



**Testimony of Bishop Joe Vásquez before the Senate Business and Commerce
Committee**

Support SB 253 to Close the Credit Service Organization Loophole

February 22, 2011

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Andrew D. Rivas, J.D.
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My name is Bishop Joe Vásquez. I am the Bishop of the Diocese of Austin and I am testifying today on behalf of the Texas Catholic Conference, the Roman Catholic Bishops of Texas, in support of SB 253.

In the teachings of our faith, we have many warnings about usury and the exploitation of people. 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, lead us to question current payday and auto title lending practices.

A CSO, or Credit Services Organization, should 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. By claiming that they are not lenders, they use this loophole to circumvent Texas laws that cap rates and fees for consumer loans.

Lending models should provide fair and helpful loans for families in need. The growing number of payday and auto title lenders 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. Instead of promoting the financial stability of consumers, however, payday lenders operating in the current system actually benefit more from their consumers' financial failure than their success. These practices are unjust and risk collapsing the stability of the family.

Other consumer advocates will testify today about the mechanics of the finance code and alternatives that are currently available to Texas families, but I am here as a pastor to share both the moral concerns related to usury, and the everyday experience of those we serve in our charitable ministries, such as Catholic Charities and the St. Vincent de Paul Society. In recent years, those served by these ministries have found themselves owing far more. We noticed that while we are providing \$300 cash assistance to a family for food and utilities, that same family has outstanding payday loan debt of \$300-500. When we ask them about their financial stress, none of these families tell us they went to a credit service organization to repair their credit. They are generally embarrassed to admit that they sought a loan to pay for an emergency without understanding the fees involved. We are concerned that our charitable dollars are in fact funding the profits of pay day lenders rather than helping the poor achieve self-sufficiency.

In the last quarter of 2010, our Catholic Charities agencies throughout the state conducted a survey of our financial assistance clients to better understand the impact of payday and auto title loans. We found 18.6 % of those we served in financial assistance programs had used payday and auto title loans and 48.6 % stated that the financial stress

caused by these loans led to their seeking assistance from us. Of these clients, 73.3 % are also receiving public benefits such as CHIP, Medicaid, or TANF. If payday lenders were not taking money from these families to line their own pockets, perhaps these families would not need the charitable and public assistance they receive. The full results of the survey are available with my written testimony.

Although the quest for equitable profit is acceptable in economic and financial activity, recourse to usury is to be morally condemned. 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.

My brother bishops in other parts of the country have called for much more aggressive reforms, taking strong and successful stands such as demanding a 36% interest rate cap. We have not pursued this aggressive approach. Rather, we are merely asking that Texas lending law be consistent. The legislature has already vetted lending regulations and passed Chapter 342, which still allows interest rates of 135% in many cases. We now need to level the playing field to assure that the market operates fairly with rules that apply across the board to all lenders.

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%; and to
- ★ Provide a level playing field by requiring that all lenders and brokers of payday, auto title, or other consumer loans be licensed and comply with the same standards and consumer protection laws of licensed lenders under Chapter 342 of the Texas Finance Code.

Mr. Chairman and members, thank you for the opportunity to share our support of this bill to close the CSO loophole for the protection of Texas families.

2010 Catholic Charities Survey on Payday and Auto Title Loan Use

In the fourth quarter of 2010, Texas Catholic Conference administered a survey on payday and auto title loan use to clients of Catholic Charities programs in seven dioceses across the State. The dioceses included Amarillo, Beaumont, Dallas, Fort Worth, Houston/Galveston, San Antonio, and Corpus Christi. The Conference also surveyed the PATH program, a non-Catholic Charities entity in Tyler. Texas Catholic Conference developed the survey instrument in conjunction with Texas Appleseed and a research group from the LBJ School of Public Affairs. The survey had 1,367 responses from Catholic Charities clients and 502 responses from PATH.

Analysis of the surveys found that 353 clients or 18.6 percent of the respondents had used payday or auto title loans at some point. This rate is consistent when the Catholic Charities and PATH samples are separated. Of the 353 respondents who have used alternative lenders, 343 gave relatively complete answers to the remainder of the questionnaire. The proportions below are based on those responses.

