Ditching compromise, Parker pushes tough payday loan regulations

Mayor Annise Parker on Friday scrapped a compromise plan to regulate payday and auto title lenders in favor of more stringent restrictions, aiming to curtail what she called a usurious racket that traps borrowers in a cycle of debt.

Parker said the City Council will vote next month on the regulations, which are modeled on rules passed by Dallas, Austin, San Antonio and El Paso, some of which have been sued by payday lenders. The industry had pledged not to sue if Houston passed a compromise proposal negotiated by City Attorney David Feldman earlier this year. But Parker said she was convinced that Texas cities must send a consistent message to state lawmakers, who have discussed but failed to pass payday lending restrictions in each of the last two legislative sessions.

She brushed aside concerns about inviting a lawsuit, saying the city is sued daily, and did not finesse her message to the industry.
"They have said they will move outside the city limits of Houston, and I say: Don't let the door hit you on the way out," Parker said. "This is not about making a reasonable profit. This is about preying on vulnerable human beings and making an obscene profit."

Payday lending involves small loans made on a short-term basis that avoid legal caps on fees and interest that apply to such mainstream lenders as banks.

Title loans operate similarly and are secured by the borrower's automobile title, leaving the vehicle at risk for repossession. Borrowers typically lack the funds or credit to get loans any other way.

In the 10-county Houston region — home to a fourth of the state's 3,400 such lenders — data show borrowers refinance more and pay on time less than state averages.

**Harsh stories**

United Way of Greater Houston President Anna Babin, speaking for a coalition of nonprofit and faith-based groups backing the restrictions, cited a few examples her staff has encountered in teaching poor families financial literacy: A $480 payday loan that soon saw a family paying $186 in interest and fees every two weeks; a $300 loan on which a borrower, three months later, owed $700.

"United Way and its partner agencies have heard story after story that illustrate how payday loans, obtained in an emergency, create long-term financial setbacks for these struggling families," Babin said.

"The interest and fees grow larger and larger very quickly, and, as a consequence, the families fall deeper and deeper into debt."
The proposed ordinance would limit payday loans to 20 percent of a borrower's gross monthly income, down from 35 percent in Feldman's earlier draft. Auto title loans would be capped at 70 percent of the car's value or 3 percent of the borrower's gross annual income, whichever is less; that is down from 6 percent in the earlier draft.

Under the new proposal, single-payment payday loans, intended to be paid off in a lump sum, could be refinanced no more than three times; the earlier draft allowed four for payday loans and six for title loans. Multiple-installment loans could include no more than four payments; the earlier draft had no cap. Each installment, refinance or rollover would need to drop the principal owed by at least 25 percent, up from the previous draft's 5 percent.

Need for lenders

Consumer groups had called Feldman's compromise proposal too weak; he said he preferred tougher restrictions but said those were unlikely to pass the Legislature, would invite a lawsuit, and could force lenders outside city limits, hurting borrowers' access to credit.

That was the concern for members of the Freedmen's Town Association who attended Friday's news conference, one of whom grumbled, "Yes you are," when Parker said, "We're not trying to put payday lenders out of business."

LoneStar Title Loans has given the Freedmen's Town group almost $300,000 over the last six years, board member John Fenley said.

No one would use payday lenders if banks, nonprofits or churches would offer them low-interest loans, association volunteer Ayanna Mitchell said.

"When they run these industries out of the communities, where are they going to get the money from?" she said. "People are going to get the money they need whether they go to a title lender or they go around the corner and get it from somebody who's not regulated at all, who, instead of taking your car, will do other things to you."

Industry blasts rules
Consumer Service Alliance of Texas, an industry group representing 90 percent of Texas' 3,400 payday and auto title lenders, slammed Parker's "11th-hour reversal."

"We worked diligently, in good faith, for over a year with the city attorney's office - with consistent input from the mayor's office - to craft a payday/auto title ordinance that strikes an effective balance between consumer safeguards, strong supervisory oversight and the loan products authorized by statute," the statement said. "The result was fair and balanced, with portions opposed by both the special interest groups and the industry. We are disappointed the mayor has chosen politics over policy with the financial lives of Houston consumers."

Councilman Larry Green, who represents the southwest side, praised the ordinance's provisions referring borrowers to agencies offering financial literacy classes and requiring that terms be explained clearly and in multiple languages.

"As a district council member that represents an underserved area, this ordinance is so important," he said. "We see a plethora of these lending organizations coming up in our neighborhoods, and so consumer protection is extremely important."

Parker said she plans to put the ordinance before the City Council on Dec. 11.

Proposed regulations

1 Limit payday loans to 20 percent of a borrower's gross monthly income.

1 Cap auto title loans at 70 percent of the car's value or 3 percent of the borrower's gross annual income, whichever is less.