

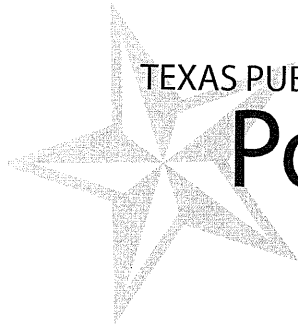
Consumer Benefits of Access to Short-Term Credit

by Ryan Brannan, Policy Analyst, Center for Economic Freedom

Mr. Chairman, members, thank you for allowing me to testify today. My name is Ryan Brannan and I am a policy analyst in the Center for Economic Freedom at the Texas Public Policy Foundation. I appreciate you allowing me the opportunity to speak with you regarding the ramifications of SB 253, as well as SB 251 and 143, which are substantially similar to SB 253, only broken up in two separate parts.

- Despite popular belief, consumers of short-term lending are not unsophisticated or unformed. Various studies, including the Texas Appleseed study, and one conducted by Gregory Elliehausen at George Washington University, reach the same conclusion. Consumers of short-term loans make informed choices and have considered alternative measures.
- Much of the time, these consumers have tried to find credit elsewhere, through institutions such as banks and credit unions, but were turned down. According to a report by the Washington, D.C. Federal Reserve Board, about 65% of domestic banks indicated that they had tightened their lending standards on consumer loans and credit card loans.
- As a result, consumers are faced with little or no other options in the credit market, and then turn to credit service organizations. Banning fees would make the cost of these credit service organizations higher than their returns on investment.
- Therefore, these bills would effectively regulate these credit providers out of business. By doing so, they would leave a section of Texans without access to any credit whatsoever, save loan sharks.
- A vibrant, competitive short-term lending market is necessary for the financial well-being of many Texans. Many borrowers use small, short-term loans to help pay off monthly bills, make rent payments, and even buy food and gas. Restricting or cutting off access to the only available short-term, micro loans will have very real unintended consequences for the consumers who use these financial products.
- A study by the Federal Reserve Bank of New York concluded that state bans on payday credit in Georgia and North Carolina had caused more people to bounce checks, file for Chapter 7 bankruptcies (“no assets”), and experience greater difficulty with lenders and debt collectors. The opposite was true for consumers in Hawaii when its Legislature increased the level of individual payday loans from \$300 to \$600.
- As with any market, there is room for regulations concerning fraud, abuse or coercion. However, SB 253, 251, and 143 expand regulation to the point of driving industry out of the marketplace. It is better to have competition within the short-term lending industry rather than have government regulation pick and choose winners and losers in the marketplace.
- The very fact these institutions exist shows that there is a need for them in the competitive marketplace. Texas consumers have clearly made the decision that they would rather have short-term credit options than not be able to pay their bills, or get groceries.
- A competitive short-term credit market promotes consumer choice and access to needed financial services. ★





Licensing and Regulation of Short-Term Credit Providers

by Chris Robertson
Policy Analyst, Center for
Economic Freedom

Many critics of short-term lending are under the false assumption that consumers of short-term credit are unsophisticated, uninformed, or victims of predatory lending. However, a recent study conducted by Gregory Elliehausen at George Washington University showed that consumers of short-term loans make informed choices and have considered alternative measures.¹

These findings are consistent with those published by Texas Appleseed. Their April 2009 survey of payday borrowers showed that almost 40% of Texas short-term credit consumers tried—and were turned down—to use a bank or credit union for the funds they sought.² Consumers of small, short-term loans are not uninformed; it is just that they have few alternatives for taking out loans between \$300 and \$500, which are typically unavailable at banks or credit unions.

A vibrant, competitive short-term lending market is necessary for the financial well-being of many Texans. Many borrowers use small, short-term loans to help pay off monthly bills, make rent payments, and even buy food and gas. Restricting or cutting off access to the only available short-term, micro* loans will have very real unintended consequences for consumers who use these financial products.

