

Use of Public Pandemic Aid by Texas Payday & Auto Title Loan Businesses

February 2021

PAYCHECK PROTECTION



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INTRODUCTION & TOP FINDINGS

Paycheck Protection Program (PPP) funds are part of a federal program created through the CARES Act to help small businesses stay afloat and keep their workforce employed during the devastating COVID-19 pandemic.

A variety of small businesses qualify for these important funds, such as florists and hair salons, restaurants and cafes, family-owned contractors, and more. Many of these businesses are ingrained into local neighborhoods and towns, often giving back to their communities and fostering a positive culture.

Texas Appleseed began to explore potential abuse of this funding, specifically as it relates to an industry with a history of trapping Texans into a cycle of debt — payday and auto title loan businesses.¹ The three-party model under which Texas payday and auto title loan businesses operate allows them to evade state interest and fee caps that typically apply to consumer loans, resulting in uncapped Annual Percentage Rates (APRs) that are among the highest in the country — with rates reaching 500% and higher.²

Top Findings

- Texas payday and auto title loan businesses received **over \$45 million** in pandemic relief while continuing predatory practices by offering loans averaging **200% to 500% APR**.
- Payday and auto title businesses operating in Texas received an average forgivable loan amount of **\$1.363 million** — **more than twice the average loan amount for all Texas businesses**.
- One large national auto title loan operator with Texas subsidiaries **received a loan from the Federal Reserve’s Main Street Lending Program at 3.15% interest** — a loan intended to support small and mid-sized businesses. In turn, this auto title loan business **offers loans to Texans at over 350% APR**.
- **Texans most harmed by the pandemic are also the most targeted by payday and auto title loans operations.**

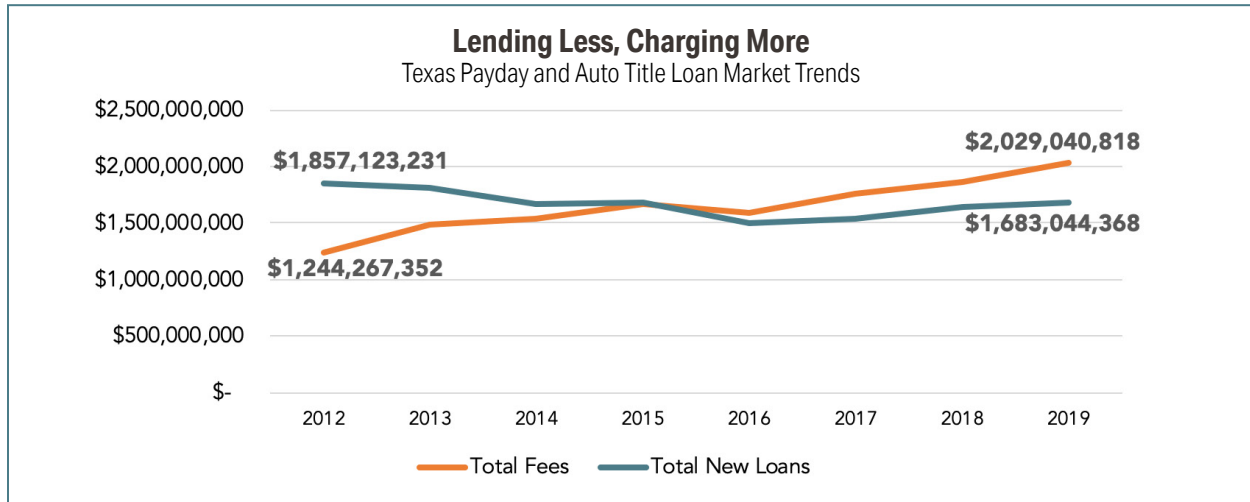
A map of Texas licensed locations for payday and auto title businesses that received PPP funding [can be found here](#).

¹ Loan disclosures provided by the Texas Office of Consumer Credit Commissioner provide data on refinances of single payment payday loans, installment payday loans, single payment auto title loans, and installment auto title loans. According to the most recent disclosures, between 25% and 60% of borrowers renew payday and auto title loans five or more times, depending on the loan product (see: <http://www.fc.texas.gov/sites/default/files/2020-10/101620-fc-packet.pdf>, at 218-221). For installment payday and auto title loans, which made up **81% of all fees collected by payday and auto title loan businesses in 2019**, five or more renewals add up to more than two years in debt at average rates of 200% to 500% APR.

