



PULLING BACK THE CURTAIN

SHINING A LIGHT ON PAYDAY AND AUTO TITLE LOAN
BUSINESSES IN TEXAS

White Paper

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Texas Appleseed's Mission

Texas Appleseed promotes 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.



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Executive Summary

Payday and auto title loan businesses have been a source of significant policy debate in Texas over the past two decades. These businesses have been the target of scrutiny because of their very high rate charges, often well above rates permitted under state consumer lending laws, and a loan structure that holds many borrowers in debt far beyond the typical two-week or one-month loan term.¹

In 2005, payday and auto title loan businesses turned in their consumer lending licenses to become Credit Services Organizations (CSOs), operating essentially as loan brokers, required only to register with the Texas Secretary of State. They moved to this model of operation, partnering with unlicensed third-party lenders to make the loans, as a means to evade state fee and interest rate caps for licensed consumer lenders.² A 2012 change in state law made available, for the first time in nearly a decade, information about the ownership of these businesses and the third-party lenders that capitalize the high-cost loans. The 2012 law created a licensing requirement under the CSO Act, with a new designation for payday and auto title loan businesses, called credit access businesses (CABs).

In December of 2014, after two years of open records litigation, Texas Appleseed obtained license applications for payday and auto title loan businesses operating under the CAB license that include third-party lender information. This report is a presentation of the open records CAB licensee information supplemented by public ownership information obtained, through the Texas Comptroller's Office. The data presented in this study point to two major conclusions:

1. The current third-party lender market undermines true competition.

Key Findings:

- **Eighty-six percent of CABs work with only one third-party lender.** In some cases, loyalty to a specific third-party lender is due to a shared interest or relationship between the third-party lender and the CAB.
- **The top five third-party lenders in Texas (by number of licensed locations served) served 77% of all licensed CAB locations,** despite making up only 4% of all lenders. The top third-party lender, NCP Finance LP, served 38% of all Texas licensed locations.
- **Twenty-five of 135 third-party lenders, or 19% percent, have overlapping ownership with another third-party lender,** indicating that, while there is an appearance of competition, there is significant consolidation in ownership among third-party lenders.

¹ Bills both to enable and reform high-cost payday and auto title lending have been introduced in the Texas Legislature since the 1990s. In recent sessions, particularly 2011 and 2013, there was significant debate over the need for reform. Some basic licensing, disclosure and data collection measures passed in 2011. No measures have passed to date that address the high-cost or structural problems with the loans offered under the CSO Act.

² In Texas, consumer lending has long been governed by the Texas Finance Code, Chapter 342, which includes rate and fee caps for consumer loans as well as standards for payday loans, called "deferred presentment transactions."

2. The complex web of ownership of credit access businesses and third-party lenders hinders transparency and competition, and calls to question compliance with the law.

Key Findings:

- **Thirty-one percent of CABs appear to have some shared interest with one or more other CABs**, which generally involves ownership by the same individual or multiple individuals, but may also involve a complex web of ownership involving multiple CABs and individuals.
- **Of the 135 third-party lenders listed in 2012 CAB license applications, 22% have some form of overlapping ownership with a CAB.**
- **In 67% of the instances of overlapping ownership between CABs and third-party lenders**, either the same individual owns both a CAB and a third-party lender, or an individual owns a CAB and his or her family members are listed as owners or officers of a third-party lender.

In 2006, the Texas Attorney General issued a letter assessing the legality of the use of the CSO Act by payday and auto title loan businesses to arrange high-cost loans. The letter states in its conclusion:

... theoretically, if the CSO and the lender are truly independent actors, there would be nothing patently illegal about the model. Determining the true relationship between a CSO and a lender would be a fact-intensive endeavor. Any discussion of whether the use of this model is the best public policy choice for the State of Texas is one that must be addressed by the legislature and has not been explored by this office.³

This study is a “fact-intensive endeavor” and sheds important light on the relationships that exist between CABs (licensed under the CSO statute) and their third-party lenders. This study is limited by information

available in the public sphere. Nonetheless, exposing available information about the ownership and the source of capital for these high-cost loan businesses offers new information to assess competition in the market, compliance with the letter and spirit of the law, and whether the current legal structure is good public policy for Texas.