Regulating Credit Service Organizations

HB 3744 and HB 3304 would require that all credit service organizations (CSOs)—those businesses that help consumers secure payday

or direct-deposit loans—be licensed by the Office of the Consumer Credit Commissioner (OCCC) and comply with certain regulatory requirements. Specifically, the OCCC would establish an enforcement mechanism for real-time data collection to monitor CSO compliance and be able to conduct on-site inspections of businesses, files, paperwork, correspondence, accounts, records, safes, and vaults. Furthermore, these two bills would authorize a representative of the OCCC to administer oaths to individuals and examine them under oath on-the-spot.

It is certainly acceptable for CSOs to be regulated. As with any market, there is room for regulations concerning fraud, abuse, or coercion. However, HB 3744 and HB 3304 would create redundant regulatory mechanisms by expanding oversight powers to the OCCC. Credit service organizations are already operating in a regulatory environment and must adhere to many federal and state regulations, including:

- Texas Finance Code Chapter 393
- Federal Truth in Lending Act (15 USC §1601 et seq.)
- Texas Finance Code Chapter 302
- Texas Deceptive Trade Practices Consumer Protection Act (Texas Business and Commerce Code §17.41 et seq.)
- Texas Debt Collection Practices Act (Texas Finance Code Chapter 392)
- Federal Debt Collection Practices Act (15 USC §1692 et seq.)

*Micro loans are characterized by the relatively small amount of credit being borrowed. They are also typically shorter in duration than other, more standard loans.

- Regulation B (12 CFR part 202)
- Regulation Z (12 CFR part 226)
- Federal Trade Commission Regulations (16 CFR part 313 and 16 CFR part 314)

Chapter 393 of the Texas Finance Code—dealing with credit service organizations—requires that CSOs register and file with the Secretary of State’s Office and pay a fee of \$100. This chapter of the code also specifies what information must be disclosed to the consumer and that all transactions are stated in a written contract. Furthermore, there are provisions in this chapter protecting consumers against fraud and deceptive conduct. Any violation of these statutes is considered a criminal offense and violators are subject to prosecution by the Office of the Attorney General.

The costs of increasing the regulatory burden on credit service organizations will ultimately be borne by those consumers who can ill-afford a marginal increase in lending costs. Elliehausen highlights the fact that operating expenses are greater relative to loan size for small loans.³ These higher operating expenses necessitate higher interest rates or charges in order for businesses to break even on micro loans.

Increasing regulatory burdens on credit service organizations, erecting barriers of entry into the market, and raising operating costs for existing businesses will result in higher costs for borrowers, when they can get a loan at all. Because of the marginal nature of these loans, price changes can significantly affect both supply and demand. With the additional regulatory burdens, many loans will become unprofitable and consumers will no longer be able to get them.

Additionally, the existing language of the bill stipulates that the Finance Commission set “reasonable” fees that can be

charged by CSOs for securing loans on behalf of consumers. While no one is debating the relatively high fees associated with short-term borrowing, there is agreement that a genuine demand or need exists for this market.

As previously noted, these higher fees are necessitated in part by the small size of the loans. Market participants are better equipped to decide for themselves on how much they are willing to accept in fees. Fees capped below the established market rate will most likely cause businesses that facilitate short-term lending to be driven out of the market. In turn, a reduction in the number of operating businesses will reduce competition and hurt consumer choice.

It is evident that many people use small, short-term loans to what they perceive as their benefit in times of necessity. A recent analysis of payday loan customers showed that a majority of people surveyed believed that these loans were beneficial to them and that their experience was positive.⁴ Like any other form of credit, payday loans can be used irresponsibly by some consumers. However, for many people payday loans provide a valuable option in times of financial hardship.

Driving up the costs of these loans through increased regulation and bureaucratic oversight will result in diminished consumer choice. Effective APR caps set below the market rate, whether they are set by the Legislature of the Office or the Consumer Credit Commissioner, will not be adequate for businesses to remain profitable. In an industry that is already sensitive to marginal costs, it seems counter-intuitive to increase costs for businesses as well as consumers. ★

Endnotes

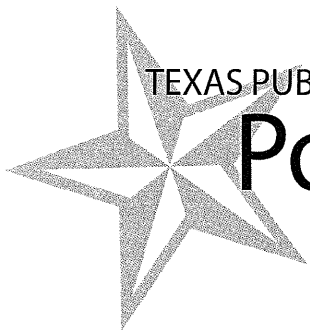
¹ Gregory Elliehausen, “An Analysis of Consumers’ Use of Payday Loans,” Financial Services Research Program Monograph No. 41 (Jan. 2009).

