Payday Lending Bill Offers No Protection to Cash-Strapped El Pasoans

The Texas House of Representatives is on the verge of rolling back consumer protection laws designed to prevent unscrupulous lenders from preying on cash-strapped Texans. Lawmakers are getting ready to vote on legislation by Representative Dan Flynn to legalize interest rates as high as 780 percent on so-called "payday" loans.

Low-income El Pasoans rely on these high-interest loans when they have trouble paying their bills between paychecks. If a consumer can't repay the loan on time, the lender charges a “rollover fee.” Studies have found that a typical consumer rolls over a payday loan 12 times before paying it off, paying hundreds of dollars in fees just to keep the loan afloat and avoid default. These fees dig borrowers even deeper in the hole, making it even harder to stretch their paychecks to make ends meet.

Texas law currently allows lenders to loan up to $500 a year, capping interest rates on payday loans at 48 percent plus a $10 processing fee. These caps translate to APRs ranging from 135 percent to 300 percent for an average loan.

Sounds pretty generous, no? The lenders don’t think so: Virtually all lenders evade these state caps by partnering with federal banks in states with lax or no usury laws. Under this "rent-a-bank" model, payday lenders now charge between 450 percent and 880 percent annual interest. High interest rates combined with rollover fees mean borrowers often end up paying more in interest than on the principal.

Although HB 846 claims to stop these abuses, if passed, it would legalize these exorbitant rates. What’s more, the bill would allow lenders to loan up to $1,000, double the current limit.

Military families, in particular, suffer at the hands of payday lenders. They are an easy and safe target because their low rank-and-file pay often leaves them desperate for fast cash, while their government income ensures a steady cash flow for repayment. A new study by the University of Florida Law School found that payday lending outlets are disproportionately located around military bases.

The study found that soldiers stationed at Fort Bliss may be more inundated with payday loan options than anywhere else in the country. El Paso County has the second highest ratio per capita of payday lenders in the state. These storefront lenders are so prevalent that El Paso County has almost as many payday loan outlets as it done banks, with only 70 banks and a whopping 61 payday lenders.

Payday loans have become such a problem for military families that the Military Officers Association of America (MOAA) has weighed in with Texas lawmakers against HB 846. In an op-ed to Texas papers, MOAA's Colonel Strobridge, wrote: "[Payday loans] are particularly objectionable when so many of the victims of predatory lenders are soldiers, sailors, airmen and marines who have been laying their lives on the lines to protect the rest of the country. Won’t Texas now stand up to protect them?"

El Paso Senator Eliot Shapleigh is the author of a bill that would prevent payday lenders from reporting borrowers who default on their loans to their commanding officers—which can lead to a court martial—among other protections. But the bill wouldn't prevent the usurious interest rates allowed under HB 846.

Supporters of HB 846 will tell you that the legislation is necessary to reel in lenders and protect consumers. Don't believe it for a minute. For starters, what kind of "protection" does "regulation" provide consumers if the lenders will still be able to legally charge 780 percent interest rates?

The real reason the industry wants this bill so badly—and why they've hired a small army of powerful lobbyists—is because the federal government has started to crack down on payday lending practices, causing their stocks to plummet. Most federal regulators have recognized that payday loans are bad for business and no longer permit their banks to "rent their charters" for payday lending. The only exception is the FDIC, but even their regulators have issued rules that would limit the number of loans their banks could make to six per year.

In a nutshell, HB 846 will give payday lenders the green light to continue charging the same outrageously high interest rates as they do now. If enacted, Texas will become a "safe harbor" for predatory lenders.

Texas lawmakers should just say no to HB 846 and predatory lending.

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