

Close Loophole for Payday Lending

The Texas Catholic Conference *supports the creation of regulatory standards for payday lending* to ensure that families are not placed in overwhelming financial situations.

In the teachings of our faith we have many warnings about usury and exploitation of people. Lending practices that, intentionally or unintentionally, take unfair advantage of one's desperate circumstances are unjust. Such practices risk the stability of the family. Catholic Social Teaching demands respect for the dignity of persons, preferential concern for the poor and vulnerable, and the pursuit of the common good. These principles coupled with our teaching on economic justice animate our questioning of current payday lending practices.

A Texas Bishop Speaks:

"Forcing poor families to pay 500% interest on short-term loans is wrong. The extreme interest rates charged by payday lenders create a painful cycle of dependence that traps financially vulnerable families throughout our state. It is time to end that cycle and offer families protection from this abuse."



-Bishop Joe Vásquez, Diocese of Austin

Church Teaching

- ★ The first thing of all to secure is to save unfortunate working people from the cruelty of men of greed, who use human beings as mere instruments for money-making. (*Pope Leo XIII, Rerum Novarum*)
- ★ Economics and finance do not exist for themselves, but are mere instruments or means. Their end is solely the human person and his full realization in dignity. This is the only capital worth saving." (*Pope Benedict XVI, June 12, 2010 to members of the Council of Europe Development Bank*)
- ★ Beginning with the Old Testament, all kinds of juridical measures (the jubilee year of forgiveness of debts, prohibition of loans at interest and the keeping of collateral, the obligation to tithe, the daily payment of the day-laborer, the right to glean vines and fields) answer the exhortation of *Deuteronomy*: "For the poor will never cease out of the land; therefore I command you, 'You shall open wide your hand to your brother, to the needy and to the poor in the land.'" Jesus makes these words his own: "The poor you always have with you, but you do not always have me." In so doing he does not soften the vehemence of former oracles against "buying the poor for silver and the needy for a pair of sandals . . .," but invites us to recognize his own presence in the poor who are his brethren. (*Catechism of the Catholic Church, 2449*)
- ★ Usury is a scourge that is also a reality in our time and that has a stranglehold on many peoples' lives. Although the quest for equitable profit is acceptable in economic and financial activity, recourse to usury is to be morally condemned. Those whose usurious and avaricious dealings lead to the hunger and death of their brethren in the human family indirectly commit homicide, which is imputable to them. (*Compendium of the Social Doctrine of the Church, 341*)

Resources

- ★ **Economic Justice for All** (www.usccb.org/jphd/economiclife/pdf/economic_justice_for_all.pdf)
- ★ **Charity in Truth** Encyclical Resource Page from the USCCB (www.usccb.org/jphd/caritasinveritate/)
- ★ **Texas Faith for Fair Lending** Texas Faith for Fair Lending is a grassroots effort by people of faith to change payday and auto title lending practices in Texas. (www.texasfaithforfairlending.org)

The Texas Catholic Conference (TCC) is the association of the 15 Roman Catholic dioceses of the State of Texas, and is the official public policy voice of the Catholic Bishops of Texas.

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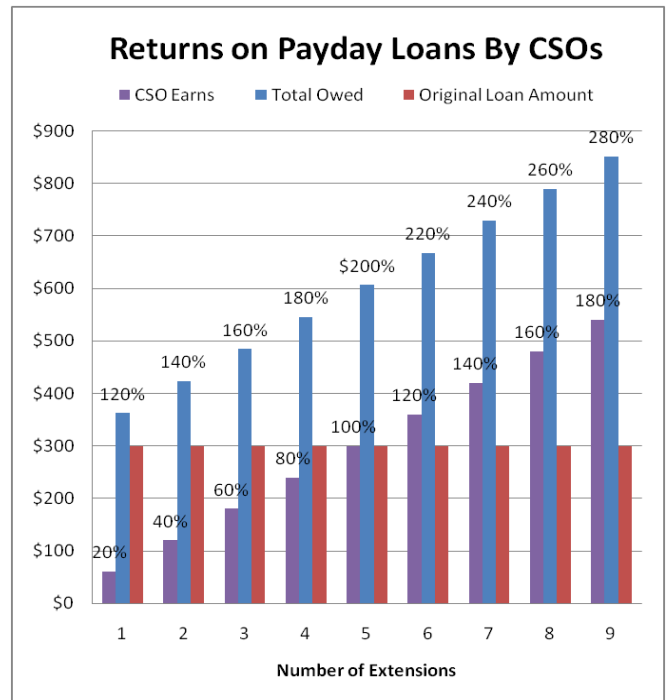
Close the “CSO” Loophole