² See, for example, a cost disclosure from a Texas credit access business offering single payment and installment payday loans: <https://approvedmoneycenter.com/300-payday-loan-costs>.

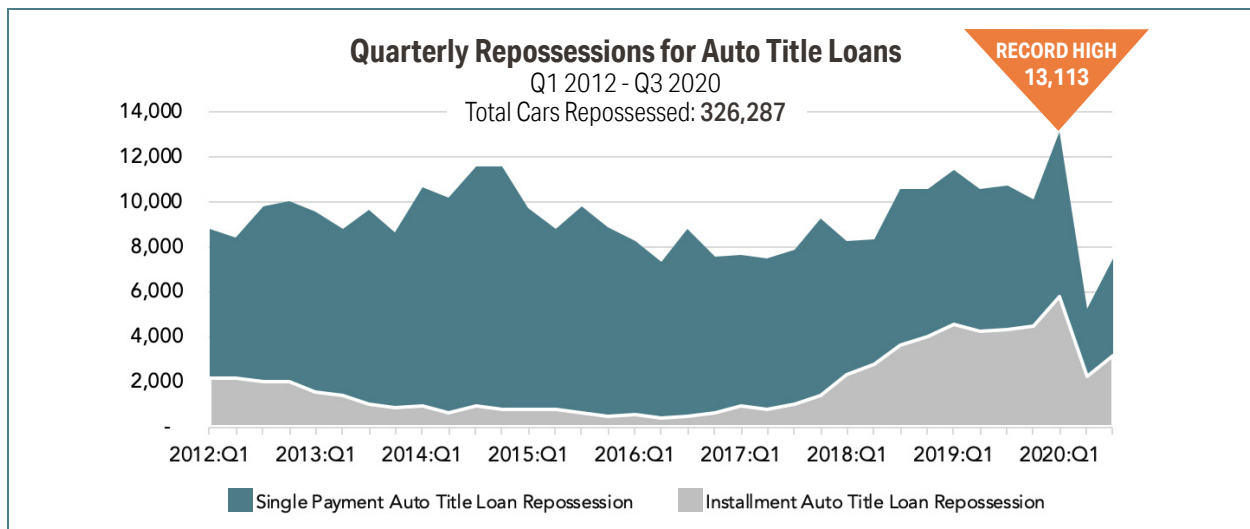
A LOOK AT PAYDAY & AUTO TITLE LOAN BUSINESSES PRE-COVID-19

Texas stands out among all but a handful of other states, with no caps on the total charges for payday and auto title loans.³ The result has been a pattern of high APRs and increasing fees.⁴ Since 2012, when payday and auto title loan data in Texas was first collected, lending has decreased, while fees have skyrocketed. From 2012 to 2019, the dollar value of new loans decreased by 9%, while the dollar value of fees collected on the loans jumped 63%, reaching more than \$2 billion in 2019.



Source: Credit Access Business Annual Data Report, 2012 to 2019, Texas Office of Consumer Credit Commissioner.

In recent years, in addition to rising fees, car repossessions by auto title loan businesses have been increasing. In the first quarter of 2020, when the economy was booming, before Texans felt the true impacts of the COVID-19 pandemic, Texas auto title loan businesses hit a record, repossessing the most cars in any quarter to date. In that one quarter, 13,113 Texans lost their car to an auto title loan business, often after months of paying high fees. In 2019, auto title loans in Texas averaged as much as 418% APR.⁵



Source: Quarterly Credit Access Business Data Q1, 2012-Q3, 2020, Texas Office of Consumer Credit Commissioner

³ Other states with no caps for payday or auto title loans include Delaware, Idaho, Nevada, Missouri, and Wisconsin. For information on payday lending laws in the US, see: <https://paydayloaninfo.org/>.

⁴ See, "How State Rate Limits Affect Payday Loan Prices," Pew, 2014, for an analysis of the impacts of no rate caps on the pricing of payday loans.

⁵ Texas Appleseed analysis of the 2019 Quarterly and Statewide Credit Access Business Reports, Texas Office of Consumer Credit Commissioner. Available at: <https://www.texasappleseed.org/data-sheets-payday-auto-title-lending-texas>.

Tracey was one of those 13,000 plus Texans who lost a car. After her husband passed away, she moved to Houston to be closer to family. She used her only asset, a fully paid off 2011 Toyota Camry as security on an \$2,500 auto title loan, to cover expenses from moving and for a deposit on an apartment.