The findings of this study point to three important policy recommendations:

1. The Texas Legislature should level the playing field for business and consumer alike by requiring that all consumer loan businesses comply with the same rate and fee structures currently established by statute and administrative rules under Title 4 of the Texas Finance Code;
2. A deeper study should be conducted on the source of capital that drives the third-party lender model, as the results of the current study point to a concerning concentration of capital that undermines market competition and transparency for consumers; and
3. Texas needs clear and enforceable standards to ensure that CSOs do not evade the requirement that they arrange credit “by others.” Standards should prohibit any overlap, in ownership, officers or employees, between CABs and the third-party lenders that service them. Such prohibited overlap must include family relationships among the different owners, as well as business partnerships, where the same group of individuals own CABs and third-party lenders, all of which evade the spirit of the law.

Texas families need access to fair and responsible consumer loans. Fair consumer lending markets are key to successful families and local economies. If the CSO/CAB lending market is allowed to persist unchecked, it will continue to undermine competition and transparency in the Texas market and hinder a fair playing field for consumer lending—for borrowers and lenders alike.

³ Letter to Texas Consumer Credit Commissioner Leslie Pettijohn from Barry McBee, First Assistant Attorney General (January 12, 2006) (emphasis added).

PART 1

Introduction

A. Background

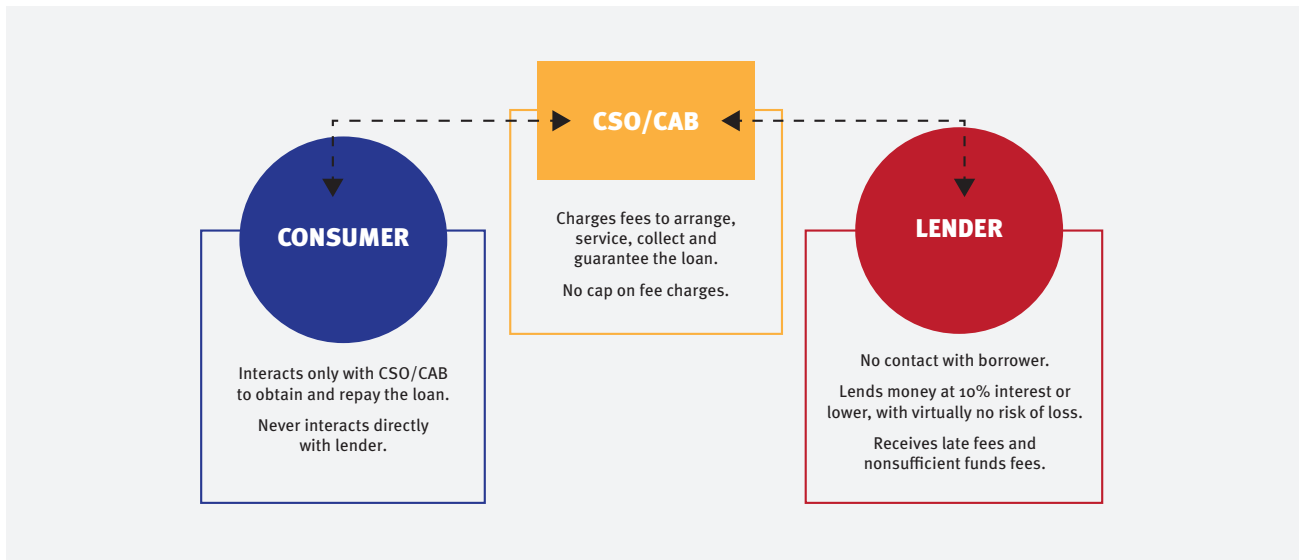
Payday and auto title lending is a \$5.8 billion industry in Texas, with over 70% of the volume generated by high fees and refinances.⁴ On average, annual percentage rates for payday loans range between 457% and 522% for a 19-152 day loan and auto title loans range from 243%-289% APR for a 30-191 day loan.⁵ The Texas Constitution caps rates at 10% interest⁶ and Title 4 of the Texas Finance Code allows significantly higher rates for consumer loans, but these rates are still far below the typical rates for payday and auto title loans in the Texas market.⁷

In order to avoid complying with established rate and fee caps for consumer loans, payday and auto title loan businesses operate outside of Texas' consumer lending

laws by serving as “loan arrangers” under the Texas Credit Services Organization Act, arranging loans through third-party lenders who lend at rates of 10% interest or less, in compliance with the state constitutional usury cap.

