Payday loan regulation way overdue in Texas

State's payday and title lenders face no limits on their fees.

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Lawmakers need to enact legislation to regulate the booming payday loan business in Texas. Payday and auto title lenders in Texas are not subject to rules and regulations that apply to banks and other conventional lenders.

A major loophole in the law allows them to operate as credit service organizations, which requires only a $100 annual registration fee. That leaves them free to operate without interest rate limitations or oversight.

The payday loan business has been steadily growing since the late 1990s when their business practices first attracted the attention of the state attorney general. There are now more than 3,000 payday and auto title businesses in Texas; two-thirds of them started doing business within the last four years.

The targeted customers for such businesses are cash-strapped individuals living paycheck to paycheck. They offer small, short-term advances on future wages or on a car title, often with a hefty upfront fee.

It is not unusual for a borrower to pay a $25 fee on a $100 loan due in 10 to 14 days. A condition of the loan is that the borrower gives the lender a postdated check for the amount due. If the borrower has no cash in the bank when the payment is due, the lender will offer another loan and charge another fee.

If the borrower does not pay up, the postdated check is deposited and the lender tacks on a $100 insufficient fund charge and a $50 late fee. Suddenly, the borrower is in a vicious cycle of debt.

While there is a 36 percent rate cap for military payday and auto title loans, there is no cap for these loans to other borrowers.

In recent years, several states have passed laws restricting or banning payday loans. In Texas, such attempts have never gone far in previous legislative sessions and no bill has ever managed to make it out of committee.

Lawmakers with a vested interest in these types of businesses need to set aside their personal agendas and allow such businesses to be regulated.
Cities and counties are doing what they can to stop the expansion of these predatory businesses, but it is hardly enough. San Antonio and Brownsville are among several cities in the state that have approved zoning measures that prevent payday lenders from expanding without a special permit.

The San Antonio City Council and Bexar County Commissioners Court have joined colleagues across the state in adopting resolutions urging lawmakers to close loopholes that allow these businesses to operate without regulation.

The state cannot continue to ignore thinly disguised usury.