After paying \$4,000 on the loan over 10 months, she became very ill and missed a payment on the loan. Her car was repossessed. A widow living alone in Houston, she recalled, “It was the pandemic. I was stranded in my home without a way to buy food or anything.”⁶

TRACEY’S STORY

Houston, Texas—March 2020

After my husband passed away, I had to relocate to Houston, back home, to be safe and to be around family. When I got here, I didn’t have anything. I got a \$2,500 title loan to pay an apartment deposit and get settled. I paid for 10 months, around \$4,000, and then I got really sick and I had to miss work. It felt like a really bad flu. I was behind 46 days. They picked up my car. Now they are requiring me to pay the entire loan back, over \$2,700...

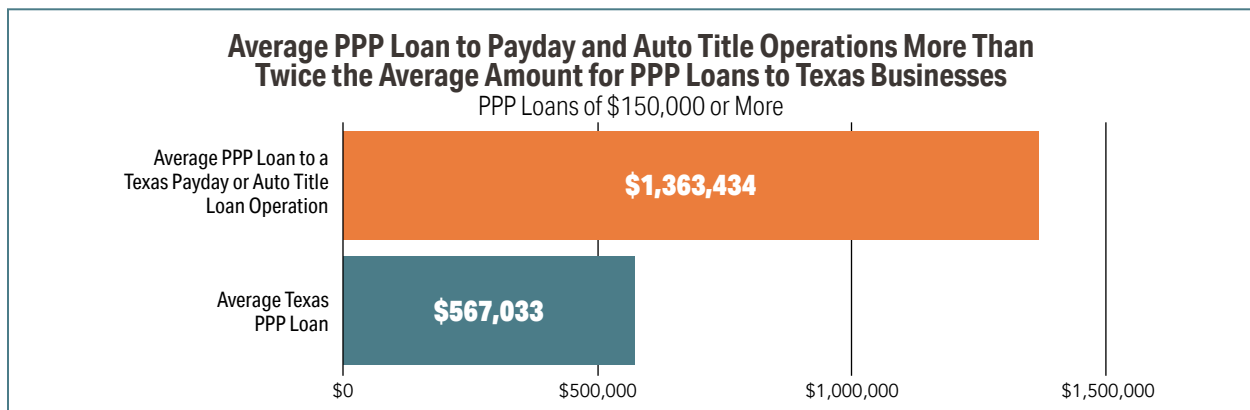
These businesses make money off the backs of poor people. The government needs to invest in Black communities. Instead they enable and subsidize these businesses that drain money from our communities. That is not right and it is not fair to me, as a taxpayer. I don’t need a subsidy, but I need access to a way out of this mess.

While Tracey was dealing with a triple crisis — losing her job, losing her car after paying back nearly double what she had borrowed, and the hardship of the growing pandemic — high-cost payday and auto title loan businesses in Texas were rushing to take advantage of taxpayer subsidies that were supposed to bolster the financial stability of families and the economy.

TEXAS PAYDAY & AUTO TITLE LOAN OPERATIONS USING TAXPAYER-SUBSIDIZED PANDEMIC RELIEF

Small businesses across the state struggled to get access to the Paycheck Protection Program (PPP) funds.⁷ Black- and Latino-owned businesses were at a particular disadvantage and many could not access the program at all.⁸

Meanwhile, payday and auto title loan operations accessed \$20.452 million in subsidies through PPP loans, with an average forgivable loan amount of \$1.363 million, more than twice the average loan amount for all Texas businesses.⁹



Source: Texas Appleseed Analysis of US Small Business Administration PPP Loan Data (Dec. 1, 2020)

⁶Working through the state regulator, Tracey was eventually able to get her car back with a negotiated payment plan, but when the car was returned to her, it was damaged and no longer drivable.

⁷For example, based on [data released by the US Small Business Administration on Dec. 1, 2020](#), 2,458 Texas small businesses received \$1,000 or less in PPP loans, to support 6,292 jobs. Among those businesses, the average PPP loan amount was \$724 and the total received by this group of businesses was \$1.8 million. In contrast, payday and auto title loan businesses received an average of over \$1.3 million each and received a total of \$20.452 million with just 1,034 jobs reported. Two of the payday and auto title loan businesses (licensed as credit access businesses in Texas) received PPP loans of \$889,700 (2233 Paradise Road LLC) and \$3,206,838 (MoneyLion Inc.) and reported no jobs.

⁸“[Minority-Owned Businesses Were Last in Line to Receive Loans, Latest PPP Data Show](#),” cbsnews.com (Jan. 4, 2021).