The CSO Act was first adopted in 1987 as a consumer protection against “fly by night” credit repair businesses.⁹ However, starting in 2005, it became the primary means of operation for payday and auto title loan businesses in Texas, bolstered by a 5th Circuit Court decision (*Lovick v. Ritemoney*) that found that usury limits in state law do not apply to CSO fees unless the fees are shared with the lender.¹⁰ The CSO lending model is a three party model, where the consumer obtains a loan from a third-party

Lending Business Model for Credit Services Organizations/Credit Access Businesses⁸



⁴ Texas Applesseed analysis of the Texas Office of Consumer Credit Commissioner Credit Access Business Annual Data, CY 2014 (June 23, 2015).

⁵ Texas Applesseed analysis of the Texas Office of Consumer Credit Commissioner Credit Access Business Quarterly Reports, Q1-Q4 2014 (April 16, 2015).

⁶ Tex. Const., Art. XVI, § 11.

⁷ Tex. Fin. Code § 342. The highest rate structure under § 342 allows a 10% administrative fee charge up to \$100 plus a \$4 per \$100 per month charge for the period that a loan is outstanding.

⁸ A credit access business (CAB) is a designation created as part of the 2011 law to license payday and auto title loan businesses operating under the Credit Service Organization Act.

“ I sense that something strange may be going on here...When the broker is getting 90% of the profit on a transaction, it is not unreasonable to think the lender is somehow being benefited; perhaps it is in effect, receiving a usurious rate of interest from whatever arrangement it has with the broker. ”

—Judge Jolly, U.S. 5th Circuit Court of Appeals
Dissenting opinion in *Lovick v. Ritemoney*

lender through the CSO as an intermediary. The CSO guarantees the loan, leaving the lender with essentially no risk. In the event of a default, the CSO takes ownership of the loan and engages in collections. The CSO also collects payments and services the loan. While lender interest is capped at 10%, avoiding licensing under state law, CSO fees are uncapped, which is why these loans often have annual percentage rates at 500% and higher.

From 2005 to 2012, little was known about these businesses in Texas. They had to post a small bond— \$10,000—and register with the Texas Secretary of State. Little to no information was known about ownership or relationships between CSOs and the third-party lenders offering loans to CSO customers, even though the information is essential to determine if the loans violate state usury law, per the *Lovick* decision and the plain language of the CSO Act.¹¹

Without access to ownership and third-party lender

information, it was also difficult to assess market competition and transparency in this high-cost credit market space. The third-party lender sets the underwriting criteria for the loans.¹² If multiple CABs and third-party lenders have the same or overlapping ownership, or if the market is dominated by only a few third-party lenders, it calls to question whether meaningful competition and transparency exist in this market space.

Starting in January of 2012, after the passage of HB 2594 in 2011 (82nd Regular Session), CSOs arranging payday and auto title loans were required to be licensed by the Texas Consumer Credit Commissioner as credit access businesses (CABs), a subgrouping created within the CSO Act. Part of the licensing requirement includes disclosure of the ownership of the business and the third-party lenders with which it works to arrange extensions of consumer credit.¹³

B. CAB and Third-Party Lender Data—A Two-Year Ordeal to Get a Glimpse Behind the Corporate Curtain

Texas Appleseed filed two separate open records requests with the Texas Office of Consumer Credit Commissioner, on October 25, 2012 and November 7, 2012, to obtain CAB ownership and third-party lender information. The CAB ownership data from the license applications was provided,

but the third-party lender data request was referred by the agency to the Office of the Texas Attorney General to obtain an open records ruling regarding disclosure of the third-party lender data.

⁹ According to a memorandum produced by the Texas Office of Consumer Credit Commissioner in February of 2011, “The legislature intended [the CSO Act] to reduce certain abuses by credit repair clinics. In particular, the bill’s author hoped that with a bond requirement, “fly by night” clinics would be less able to make misleading promises of credit repair, and less able to charge exorbitant fees for services that are available for free or at low cost . . . We did not find any indication that the legislature intended to preempt usury laws or overrule case law concerning loan broker fees.” Memorandum, From: Matt Nance, To: Leslie Pettijohn & Sealy Hutchings, Re: Legislative History of Credit Services Organization Act (February 9, 2011).