Lending models should provide fair and helpful loans for families in need. It has come to our attention that the growing number of payday cash-advance programs in Texas may be doing more harm than good for persons in need of short-term cash loans. The stated purpose of payday loans is to offer a solution to families who face a short-term crisis. However, instead of promoting the financial stability of consumers, the system actually benefits more from their failure than their success. Public policy should protect families from this outrageous practice.

Payday and auto title lenders in Texas often charge upwards of 500% APR for an average \$300 loan. The payday and auto title loan business model is designed to trap people in debt. More than 75% of payday loans are taken out within 2 weeks of the previous loan in order to fill the financial gap caused by the loan itself. Because of the debt trap, in Texas an average payday borrower pays \$840 for a \$300 loan. Regulatory standards are already in place for these lenders, but payday and auto title loan operators take advantage of a loophole in Texas law to avoid that regulation.

Why are payday and auto title lenders allowed to charge these rates?

A CSO, or Credit Services Organization, is supposed to help people clean up bad credit. Instead, the Texas law governing CSOs is being exploited as a loophole. Payday and auto title loan operators use it to charge high fees for loans that trap people in debt. They use the loophole to get around Texas laws that cap rates and fees for consumer loans, by claiming that they are not lenders. They charge excessive fees to broker and guarantee high-cost loans. For example, a customer who takes out a \$300 payday loan owes \$361.07 at the end of the two-week loan term. The CSO earns a \$60 “fee” and the “lender” earns \$1.07 in interest. If the borrower cannot pay the loan back in full, the same “fee” and interest charges apply again two weeks later. CSOs often charge the \$60 loan fee over and over again for the same loan. If the borrower must extend the loan nine times before paying it off, which often happens, the CSO earns \$540 in fee income and the lender earns \$9.63 on the \$300 loan.ⁱ



What about the families who need these types of loans?

Families would be better served by regulated loan products. In February 2008, the FDIC began a two-year pilot project to review affordable and responsible small-dollar loan programs in financial institutions. The pilot was a case study designed to illustrate how banks can profitably offer affordable small-dollar loans as an alternative to high-cost credit products, such as payday loans and fee-based overdraft protection. The small-dollar loan pilot concluded as of the fourth quarter 2009 and resulted in a template of product design and delivery elements for safe, affordable, and feasible small-dollar loans.ⁱⁱ

The Catholic Bishops of Texas call on Legislators to:

- ★ Close the loophole in state law that allows payday, auto title, and other consumer loans to carry annual percentage rates upwards of 500%.
- ★ Provide a level playing field by requiring that all lenders and brokers of payday, auto title, or other consumer loans to be licensed and to comply with the same standards and consumer protection laws of licensed lenders under Chapter 342 of the Texas Finance Code.
- ★ Create a system to collect consumer loan data from lenders and brokers of consumer loans to ensure that these businesses engage in fiscally sound lending that supports the well being of our communities.

(Last updated October 5, 2010, 82nd Legislative Session)

ⁱ 500% Interest Is Wrong | It Hurts Communities. Texas Needs a Law. Web. 06 Aug. 2010. <www.stop paydayabuse.org>.

ⁱⁱ FDIC: Small Dollar Loan Pilot Project <www.fdic.gov/smalldollarloans/>.

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