⁹Among Texas businesses receiving \$150,000 or more through the PPP program, the average received was \$567,033. Source: Texas Appleseed analysis of Paycheck Protection Program (PPP) loan data from the US Small Business Administration. PPP data available at: <https://sba.app.box.com/s/5myd1nxutoq8wxecx2562baruz774si6>.

They were also among the early recipients of the funds. Thirteen of the fifteen operations obtained the loans within the first month of the program rollout.¹⁰ In fact, many of these loans were granted before it was clear that payday and auto title loan operators qualified. U.S. Small Business Administration (SBA) rules typically exclude lenders from access to small business loans. Payday lenders joined strip clubs in filing lawsuits in May of 2020 to try to lift long-standing SBA lending prohibitions.¹¹

Included among payday and auto title loan businesses in Texas receiving PPP loans is a company called NCP Finance Ohio. This company provides the lending capital to a large number of payday and auto title loan operations in Texas through a three-party model where Texans borrow from NCP Finance, but in order to get the loan they are required to pay high fees to a credit access business (the licensing status for payday and auto title loan operations in Texas) to arrange, guarantee, and service the loan.¹²

Pandemic Subsidies to Texas Payday and Auto Title Loan Operations¹³

| Payday/Auto Title Loan Business | Subsidy Amount | Subsidy Type | Type of Operation |
|--|---------------------|-----------------------------|--|
| 2233 Paradise Road LLC | \$889,700 | PPP | Credit Access Business |
| Action Credit Express | \$195,300 | PPP | Credit Access Business |
| Approved Money Center LLC | \$267,400 | PPP | Credit Access Business |
| CPCWA Co LLLP ¹⁴ | \$708,900 | PPP | Credit Access Business |
| Essential Lending Inc | \$191,700 | PPP | Credit Access Business |
| Federal Cash Advance Of Oklahoma ¹⁵ | \$944,400 | PPP | Credit Access Business |
| Freddy's Fast Cash Inc | \$170,927 | PPP | Credit Access Business |
| KMD Partners LLC | \$1,071,516 | PPP | Credit Access Business |
| LoanMe | \$4,816,607 | PPP | Credit Access Business |
| MoneyLion Inc | \$3,206,838 | PPP | Credit Access Business |
| Opportunity Financial LLC | \$6,354,000 | PPP | Credit Access Business |
| Rydaco LLC | \$202,475 | PPP | Credit Access Business |
| SNB Capital LLC | \$206,300 | PPP | Credit Access Business |
| Your Money Tree LLC | \$164,843 | PPP | Credit Access Business |
| Wellshire Financial Services | \$25,000,000 | Main Street Lending Program | Credit Access Business |
| NCP Finance Ohio LLC | \$1,060,600 | PPP | 3rd Party Lender Making Payday and Auto Title Loans in Texas |
| Total | \$45,451,506 | | |

¹⁰ The PPP program began on April 3, 2020.

¹¹ Todd Frankel and Jonathan O'Connell, "Strip Clubs, Payday Lenders, Lobbyists Fight to Get Emergency Federal Loans," *The Washington Post* (May 6, 2020). See also, "Payday Lender Abandons Suit Challenging Eligibility for Paycheck Protection Program," *JD Supra* (May 16, 2020).