The survey asked several questions dealing with the ability to pay off loans. We find:

- 83% of payday or auto title loan users had trouble paying back the full loan when it came due.
- 70% had to extend or get new loans because they could not pay the full loan amount.
- 46% extended their loans at least three times.
- 57% took 3 months or more to pay back loans.
- The reported average amount currently owed to lenders is \$455.

The survey also included questions about perceptions of financial stress stemming from payday or auto title loan payments and the use of public benefits and nonprofit charity. We find:

- 77% of loan users believed that the loans made it hard to cover other bills.
- 47% believed that the financial stress caused by payday and auto title loans were part of the reason why they needed charitable assistance. . .
- 76% of loan users (82% of PATH loan users alone) were on some form of public benefit.

The survey responses show that the majority of clients who had used payday or auto title loans experienced a hard time paying them back. Moreover, these loans may correlate with other financial stresses, as many believed that payments made it hard to cover other bills. Lastly, responses show a strong reliance among payday and auto title loan users on charitable and public benefits.

For more information, a full summary data table is attached.

Survey Summary Information (247 viable respondents)

CC	Language	Path	Language	Program
English	236	English	English	93
Spanish	11	Spanish	Spanish	3
Diocese				
Amarillo	12	Asset Building		23 Together We
Beaumont	26	CHDO Housing		3 Unspecified
Dallas	14	Elijah's Place		2
Fort Worth	43	Family Assistanc		7
Houston-Galvest	10	Financial Stab.		9
San Antonio	57	Guadalupe Galv		10
Corpus	85	Guadalupe SA		19
Tyler-Path	96	Inerfaith Hunger		9

1) Have you ever gotten a payday or auto title loan at places like Ace Cash Express, Cash America, Lone Star Title or others?

CC	Aggregate	Percentage	Aggregate	Percentage	Total	Percentage
Yes	254	18.6%	99	18.8%	353	18.6%
No	1100	80.5%	415	78.7%	1515	80.0%
N/R	13	1.0%	13	2.5%	26	1.4%
	1367	100.0%	527	100.0%	1894	100.0%

2) How often do you use payday or auto title loans?

(*going forward with the 247 respondents that answered 1 & at least 1 out on the next 3)

CC	Aggregate	Percentage	Aggregate	Percentage	Total	Percentage
One per year or	143	57.9%	65	67.7%	208	60.6%
Two or three tir	50	20.2%	10	10.4%	60	17.5%
Every few month	25	10.1%	5	5.2%	30	8.7%
One or more a r	19	7.7%	7	7.3%	26	7.6%
NR	10	4.0%	9	9.4%	19	5.5%
	247	100.0%	96	100.0%	343	100.0%

3) Do you have trouble paying back the full payday or auto title loan amount when it comes due?*

	CC		PATH		Total	Percentage
	Aggregate	Percentage	Aggregate	Percentage		
Yes, often	101	40.9%	37	38.5%	138	40.2%
Yes, sometimes	108	43.7%	40	41.7%	148	43.1%
No	36	14.6%	18	18.8%	54	15.7%
NA	2	0.8%	1	1.0%	3	0.9%
	247	100.0%	96	100.0%	343	100.0%

4) Have you had to extend your loan or get a new loan for another two weeks or month b/c you couldn't pay the full loan amount?

	CC		PATH		Total	Percentage
	Aggregate	Percentage	Aggregate	Percentage		
Yes	176	71.3%	63	65.6%	239	69.7%
No	68	27.5%	29	30.2%	97	28.3%
N/R	3	1.2%	4	4.2%	7	2.0%
	247	100.0%	96	100.0%	343	100.0%

4a) How many times did you extend or renew a loan before being able to pay it back?

	CC		PATH		Total	Percentage
	Aggregate	Said No to 4	Aggregate	Percentage	Said No to 4	Percentage
1 or 2 times	79	26	36.9%	25	10	31.3%
3 or 4 times	51	5	23.8%	21	4	26.3%
5-9 times	27	0	12.6%	13	2	16.3%
More than 9 times	16	2	7.5%	6	0	7.5%
N/R	41		19.2%	15		18.8%
	214	33	100.0%	80	16	100.0%
					294	100.0%

5) How long does it usually take you to pay back a payday or auto title loan?

