



Texas Fair Lending Alliance

January 22, 2019

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th St. NW
Washington, DC 20429

Re: Small-Dollar Lending, Request for Information, RIN 3064–ZA04

Dear Executive Secretary Feldman:

The Texas Fair Lending Alliance represents over 60 nonprofit organizations across our state. We support the goals of the FDIC to promote economic inclusion, and particularly for low-income communities and communities of color who too often have been left out of the benefits of mainstream financial services.

The financial inclusion goal of promoting fair and affordable small-dollar loans is particularly relevant to Texas. Texas has some of the highest rates in the country for small-dollar payday and auto title loans, including both single payment and installment versions of the loans. In 2017, borrowers paid \$1.65 billion in fees for just \$1.53 billion in new loans with loan terms ranging from an average of 14 to 157 days. For the same year, APRs averaged 449% to 530% for payday loans and 209% to 455% for auto title loans, including both single payment and installment loans.

Through our service providers and complaints filed with the state’s Attorney General’s office, we have witnessed the devastating and long-lasting effects that these high-cost loans have on Texas families. What starts out as a short-term crisis often intensifies into an incapacitating cycle of loan rollovers and fees. For example:

- Nancy, from Denton Texas, shared, “It started out to help me over a temporary cash flow shortage and has turned into a five-year nightmare.” She is a single mother and a school teacher who is using three payday loan companies. Her fellow teachers fall into the payday cycle as well. Because of the financial strain caused by the high-cost loans, she is considering bankruptcy;
- An elderly couple from Fort Worth was self-sufficient and able to pay the bills month after month. Then, their air conditioner stopped working and they borrowed \$1,400 from a payday loan store to get it fixed. Though the loan met a short-term crisis, at over 500% interest, they now struggle to cover the cost of the loan and pay for groceries and utilities.

Texans are in desperate need of more fair loan products designed to replace the many abusive and high-cost loan products. As payday loan customers are generally banked, banks are a natural fit to offer fair small-dollar loans. Such loans could be beneficial to Texas families if the products are structured for borrower success, including:

- fair pricing—with a large military community in our state, the 36% APR Military Lending Act rate cap is a strong model to follow;
- transparent contracts and terms, structured for full repayment and not repeat rollovers;
- fully-amortizing loans with no balloon payments, pre-payment penalties, or ancillary products;
- affordable payments, based on an assessment of the borrowers' income and expenses; and
- credit building features, so that successful repayment builds positive credit and leads to lower-cost future borrowing.

In addition to offering customers fair products directly, partnerships between banks and non-bank loan businesses can be another option, but this option should not be used to evade state usury caps. We urge the FDIC not to sanction any bank partnerships that result in loans that carry rates in excess of state rate caps, or to backtrack on existing guidance that encourages fair and affordable small-dollar loans.

An example of a positive bank partnership model can be found in the Community Loan Center employer-based lender here in Texas. The Community Loan Center, a state-licensed lender, uses low-cost capital investments from banks to extend affordable small-dollar loans to employees of participating employers. Affordability is included in the loan structure. Employees with a three-month or more work history can borrow up to \$1,000 for a one-year period at 18% interest and a \$20 fee. The Community Loan Center has made more than 45,000 loans to date and serves customers very similar to payday and auto title loan borrowers, but at a tiny fraction of the cost.

Affordable and fair loans are also a reality in several Texas banks, and these banks demonstrate that it is achievable to offer such loans. The Small Dollar Loan Program at Amarillo National Bank has been offered for over 100 years and meet customer needs and also build long term relationships. The interest rates are from 14-18% with repayment periods from 9 to 12 months. According to a former bank CRA officer, who previously administered the small-dollar loan program, "Amarillo National Bank has been making these loans for as long as I have been here [30 years], and I still see people with houses, successful businesses, and kids in college who tell me that the small dollar loan I made to them was their first step in establishing a relationship with a bank."

Another example is the Smart Cash Loan, offered at First Convenience Bank which has 231 branches in Texas. The locations are typically situated in grocery stores or Wal-Marts and cater to the unbanked or underbanked. The loan amounts are up to \$1,000 at 14-23% interest, with a repayment period of 10-15 months. Each borrower is provided with financial education coursework in hardcopy and online formats. Their product was modeled after the FDIC small-dollar loan template and encourages a realistic repayment schedule, with no prepayment penalty and the option for the borrower to determine the payment due date.

Texas needs banks to step into the small dollar lending market with products that do not replicate the pitfalls of payday and auto title loans. In a market saturated with bad loan products, we are hopeful that banks will see an opportunity to better serve their customers and communities and build local economies by offering quality small-dollar loan products.

Thank you for considering these comments.

BakerRipley

Brazos Valley CDC, Inc.

Brazos Valley Financial Fitness Center

Center for Transforming Lives

Central Texas Housing Consortium

Chinese Community Center

CitySquare

Faith in Texas

Goodwill Industries of Dallas, Inc.

H.I.S. BridgeBuilders

Jewish Family Service of Dallas

Local Initiatives Support Corporation - Houston

Mansfield Mission Center

Michelle McAdam, New Friends New Life—
affiliation listed for informational purposes only.

RAISE Texas

Texas Appleseed

Texas Association of Goodwills

The Alliance

The Women's Resource of Greater Houston

To Each His Home Community Redevelopment
Corporation

United Way of Central Texas

United Way of Greater Houston

United Way of Metropolitan Dallas