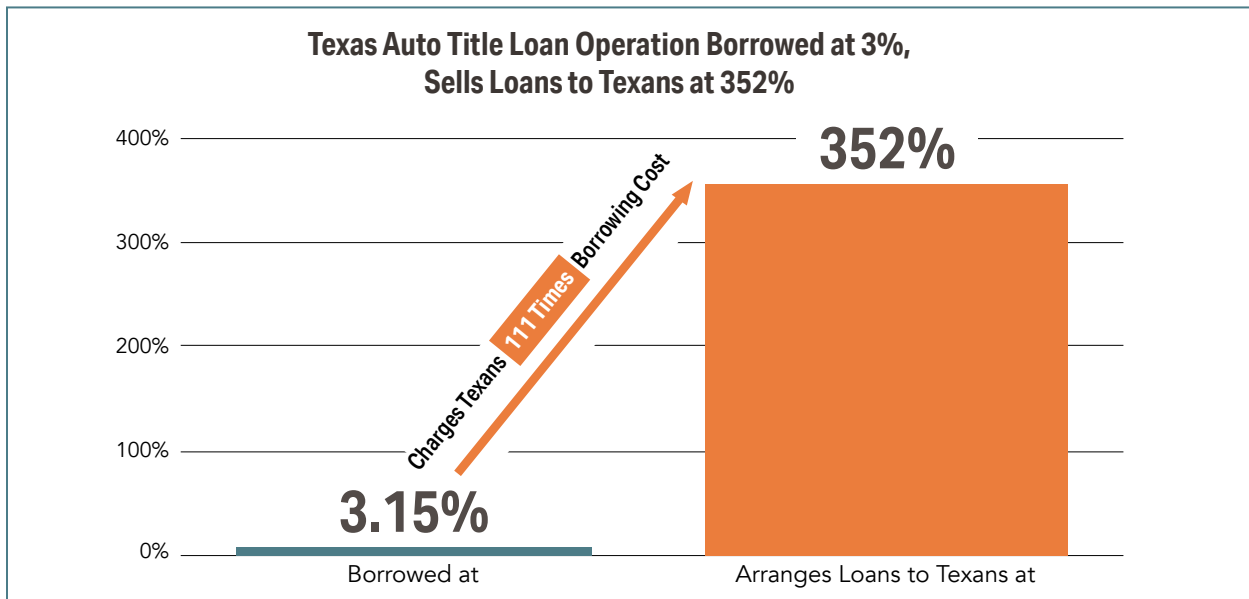
¹² Ann Baddour, Marett Hanes, and Deborah Fowler, *Pulling Back the Curtain: Shining a Light on Payday and Auto Title Loan Businesses in Texas*, (Oct. 2015) at 4.

¹³ Texas Applesseed analysis of: 2019 licensee data from the Texas Office of Consumer Credit Commissioner; the Paycheck Protection Program (PPP) loan data from the US Small Business Administration. PPP data available at: <https://sba.app.box.com/s/5myd1nutoq8wxcx2562baruz774si6>; and the Federal Reserve Main Street Lending Program data, available at: <https://www.federalreserve.gov/publications/files/mslp-transaction-specific-disclosures-01-11-21.xlsx>.

¹⁴ This business is owned, at least in part, by former Texas State Representative Gary Elkins. It was also the defendant in the lawsuit, [LOVICK v. RITEMONEY LTD SNM CPCWA GE CE LLC](#), which resulted in a U.S. 5th Circuit Court of Appeals decision that opened the floodgates for uncapped payday and auto title lending in Texas.

¹⁵ This business, with 39 locations in mostly North Texas and Northeast Texas (dba CashMax), was [sued by the Texas Attorney General](#) for fraudulently using a Dallas County letterhead to illegally threaten defaulting customers with high fines and jail time. See also: <http://www.austintexas.gov/edims/document.cfm?id=169415>.

In addition to the PPP loans, one large national auto title loan operator used its Texas subsidiary, Wellshire Financial Services LLC, which does business as LoanStar Title Loans, to access the Main Street Lending Program, funded through the Federal Reserve, at 3.15% interest.¹⁶ The loan, intended to support small and mid-sized businesses, has a five-year term and includes no principal payments for two years and no interest payments for one year.¹⁷ Yet, this same business makes auto title loans to Texans at over 350% APR.¹⁸



A.M.'S STORY

Grandmother, Caretaker for Grandchild, Waller County, Texas—January 2021

My job in March 2020 closed due to COVID-19 and I wasn't able to get another job until June 2020. In August, I took out an \$1,800 auto title loan, around the same time my daughter "K" suffered a breakdown and I also had to pick up my grandbaby, who is still with me.

In October I asked them if the payments could be lowered, as my salary has changed, and I couldn't pay \$474 each month on time. I asked for help—I can't make that much of a payment—my only income right now is Social Security. I asked, don't you have something for COVID? Instead of offering help, the staff told me they can only make arrangements on the loan. In the end of December, I was contacted for collections of \$474. The staff member at the loan store told me that if I go past thirty days I would be in default of the loan and in jeopardy of losing my vehicle. Yet, I find out later that the loan store received the support during COVID to help out people affected, a \$25 million dollar supplement at 3%!! They charged me 357% during COVID.

After a lot of phone calling, I was contacted by the regional office to work out a settlement arrangement—\$393 for five months to pay off the loan. That means I will end up paying over \$3,700 on the principle [*sic*] of the loan. I do owe the loan and I am willing to pay it. However, what is the purpose of giving them \$25 million to support their loan customers? How are they able to charge me these rates with money they were given to help people?