² Texas Appleseed, “Short-term Cash, Long-term Debt: The Impact of Unregulated Lending in Texas” (Apr. 2009) 11.

³ Elliehausen (Jan. 2009).

⁴ Ibid.





How Access to Short-Term Credit Helps Consumers

by Chris Robertson
Policy Analyst, Center
for Economic Freedom

TALKING POINTS

- Consumers are worse off when lending options are restricted.
- It is better to promote competition within the short-term lending industry rather than erecting restrictive barriers of entry for new competitors.
- Consumers make lending decisions that they believe are in their best interest.
- Effective APR rates for late payments and bank fees often vastly exceed those of small, short-term loans.

Bankers and businessmen are far from the only Americans that are feeling increasingly anxious over the state of the credit markets. As traditional banks tighten lending standards, many consumers find themselves unable to readily borrow when the need arises, often unexpectedly.

According to the July 2008 Senior Loan Officer Opinion Survey on Bank Lending Practices by the Washington, D.C. Federal Reserve Board, about 65 percent of domestic banks indicated that they had tightened their lending standards on consumer loans and credit card loans over the past three months.¹

The survey goes on to report:

In addition, considerable fraction of respondents reported having increased minimum required credit scores on both types of consumer loans and reduced the extent to which such loans were granted to customers who did not meet their bank's credit-scoring thresholds. Finally, large net fractions of banks noted that they had lowered credit limits on credit card accounts over the past three months, and increased interest rate spreads on consumer loans other than credit card loans. On balance, about 35 percent of domestic banks—up from roughly 25 percent in the April survey—expressed a diminished willingness to make consumer installment loans relative to three months earlier.²

The tightening credit market is affecting all consumers. But those with poor credit, especially with short-term credit needs, may be the most impacted.

Even before the credit crunch borrowers had relatively few available options for short-term credit. Traditional borrowers have the option of dealing directly with a consumer bank or federal or employee credit unions. But those consumers who do not meet bank or credit union lending criteria, particularly when borrowing smaller amounts for short-time periods, have to turn elsewhere.

Some borrow from friends or family. Still others, following a venerable precedent, make their way to the pawnshop. Other options are to skip utility and credit card payments, seek out loan sharks, or file for bankruptcy. Few of these options are optimal for consumers and may ultimately damage a person's long-term credit.

A survey of 521 low-income Texans conducted by Texas Appleseed, a public-interest law center based in Austin, TX, confirms some of the obstacles facing those in need of small, short-term loans. It found that 40 percent of respondents that used payday loans* indicated that they were turned away by banks or credit unions.³ Half of these respondents said they needed short-terms loans to pay bills, while 46 percent needed money for gas or groceries. Over a third of people surveyed using payday loans were faced with an emergency.⁴

900 Congress Avenue
Suite 400
Austin, TX 78701
(512) 472-2700 Phone
(512) 472-2728 Fax
www.TexasPolicy.com

*Payday loans are a form of short-term lending characterized by the use of a personal, post-dated, check as collateral for the loan. These checks are generally dated to coincide with the check issuer's next scheduled payday.

Consumers in need of STLs are often challenged in finding a source of funds. The Texas Appleseed survey noted that 60 percent of those surveyed turned to family or friends for loans while 23 percent chose to borrow money from payday lenders. Respondents did not turn to banks nearly as much and 40 percent indicated that they were turned down for loans at banks and credit unions anyway.⁵ The study concluded that rejection from traditional banks and credit unions is a major factor in a consumer's decision making process to borrow from payday lenders.⁶

Short-Term Credit and Related Financial Services

There are a many types of financial services that consumers can seek out in order to help them structure their financial life or gain access to credit. The following are some typical options for consumers.

