



## PAYDAY LENDING—HURTING TEXAS FAMILIES

It's the American Dream that if you work hard you get ahead. But with the high cost of living these days, that isn't always the case. Sometimes families run short of cash and turn to payday loans—short-term loans that give Texans a cash advance on their paychecks, Social Security payments, or veteran's benefits. Millions of families use these loans when they are short of cash, but the high cost outweighs the convenience. Interest rates start at 400 percent APR and can surpass 1,000 percent, and it is typical for a worker to pay \$180 in interest on a 10-day, \$700 loan. More often than not, the individual is unable to repay the full amount within the short repayment period, and the debt balloons. In fact, most payday lending volume comes from individuals forced by the cost of the original loan to take out another and another. We've seen the devastating impact of subprime lending on the economy. But what do payday loans cost families and communities in Texas?

### New Study Calculates Financial Impact of Payday Lenders on Texas

A recent study by the national Brookings Institution calculates the financial impact of payday lending on Austin, Dallas, El Paso, Houston, Fort Worth, and San Antonio. In these Texas cities alone, unregulated payday outfits lent \$1.14 billion in 2006. Statewide, these outfits lent at least \$2 billion. To obtain these cash advances, working Texans paid at least \$400 million in interest and fees, not to mention bank overdraft fees and credit costs ensuing from brutal collection practices. In other words, each year, payday loans cost Texas families nearly double what the state sets aside for financial aid so that aspiring students can attend higher education. To view fact sheets for the six Texas cities, visit <http://www.cphp.org/research.php?aid=754>.

### Responsible Lenders Offer Better Options

Responsible lenders offer better options than payday loans. Several credit unions and banks are now offering short-term loans at a fraction of the cost of a payday loan. The FDIC is also partnering with three Texas banks in a two-year pilot project to identify best practices in affordable small-dollar loan programs that can be replicated by other financial institutions. These banks include Main Street Bank (Kingswood), Amarillo National Bank (Amarillo), and Liberty National Bank (Paris). Responsible lending needs to be encouraged.

### Texas Needs to Regulate Payday Lenders

To see our analysis of the problems with payday lending and our policy recommendations for standards and accountability, read *As Payday Lending Spreads across Texas, Can It be Reformed or Regulated?* (Dec. 2006) at <http://www.cphp.org/research.php?aid=594&cid=2&scid=2> and *Unregistered and Unregulated: Payday Lenders Put Consumers at Risk and Flout Texas Usury Laws* (Aug. 2005) at <http://www.cphp.org/research.php?aid=443&cid=2&scid=2>.

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The Center for Public Policy Priorities is a nonpartisan, nonprofit research organization committed to improving public policies to better the economic and social conditions of low- and moderate-income Texans.