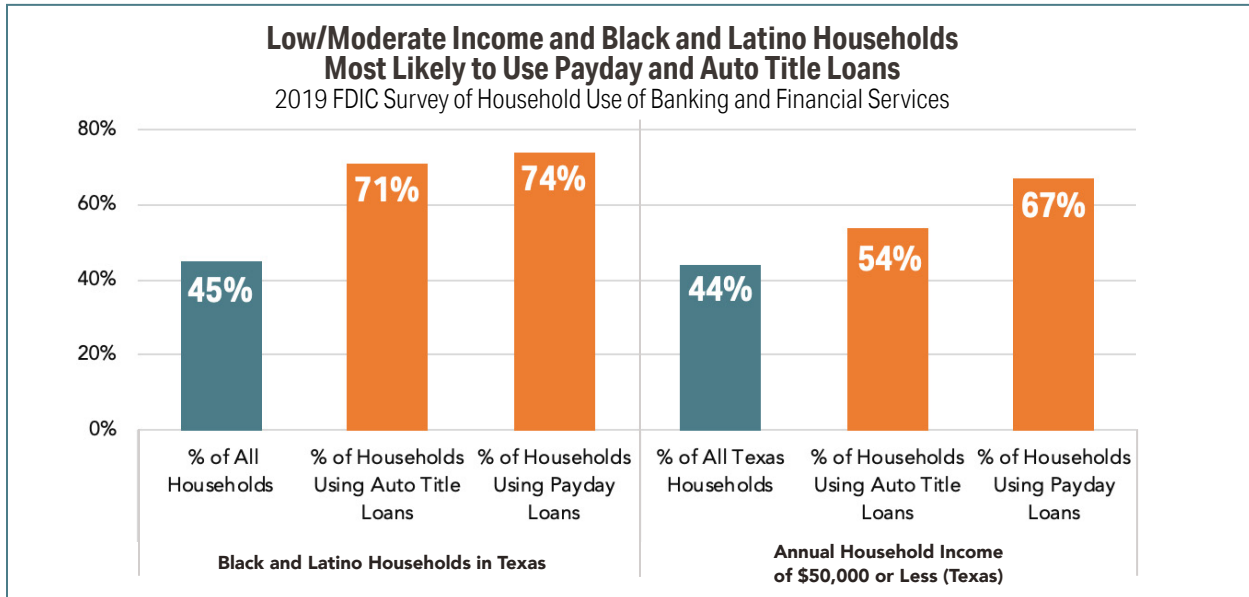
¹⁶ See: <https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm>.

¹⁷ Todd Frankel, "A Trump Donor's Company Got a 3 Percent Federal Pandemic Loan. It Sells Auto Title Loans at 350%," *The Washington Post* (Nov. 23, 2020).

¹⁸ See: https://www.loanstartitleloans.net/Site/app/assets/images/Shared/1200_Single_Loan_Example.pdf. At the end of 2019, there were 131 LoanStar Auto Title loan locations in Texas according to licensing records from the Texas Office of Consumer Credit Commissioner.

TEXANS MOST HARMED BY THE PANDEMIC ARE ALSO MOST TARGETED BY PAYDAY AND AUTO TITLE LOAN BUSINESSES

Payday and auto title lending in Texas disproportionately targets Black and Latino households, those with low and moderate incomes, and veterans. According to the 2019 FDIC Survey of Household Use of Banking and Financial Services, Black and Latino Texans made up 45% of households in the survey, but 71% of all households using auto title loans and 74% of households using payday loans.¹⁹ Texas households with incomes of \$50,000 or less made up 44% of all households, but 54% of auto title loan borrowers and 67% of households using payday loans.²⁰



A 2019 survey of Texas veterans found that 45% of those surveyed had used a payday or auto title loan, and 24% used them more than once per year, compared with 7% of adult Texans.²¹



V.G.'S STORY

Veteran, San Antonio Texas—May, 2020

As a Disabled Veteran who was unemployed unfortunately for nearly 3 years, I took out a title loan for around \$1,500. I was really down and out, suffering from PTSD... [A Texas auto title lender was] more than willing to help me with a loan, I walked out with a \$10,000 line of credit for my 2009 Toyota Tundra. They called me at least twice weekly urging me to take on more and more, to which naively I did. When I couldn't pay, in the middle of the night, like thieves, they repossessed my truck...