Traditional Bank Loans, Lines of Credit, Credit Cards, and Home Equity Loans

Banks and credit unions offer financial consumers many different options when it comes to loans and credit, but many of these options aren't suitable for a significant portion of borrowers in the short-term credit market. Banks traditionally offer unsecured or secured personal loans, unsecured or secured lines of credit, credit cards and credit card cash advances, or equity lines of credit tied to property or home ownership.

While personal loans may seem like a good option for consumers in need of short-term credit, it isn't always the case that they will be served at a traditional bank. Large minimum loan amounts and strict credit thresholds set limits on what type of consumer may seek out personal loans. For example, the minimum loan amount that can be taken out at Wells Fargo for a personal loan is \$3000⁷ while the minimum amount at Capital One is \$2500.⁸ Other consumers—particularly those with poor or non-existent credit—who are not discouraged by the loan amounts may be rejected based on lending practices. Those people who are seeking shorter, smaller loans have no options at a traditional bank.

Many banks offer credit cards as a way for consumers to utilize and gain credit. Credit cards provide consumers with an easily accessible source of liquidity for purchasing items or paying bills. Consumers are required to pay down

their credit card balance at the end of each month with a minimum payment amount. Those who fail to pay down their balance are subject to interest rate increases and penalty fees. Cardholders can also take out what is known as a "cash advance" which enables consumers to borrow currency against his or her remaining credit card balance. Cash advances are also subject to fees.⁹

According to Donald Morgan of the NY Federal Reserve Bank, 60 percent of short-term borrowers reported that they had maxed out their credit cards and needed access to additional credit to meet other financial obligations such as utility bills.¹⁰ Given no other alternative for access to more credit, these consumers could miss payment on bills and credit cards and be subject to card fees and other penalties.

Another avenue for consumers looking for short-term credit is a home equity line of credit through their bank. A home equity line of credit is a form of credit in which a person's home serves as collateral. Typically, a person's home is their most valuable asset and many homeowners use home equity lines of credit to pay off major expenses.¹¹ This option is only available to those seeking short-term credit who are homeowners, not renters. The Appleseed survey found that renters are more likely to seek out payday loans.¹²

Short-Term Loan Options: Direct Deposit Loans, Cash Advances, and Payday Lending

For those consumers in need of smaller, short-term cash loans that are not served by traditional banking institutions, there are some other options that may keep them from having to go without meeting their financial needs.

Certain banks offer what is known as a "direct deposit loan" in which funds are made available in a person's account before their next direct deposit from their employer. It is essentially allows a person to have access to future guaranteed funds. This type of loan is known by many different names including, a "cash advance loan," a "payday loan," or a "salary advance loan." Those seeking payday loans are not unbanked nor are they unemployed.¹³

Some credit unions have begun experimenting with salary advance or payday loans.¹⁴ The North Carolina State Employees Credit Union is one example. However, Dan Mica, the president of the Credit Union National Association (CUNA), indicated in an interview for *USA Today* that

many of these loan programs were barely breaking-even due to the poor credit quality of borrowers.¹⁵ Given this scenario, it is unlikely that credit unions will engage in the short-term lending market in large numbers.

Consumer credit service organizations (CSOs) have come in to fill the market for smaller, short-term loans not offered by banks and credit unions. A CSO provides retail financial and credit services to consumers, including securing or obtaining short-term loans (STLs).

CSOs are not lenders, but rather a CSO will help consumers in need of a STL locate a third-party lender (TPL) who is willing to issue loans to short-term borrowers. These loans, in turn, are underwritten based on the lender's risk criteria and are often secured by the CSO by a letter of credit or issuance of guarantee. Retail financial services organizations are not primary lenders and should not be confused with the third-party lenders that actually charge interest on short-term loans.

The Texas Constitution sets a limit on interest rates at 10 percent per annum, unless otherwise set by the Legislature.¹⁶ All short-term lenders must abide by this constitutional provision by law unless exempted or given special consideration by law. Payday or cash advance lenders are subject to this cap in Texas.

