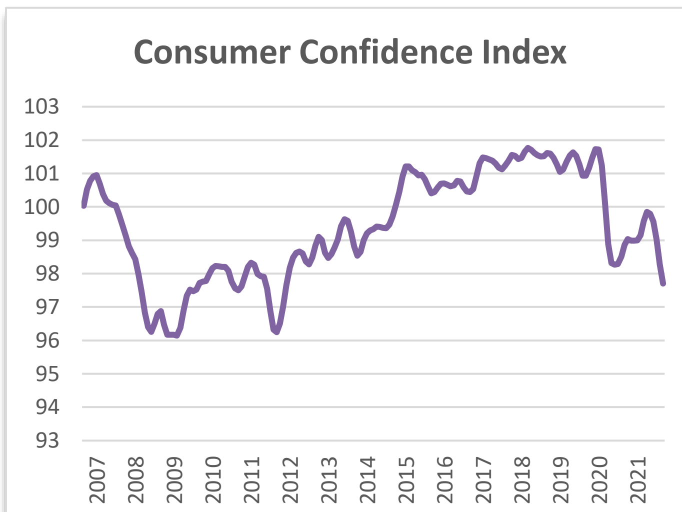
Housing starts is a good leading indicator because it shows how real estate developers feel about consumer spending habits in the near future. A rise in the number of housing starts can be a sign of increasing confidence in the nation's future development. Housing starts have increased steadily since the collapse of the housing bubble, but the trend experienced a sharp decline during the initial government shutdowns of last year. Since then, housing starts appear to have stabilized at first glance: there were 1,555,000 new housing units started in September of 2021, compared to 1,448,000 units started in September 2020.
(Federal Reserve Bank of St. Louis, 2021)



Inflation-adjusted housing prices can be a good indicator of how expensive houses are relative to past prices. Between these two charts we can see that the relative cost of purchasing a home in 2006 is about the same as the cost of purchasing one today, yet the number of housing starts today is far below the number of housing starts in 2006. This implies that suppliers are struggling to meet current housing demand, likely due to supply chain issues and labor shortages. (Federal Reserve Bank of St. Louis, 2021)

Consumer Confidence Index

The Consumer Confidence Index has steadily been rising in the 10 years following the "great recession." As the economy recovered during this time frame, consumers' confidence increased with improved performance and conditions. In 2019, the consumer confidence index fluctuated amid concerns about tariffs and weakening economies elsewhere in the world, but, the index was still trending upward in the long run. In this index, a number above 100 signals a boost in consumer confidence toward the economic situation which could portend more spending and less saving in the next 12 months. Inversely, values below 100 indicate a pessimistic attitude towards future developments in the economy, possibly resulting in a tendency to save more and consume less. Despite signs of economic recovery, the index recently has dropped to a level lower than 2020's CCI. (Organisation for Economic Co-operation and Development, 2021)



USA (2021), Consumer confidence index (CCI) (indicator). doi: 10.1787/46434d78-en (Accessed on 1 November 2021)