These lenders are predators, they realize you're having money problems and they continue to prey upon you. I had never been in this situation before. I ended up losing my wife and was nearly homeless as a side effect of their predatory practices. I ask lawmakers, Consumer Protection Agency and possibly law enforcement please act and control these loan sharks from preying upon people who are down and out. I served my country in combat and have lost nearly everything I care about. I can understand 15%—20% APR loans but 150%-200% is really criminal.



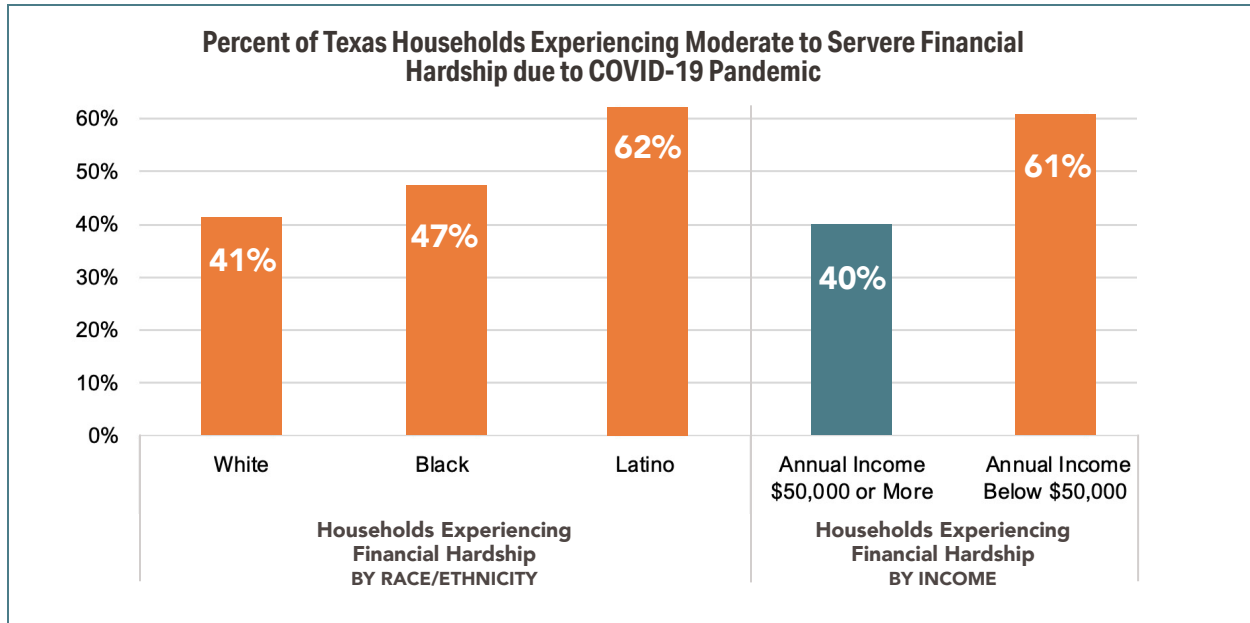
¹⁹ 2019 FDIC Survey of Household Use of Banking and Financial Services, FDIC (2019).

²⁰ *Id.*

²¹ Ann Baddour, Cornelius Blackshear, Erasmo Cantu, Stephanie O'Banion and Katherine von Haefen, [Thank You for Your Service: The Effects of Payday and Auto Title Loans on Texas Veterans](#), Texas Appleseed, United Way of Central Texas and United Way of Greater Houston (March 2019), at 2.

Many of these same communities that are most likely to experience the financial harms of high-cost payday and auto title lending also have been disproportionately harmed by the pandemic. Black and Latino Texans are overrepresented among COVID-19 fatalities.²² Studies of economic hardship show similar trends.

A survey by the Episcopal Health Foundation looking at community impacts of the COVID-19 pandemic found that 41% of White Texans surveyed experienced moderate or severe financial hardship compared to 47% of Black Texans and 62% of Latino Texans.²³ The same study found that 61% of Texans with annual incomes below \$50,000 were experiencing moderate to severe financial hardship compared to 40% of those with higher incomes.²⁴



Source: "Texans' Views on the Covid-19 Pandemic: Findings from the Episcopal Health Foundation 2020 Texas COVID-19 Survey," Episcopal Health Foundation (October 2020)

According to the latest U.S. Census pulse looking at December 9-21, 2020, 42% of all Texas households found it somewhat difficult or very difficult to cover usual household expenditures during the coronavirus pandemic.²⁵ By comparison, 49% of Latino households, 54% of Black households, and 61% of households with annual incomes below \$50,000 found it somewhat difficult or very difficult to cover usual household expenditures.²⁶

²² Emma Platoff and Carla Astudillo, "[Across Texas and the nation, the novel coronavirus is deadlier for people of color: New Data on Texas coronavirus fatalities reveals stark racial disparities](#)," *The Texas Tribune* (July, 30, 2020).