Other Retail Financial Alternatives: Pawn Shops, Prepaid Debit/Phone Cards, and Money Orders

Another option available for consumers in need of immediate or short-term funds is to pawn certain possessions. When someone "pawns" an item what it really means is that they will get a short-term cash loan with that item as the collateral. Pawn shops are regulated under state law (*Texas Finance Code Chapter 371*). Typically, a borrower will enter into an agreement with a pawn broker and a contracted period of time. The broker may charge what is known as a "finance charge" on any transaction. After the transaction has been made, the person who pawned the item will have a set period of time to repay the loan with interest and reclaim their personal property. If they are unable to repay, the item becomes the property of the pawn broker. According to the Texas State Attorney General's Office, pawn shops can have a maximum rate of 240 percent APR.¹⁷

In addition to the services mentioned in previous sections, retail financial service organizations, including CSOs, may provide consumers with access to prepaid debit or phone cards. This gives consumers the option to pre-load a debit card with a specific amount of cash, which then allows consumers to control or limit spending based on the value on the card. Similarly, pre-paid phone cards enable consumers to control the specific costs of long-distance telephone service.

Retail financial service providers in Texas may also help consumers secure money orders. A money order is an alternative form of payment when a consumer doesn't want to send a personal check. Money orders do nothing to help people in need of short-term credit and only serve as a form of direct payment.

The Effects of Restricting Access to Forms of Short-Term Credit

A study by the Federal Reserve Bank of New York concluded that state bans on payday credit in Georgia and North Carolina had caused more people to bounce checks, file for Chapter 7 bankruptcies ("no assets"), and experience greater difficulty with lenders and debt collectors. The opposite was true for consumers in Hawaii, whose legislature increased the level of individual payday loans from \$300 to \$600.¹⁸

Many critics of payday lending fail to take fully into account the unintended consequences of banning the practice or passing legislation making it impossible for these lending companies to continue to operate. The Federal Reserve study found that the lack of access to short-term loans for people in need of funds have significant impacts as people may be subject to bankruptcy due to the lack of credit.

When judging the appropriateness of a certain consumer service, one should compare the alternatives. In the case of short-term loans, the alternative is often making late payments on bills, bouncing checks, or facing bank penalties for insufficient funds. The New York Federal Reserve study cites a survey of eight large Chicago banks conducted by the Woodstock Institute that calculated the implicit APR of bounced check protection offered by banks at an average 2,400 percent. Sheila Bair, chairman of the U.S. Federal De-

posit Insurance Corporation (FDIC), noted that overdraft and bounced check protection discouraged traditional banks and credit unions from offering payday or short-term loans. Instead, she said, these institutions reap huge financial gains from offering this type of consumer protection. She warned that consumers were catching on and turning to payday loans as a cheaper alternative.¹⁹

In the last decade banks have nearly quadrupled their overdraft fees while credit-card late charges and over-limit charges have nearly tripled.²⁰ In 2006, banks made \$36 billion on checking/savings account fees. Bank of America for example, has raised the limit of the number of times a person can be charged an account fee to seven times per day.²¹ Given the increasing level of bank fees and other finance charges, some consumers may find it beneficial to mitigate these costs by taking out small loans.

Legislative Restrictions on Short-term Lending

New Hampshire has passed a law capping short-term loan interest rates at 36 percent, forcing many payday lending locations to close.²² Similar caps have passed in Pennsylvania and Arkansas with similar effects.²³ Jonathan Zinman argues that shutting off payday loans could lead some people to riskier behavior, such as bouncing checks or seeking out illegal loan sharks.²⁴

Part of the impetus for restrictions on short-term loans comes from the opposition to the high interest rates that are cited when CSOs are viewed as primary lenders that are collecting interest on loans. This is not the case. Instead, Credit Service Organizations charge a finder's fee for helping consumers locate and secure a STL from a third-party lender. Although required by law, factoring in these types of charges for the purpose of calculating APR interest rates on short-term loans may be inappropriate in drawing an accurate comparison with other annualized loans. Many people often decry what they perceive as "excessive interest rates," yet they fail to take into account that the lenders are capped at 10 percent interest rates per annum. The Federal Truth-in-Lending act requires that service fees are included in calculating the effective APR. For the purposes of comparing consumer alternatives however, citing these interest rate calculations alone doesn't accurately describe the whole picture.

