



**For Immediate Release:** Sept. 28, 2015

**Media Contacts:**

Kelli Johnson or Ann Baddour  
kjohnson@texasappleseed.net (ext. 103)  
abaddour@texasappleseed.net (ext. 104)  
512.473.2800

## **Military Members to Get Boost Under Oct. 1 MLA Final Rule**

*Texas payday and auto title loan alarming trend: borrowers trapped in debt at 500% APR or higher*

AUSTIN, Texas — Active duty service members in Texas, their spouses, and dependents will be better protected against a range of consumer loan and credit products via the Military Lending Act (MLA) final rule.

The [final federal rule](#), by the Department of Defense (DoD), goes into effect Oct. 1, 2015 and impacts any lending entity nationally, including payday and auto title loan businesses, banks, and credit unions. The new protective measures for borrowers include a maximum military annual percentage rate (MAPR) cap of 36 percent, which will apply to all loans. The MAPR includes interest and fees, as well as the cost of any credit-related insurance products sold with a loan. Additionally, allotments are prohibited, so payments cannot come directly out of military members' paychecks.

Lenders have a one-year grace period to comply with the new standards, allowing these businesses to change their systems and protocols to ensure they are in compliance. All lenders must comply with the provisions by Oct. 3, 2016, with a two-year exception for credit card accounts. The law does not apply to credit products such as a loan to buy a car, mortgages, or personal property, such as a loan to get furniture.

The final rule implementing the MLA comes after an extensive years-long study by the DoD. It found that payday and auto title businesses used loopholes to skirt the 36 percent rate cap, which was designed to protect military borrowers. Texas Appleseed [documented these same trends in Texas](#), showing continued clustering of payday and auto title businesses around military bases, offering loans with average APRs reaching as high as 617 percent.

"Texas has some of the highest cost small-dollar loans because payday and auto title loan businesses have decided not to play by fair marketplace standards," said Ann Baddour, director of Texas Appleseed's Fair Financial Services Project. "The new MLA rule sets a great bar for fair and reasonable standards in consumer credit markets."

(more)

## What the MLA Rule Means for Texas

Texas has one of the highest populations of active military personnel in the nation. Better regulation of this type of lending will benefit Texas' economy, allowing Texas military families to have improved financial stability under the law.

Payday and auto title lending in Texas still continues to be a major economic drain on families, and the new law will not cover non-military members or veterans. Research by Texas Appleseed in 2014 showed that payday and auto title loan businesses in Texas [cluster around veterans' facilities](#). To address lack of statewide regulation, 26 Texas cities have adopted the [unified ordinance](#) for their jurisdictions, which sets basic affordability standards for these small-dollar loans.

Nationally, proposed rules are anticipated from the Consumer Financial Protection Bureau (CFPB) in late 2015 or early 2016, which would apply to all borrowers, not just military members. Meaningful rules at the national level could go a long way toward establishing consistent fair market standards. However, federal- or city-level standards cannot address the statewide trend of mounting fee costs associated with these loans. Only the State of Texas can cap interest rates and fees.

"The business model for payday and auto title lenders relies on high fee charges, repeated refinances, and a loan structure that keeps borrowers in longer-term debt," said Baddour. "Texas families and communities benefit from reasonably-priced credit based on a borrower's ability to repay the loan — a formula for borrower and lender success."

## New Texas Data Sheets: Payday and Auto Title Loan Trends

Texas Appleseed has released [new data sheets](#) analyzing payday and auto title market trends in Texas from 2012 through 2014 — when the latest comprehensive data is available from the Office of Consumer Credit Commissioner. Top findings include:

- The dollar amount of new loans decreased by 10 percent from 2012-2014, while the fees collected increased by 23 percent — with no caps in the market, the high fee charges are just getting higher.
- Over 60 percent of single payment loans are refinances, indicating that profits are based on refinances rather than repayment.
- Installment payday lending is on the rise, with longer loan terms (2014 average was 152 days compared with 98 days in 2012). On average, borrowers pay \$1.49 in fees for every \$1 borrowed for installment payday and installment auto title loans. Fees far exceed the amount of the loan.
- The market is shifting toward loan products that ensure borrowers stay in debt at 500 percent-plus APRs for longer and longer terms. Installment payday loans are now the largest fee generator — they make up 14 percent of the total dollars lent, but 46 percent of the total fee charges.
- Auto title loan refinances have exploded. While the dollar value of new single payment auto title loans decreased by 18 percent from 2012-2014, the dollar value of refinances increased by 75 percent.
- Auto title repossessions also increased. In 2012, 713 cars per week were repossessed, representing 10 percent of borrowers. In 2014, the number jumped to 874 cars per week, and 1 in 7 borrowers lost a car to repossession.

## About Texas Appleseed

Texas Appleseed is a nonprofit organization whose mission is to promote social and economic justice for all Texans by leveraging the skills and resources of volunteer lawyers and other professionals to identify practical solutions to difficult, systemic problems. [TexasAppleseed.org](http://TexasAppleseed.org)