Economic Reports and Forecasts: State of Texas

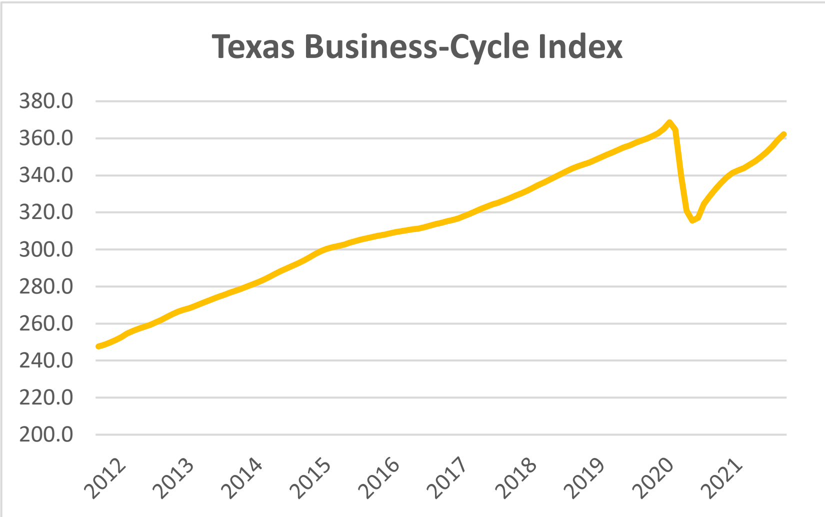
Overview

The state’s unemployment rate has been approaching 5%, which many economists consider to be a “healthy” rate. The number of Texans filing for unemployment relief has been cut in half since last year. Overall, Texas’s economic recovery appears to have strong potential, but is currently being held back by outside factors such as supply chain issues and labor shortages.

- **Unemployment Claims**
  - **1.7 million**
  - As of November 2, 2021, 1.7 million Texans have filed for unemployment relief since last year's report
- **Unemployment Rate**
  - **5.6%**
  - Texas’s unemployment rate was 5.6% in September 2021, down from 8.3% in September 2020
- **Sales Tax Revenues**
  - **$3.4 billion**
  - In October 2021, Texas’s sales tax revenues were up 24% from October 2020.

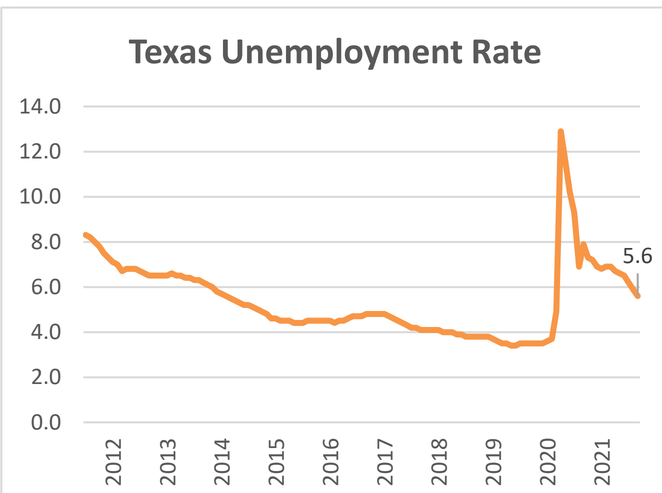
Initial unemployment claims have been falling and are now finally approaching pre-pandemic levels. Sales tax revenue has been increasing and oil prices are rising as the economy adjusts to the new post-COVID “normal”.

Texas Business-Cycle Index



Some of the OCCC licensees operate out of sync or against the normal business cycle, so when the economy is not doing well more people need loans and bring business to licensees. The economy has been doing well over the last 10 years. The shock the pandemic caused to the Texas economy did not increase borrowing in the short term but the length of the pandemic and changes in economic activity are not over. (Federal Reserve Bank of Dallas, 2021)

Texas Unemployment Rate



The unemployment rate in Texas peaked in late 2009/early 2010 as the state, and country as a whole, struggled to pull itself out of the "great recession." The Texas unemployment rate then fared better than the United States unemployment rate as whole over the last 10 pre-pandemic years, with the state rate topping out at 8.3% and the national rate peaking at about 9.9%. In April of 2020 the Texas unemployment rate stood at 13.5% while the national rate was 14.7%. As of September 2021, the Texas rate of 5.6% was slightly underperforming the national rate of 4.8%. (Bureau of Labor Statistics, 2021) Right now, reducing labor shortages and fixing supply chain issues are the main goals for getting the economy back on track to normal, pre-pandemic levels.

Reporting Requirements

The report has been prepared in response to and fulfills certain constitutional, statutory, and administrative regulation requirements.[14]

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.

[14] Sec.50(s), Art XVI, Texas Constitution
Texas Finance Code §351.164
Texas Finance Code §342.559
7 Texas Administrative Code §85.502

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