	CC		PATH		Total	Percentage
	Aggregate	Percentage	Aggregate	Percentage		
Less than a month	24	9.7%	6	6.3%	30	8.7%
1-3 months	76	30.8%	16	16.7%	92	26.8%
3-6 months	56	22.7%	20	20.8%	76	22.2%

More than 6 mo	75	30.4%	44	45.8%	119	34.7%
N/R	16	6.5%	10	10.4%	26	7.6%
	247	100.0%	96	100.0%	343	100.0%

6) Do you have payday or auto title loans that you are currently trying to pay back?

CC						
Aggregate	Percentage	Aggregate	Percentage	Total	Percentage	
Yes	122	49.4%	60	24.3%	182	53.1%
No	118	47.8%	34	13.8%	152	44.3%
N/R	7	2.8%	2	0.8%	9	2.6%
	247	100.0%	96	38.9%	343	100.0%

PATH

If yes, how man	Actual	Marked No	Actual	Marked No
	1	122	73	43
	2	0	21	12
	3	0	6	3
	4	0	2	2
	5	0	2	0
	6	0	2	0
NR	21	NR	2	
	143	247	62	34

7) How much do you currently owe payday or auto title lenders?

CC									
Aggregate	Marked No	Percentage	Aggregate	Marked No	Percentage	Total	Percentage		
None	86	34.2%	27	7	30.3%	113	35.5%		
\$300 or less	16	11.2%	8		9.0%	24	7.5%		
\$300-\$500	36	16.4%	11		12.4%	47	14.8%		
\$500-\$1000	38	11.8%	26		29.2%	64	20.1%		
\$1000-\$2000	16	7.9%	7		7.9%	23	7.2%		
Over \$2000	8	5.3%	4		4.5%	12	3.8%		
N/R	29	13.2%	6		6.7%	35	11.0%		
	229	247	100.0%	89	96	318	100.0%		

PATH

8) How much do you pay for the loan(s) every month?

	CC		PATH					
	Aggregate	Marked No	Percentage	Aggregate	Marked No	Percentage	Total	Percentage
Less than \$100	58		34.2%	35		39.3%	93	29.2%
\$100-\$200	5	60	11.2%	30		33.7%	35	11.0%
\$200-\$500	32		16.4%	8		9.0%	40	12.6%
\$500-\$1000	12		11.8%	3		3.4%	15	4.7%
Over \$1000	3		7.9%	1		1.1%	4	1.3%
N/R	77		5.3%	19		21.3%	96	30.2%
	187	247	86.8%	96	96	107.9%	283	89.0%

9) Does having payday or auto title loans make it hard for you to cover your other bills?

	CC		PATH			
	Aggregate	Percentage	Aggregate	Percentage	Total	Percentage
Yes	195	78.9%	68	70.8%	263	76.7%
No	37	15.0%	20	20.8%	57	16.6%
N/R	15	6.1%	8	8.3%	23	6.7%
	247	100.0%	96	100.0%	343	100.0%

10) Is the financial stress caused by these loans a part of why you need assistance from us today?

	CC		PATH			
	Aggregate	Percentage	Aggregate	Percentage	Total	Percentage
Yes	120	48.6%	42	43.75%	162	47.23%
No	111	44.9%	50	52.08%	161	46.94%
N/R	16	6.5%	4	4.17%	20	5.83%
	247	100.0%	96	100.0%	343	100.0%

11)

	CC		PATH		Total		TOTAL
	Yes	No	Yes	No	Yes	No	
Medicare	31	216	21	75	52	291	343
Medicaid	93	154	48	48	141	202	343
CHIP	20	227	7	89	27	316	343
TANF	6	241	0	96	6	337	343
SSI	37	210	21	75	58	285	343
Unn Compensat	23	224	6	90	29	314	343
Social Security	46	201	27	69	73	270	343
Food Stamps	132	115	43	53	175	168	343
None	46	201	14	82	60	283	343

Assistance/Current Loan

	CC		PATH		Total		Percentage Loan
	Loan	Loan	Loan	Loan	Loan	Loan	
Receiving	90	48	138	75.4%			
Not Receiving	33	12	45	24.6%			
	123	60	183	100.0%			

Some Assist

	CC		PATH		Total	Percentage
	Aggregate	Percentage	Aggregate	Percentage		
Yes	181	73.3%	79	82.3%	260	75.8%
No	46	18.6%	14	14.6%	60	17.5%
NA (NONE)	20	8.1%	3	3.1%	23	6.7%
	247	100.0%	96	100.0%	343	100.0%