Fourteen bills filed in the Texas Legislature's current session follow the trend of regulating short-term loans. House Bills 3021, 3304, 3744, 3772 and 4391 as well as Senate Bills 242, 243, 244, 248, 1285, and 2131 collectively increase transactions costs of short-term lenders and cap interest rates. House Bills 2211 and 2408 and SB 189 restrict short-term loan access with respect to loan collateral and military service affiliation. If passed, these bills would reduce consumer options in matters of personal finance.

All lenders, including banks, credit unions, or short-term lenders determine interest rates based on the consumer's credit risk. Consumers without existing credit, or with poor credit, are generally charged higher than average interest rates to mitigate the potential risks of defaulting payment. Lending, by nature, is a somewhat risk-intensive venture and appropriate interest rates allow lenders to continue to do business. Similarly, any profits made from successful lending in the past acts as a hedge against future defaults.

Legislation that caps interest rates below the established market value will put short-term lenders out of business and reduce lending options and choices for consumers seeking out immediate or emergency short-term loans, most of whom are urban members of the lower-middle class.²⁶ Thus, legislation to restrict access to short-term loans would disproportionately harm lower income Texans.

Established Consumer Protection Measures in Texas for Short-Term Lenders

Contrary to the claims of "predatory, unregulated credit lending," leveled against payday lenders, retail financial service providers in Texas are subject to many consumer protection regulations including:

- Texas Credit Service Organization Act (Texas Finance Code Chapter 393)
- Texas Deceptive Trade Practices Consumer Protection Act (Texas Business and Commerce Code §17.41 et seq.)
- Texas Constitutional Article XVI, §11
- Texas Finance Code Chapter 302
- Federal Truth in Lending Act (15 USC §1601 et seq.)

- Regulation Z (12 CFR part 226)
- Texas Debt Collection Practices Act (Texas Finance Code Chapter 392)
- Federal Debt Collection Practices Act (15 USC §1692 et seq.)
- Federal Equal Credit Opportunity Act (15 USC §1691 et seq.)
- Regulation B (12 CFR part 202)
- Federal Trade Commission Act (15 USC §41 et seq.)
- Federal Gramm Leach Biley Privacy Laws (15 USC §§6801 et seq.)
- Federal Trade Commission Regulations (16 CFR part 313 and 16 CFR part 314)
- Fees charged by credit service organizations are different from interest charged by lenders. Calculating service fees or guarantor charges into the effective APR does not provide a completely an accurate picture of the cost.
- Passing laws that cap effective APR rates will drive short-term lending organizations out of the market and make consumers worse off when their credit options are restricted.
- Market forces of supply and demand will set reasonable interest rates. Some consumers prefer access to more money now at the expense of paying interest later.
- Consumers make lending decisions that they believe are in their best interests—passing restrictions on short-term lending amounts to telling consumers what is best for them.

Additionally, retail lenders follow industry standards of only extending loans to people who have a valid checking account, a photo I.D., and a verifiable source of repayment. To put the matter simply, it is not in the best interests of either a short-term lender or to a borrower to take out loans that can't be repaid. Credit Service Organizations in Texas are required by law to display prominently all charges, fees, and interest rates associated with taking out loans. Consumers are also given a grace period of three days to return the loan without incurring interest charges and may not take out more than one loan at a time.

Findings

- It is best to keep options open for people with poor credit histories to take out short-term loans. Eliminating options has proved to be harmful in states such as Georgia and North Carolina.
- Certain consumers will always need access to short-term credit markets to overcome emergency situations or tough times. It is better to promote competition for this industry rather than erect restrictive barriers of entry for new competitors.

Conclusion

As credit markets continue to tighten, it is important for Texas consumers to have access to a variety of financial options. Many people who are turned away by traditional banks or credit unions are often left in a precarious situation of limited choices, most of which lead to higher debts, late payments, or bank fees. Consumers in need of short-term loans and credit are generally aware of the alternatives to taking out loans, such as skipping payments or bouncing checks. There is and will continue to be a market demand for small, short-term loans.