²³ Shao-Chee Sim, Elena Marks, Jazmyne Sutton, Eran Ben-Porath, and Akilah Evans-Pigford, "[Texans' Views on the Covid-19 Pandemic: Findings from the Episcopal Health Foundation 2020 Texas Covid Survey](#)," Episcopal Health Foundation and SSRS (October 2020) at 14.

²⁴ *Id.*

²⁵ [Week 21 Household Pulse Survey: December 9 – December 21](#), US Census Bureau (January 6, 2021).

²⁶ *Id.*

CONCLUSION & RECOMMENDATIONS

Without needed reforms, payday and auto title loans will continue to harm Texans struggling to recover from the pandemic. Adopting policies to rein in the financial harms caused by these uncapped loans will enhance the economic recovery of financially vulnerable Texans and communities. **Payday and auto title loan operations should not receive taxpayer-funded subsidies — and the federal government should take action to address this unconscionable use of public funds.** Leaders should also focus on supporting key policies that have proven successful in cities across Texas and in other states:

- **The most effective way to address the high cost of payday and auto title loans and the resulting financial harm for Texans is to adopt rate and fee caps for the loans.** Across the country, states are adopting rate caps, including most recently in Nebraska through a voter referendum that garnered support from 83% of voters, and in the state of Illinois. Seventeen states and the District of Columbia have rate caps of 36% APR or less, similar to the national rate cap for active duty military and military dependents.²⁷
- **Support a home-grown solution: Forty-six Texas cities have adopted local ordinances that rein in the most abusive practices in the market, supporting a more affordable loan structure.**²⁸ The Texas Legislature can help communities most impacted by the pandemic recover through protecting local ordinances from any new state preemption and adopting the common-sense provisions of the city ordinances into state law. [HB 206](#) has been filed in the 87th Legislative Session to do just that.
- **Invest in and encourage lower cost loans.** Financial services reform efforts should also include policies and strategies to create better products in the market. An increasing number of for-profit and non-profit businesses are stepping up to offer affordable small loans in the Texas market.²⁹ Loan loss reserve funds and low-cost loan capital to support innovative loan products are important catalysts for market-based reforms.

There are still hard days ahead before the promise of vaccines pulls Texas out of the health and economic crises created by the COVID-19 pandemic. Reforming payday and auto title lending in our state and reining in high-cost lending abuses is one step to support the financial recovery of Texas families and communities.

²⁷ Locations with 36% APR or lower rate caps include: Arizona, Arkansas, Colorado, Connecticut, District of Columbia, Georgia, Maryland, Massachusetts, Montana, Nebraska, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, South Dakota, Vermont, and West Virginia. The Illinois legislature recently passed a 36% Military APR cap for consumer credit. This measure was part of a broad racial justice and racial equity bill and is awaiting the signature of the governor. Other states, such as Ohio and Virginia, have higher rate caps, but charges are substantially lower than the Texas market.

²⁸ These cities include: Amarillo, Angleton, Arlington, Austin, Balcones Heights, Baytown, Bedford, Bellaire, Brownsville, Bryan, Canyon, Cedar Hill, College Station, Corpus Christi, Dallas, Denton, DeSoto, Dickinson, El Paso, Euless, Flower Mound, Fort Worth, Galveston, Garland, Grand Prairie, Harker Heights, Hurst, Houston, Killeen, Longview, Mesquite, Midland, Pharr, San Angelo, San Antonio, Seguin, Socorro, Somerset, South Houston, Sulphur Springs, Temple, Universal City, Waco, Weatherford, West University Place, and Willis.

²⁹ For example, most recently, the [Capital Good Fund](#) began lending in Texas and Bank of America is now offering [“Balance Assist”](#) to meet customer small dollar loan needs at a reasonable cost.



PAYCHECK PROTECTION

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About Texas Appleseed

Texas Appleseed is a public interest justice center that works to change unjust laws and policies that prevent Texans from realizing their full potential. Our nonprofit conducts data-driven research that uncovers inequity in laws and policies and identifies solutions for lasting, concrete change. For more information, visit www.TexasAppleseed.org.