Critics cite what they claim to be high effective APR rates in their condemnation of payday loans and credit service organizations. However, they fail to look at the other side of the issue and don't take into account the alternatives that consumers face. Effective APR rates for late payments and bank fees often vastly exceed those of small, short-term loans. A competitive and vibrant short-term credit market promotes consumer choice and access to needed financial services. ★

Endnotes

- ¹ Board of Governors of the Washington, D.C. Federal Reserve Bank, "The July 2008 Senior Loan Officer Opinion Survey" (Aug. 2008) <http://www.federalreserve.gov/boarddocs/SnLoanSurvey/200808/fullreport.pdf>.
- ² Ibid.
- ³ Federal Reserve Bank of Dallas, *Presentation: Payday Lending Realities and Challenges*, "Short-term Credit and Payday Loans: A Look and Low-Income Texas Consumers," Ann Baddour, Texas Appleseed, November 2008.
- ⁴ Ibid.
- ⁵ Ibid.
- ⁶ Ibid.
- ⁷ Author's research.
- ⁸ Ibid.
- ⁹ Ibid.
- ¹⁰ Morgan and Strain, "Payday Holiday: How Households Fare after Payday Credit Bans," Federal Reserve Bank of New York, November 2007.
- ¹¹ The Federal Reserve Board, "What you Should Know About Home Equity Lines of Credit," http://www.federalreserve.gov/pubs/equity/equity_english.htm
- ¹² Baddour, November 2008.
- ¹³ Adair Morse, "Draft: Payday Lenders: Heroes of Villains?" University of Chicago Graduate School of Business, January 2007.
- ¹⁴ Sue Kirchhoff, "Breaking the Cycle of Payday Loan 'Trap,'" *USA Today*, September 2006.
- ¹⁵ Ibid.
- ¹⁶ Texas State Constitution, Article XVI, <http://www.statutes.legis.state.tx.us/SOTWDocs/CN/pdf/CN.16.pdf>.
- ¹⁷ Office of the Texas State Attorney General, "Consumer Loans, Know the Rules!" http://www.oag.state.tx.us/agency/weeklyag/weekly_columns_view.php?id=175.
- ¹⁸ Ibid.
- ¹⁹ Ibid.
- ²⁰ Federal Reserve Bank of Dallas, *Presentation: Payday Lending Realities and Challenges*, "The Economics and Regulation of Payday Lending," Michael Stegman, John D. and Cetherine T. MacArthur Foundation, November 2008.
- ²¹ Ibid.
- ²² Associated Press, "Payday Lender Closing up Shop in New Hampshire," February 2009, <http://www.fosters.com/apps/pbcs.dll/article?AID=/20090210/NEWS0201/902109941/-1/CITIZEN>.
- ²³ John Milburn, "Brother can you spare a payday loan?" Associated Press, February 2009, http://www.charleston.net/news/2009/feb/08/brother_can_you_spare_payday_loan/.
- ²⁴ Ibid.
- ²⁵ Adair Morse, "Payday Lenders: Heroes or Villains," *University of Michigan Working paper*, 2006.
- ²⁶ Morgan and Strain, November 2007.



About the Author

Chris Robertson graduated from the University of Texas with a B.A. in Government and joined the Foundation's Center for Fiscal Policy in January 2007. He returned to the Texas Public Policy Foundation's Center for Economic Freedom this spring after having served on a prominent U.S. presidential campaign in 2007-2008.

About the Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute guided by the core principles of individual liberty, personal responsibility, private property rights, free markets, and limited government.

The Foundation's mission is to lead the nation in public policy issues by using Texas as a model for reform. We seek to improve Texas by generating academically sound research and data on state issues, and recommending the findings to policymakers, opinion leaders, the media, and general public.

The work of the Foundation is primarily conducted by staff analysts under the auspices of issue-based policy centers. Their work is supplemented by academics from across Texas and the nation.

Funded by hundreds of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