¹⁰ See *Lovick v. Ritemoney, Ltd.*, 378 F.3d 433 (5th Cir. 2004). With regard to CSO fees, the decision states, “The Texas Legislature has not restricted the amount of a CSO service fee in proportion to the services provided; we cannot substitute our judgment.” *Id.* at 443. With regard to attributing the CSO fees to interest for usury purposes, the decision states, “Under [the Credit Services Organizations Act], read in conjunction with the usury statutes, brokerage fees shared with the lender are interest for purposes of determining usury.” *Id.* at 444.

¹¹ Tex. Fin. Code § 393.001 states that a CSO can only provide specified services, “with respect to the extension of consumer credit by others.” (Emphasis added.)

¹² Sealy Hutchings & Matthew J. Nance, *Credit Access Businesses: The Regulation of Payday and Title Loans in Texas*, 66 Consumer Fin. L.Q. Rep. 76, 80 (2012).

¹³ Tex. Fin. Code § 393.604 (3) & (4).

On January 18, 2013, the open records ruling was issued approving release of the data, with a few exceptions that were deemed personal or proprietary information.¹⁴ On February 13, 2013, the Consumer Services Alliance of Texas, a trade association representing CABs, and Cash Zone, dba Cash Biz and Cash Kingdom, filed separate lawsuits against the Texas Attorney General, challenging the open records ruling, in an attempt to prevent release

of the information.¹⁵ Texas Appleseed intervened in both lawsuits in March of 2013. More than two years after the original date of the open records request, there was a joint notice of nonsuit—all parties agreed to drop the suit—and the requested data was released by the Office of Consumer Credit Commissioner on December 17, 2014. This data offers an important snapshot of the operations of payday and auto title businesses in Texas.

C. Data Overview and Methodology

This study is based on data obtained through open records requests for information regarding licensed Credit Access Businesses (CABs) and their third-party lenders, submitted to the Texas Office of Consumer Credit Commissioner (OCCC) in 2012. A spreadsheet was created from this data, including ownership and officer information obtained from the Texas Comptroller of Public Accounts. After this information was compiled for the 217 licensed CABs included in the 2012 data, the process of looking up owner and officer information was repeated for the third-party lenders included in the data from the OCCC.¹⁶

Due to the two-year delay between obtaining the data from the OCCC and looking up ownership and officer information on the Texas Comptroller of Public Accounts website, some CABs and/or third-party lenders that were included in the original data are no longer registered as a taxable entity with the Texas Comptroller of Public Accounts. This was the case for 9 CABs, or 4% of licensed 2012 CABs, and 30 third-party lenders, or 22% of third-party lenders included in the data.¹⁷

Additionally, there are other instances where owner and officer information is unavailable or incomplete. There are 13 individuals or couples, or 6% of CABs listed as CAB companies and 17 individuals, or 13% of third-party lenders, listed as third-party lenders in the OCCC data. These listings do not return any results on the Texas Comptroller of Public Accounts website.¹⁸ Forty-three, or 20% of CABs, and 22, or 16% of third-party lenders, had incomplete filings that did not contain full owner or officer information on file on the comptroller website, and the ownership of these companies is unclear as a result.¹⁹ Furthermore, there are six third-party lenders, or 4% of reported lenders, where results were returned for a company with a slightly different name, and it is unclear whether or not this information pertains to the third-party lender reported in the data.²⁰ While some information may not be complete for CABs or third-party lenders, all of the information on the Texas Comptroller of Public Accounts website is up to date, so the following data analysis is not affected by the two-year delay in receiving the open records request from the OCCC.

¹⁴ The Attorney General of Texas, Opinion No. OR2013-01094 (Jan. 18, 2013), available at <https://www.texasattorneygeneral.gov/opinions/openrecords/50abbott/orl/2013/pdf/or201301094.pdf>.

¹⁵ See *Cash Zone v. Abbott*, No. D-1-GN-13-000385 (201st Dist. Ct., Travis Cnty. filed Feb. 13, 2013); *Consumer Servs. Alliance of Tex. v. Abbott*, No. D-1-GN-13-000382 (201st Dist. Ct., Travis Cnty. filed Feb. 13, 2013).

¹⁶ Open Records Request from the Texas Office of Consumer Credit Commissioner. (2012). Received November, 2012 from the Texas Office of Consumer Credit Commissioner.

¹⁷ Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

¹⁸ Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

¹⁹ Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

²⁰ *Id.*

PART 2

The Current Third-Party Lender Market Undermines True Competition

A. CABs Do Not Help Borrowers Find the Best Deal—Majority Work with Just One Lender

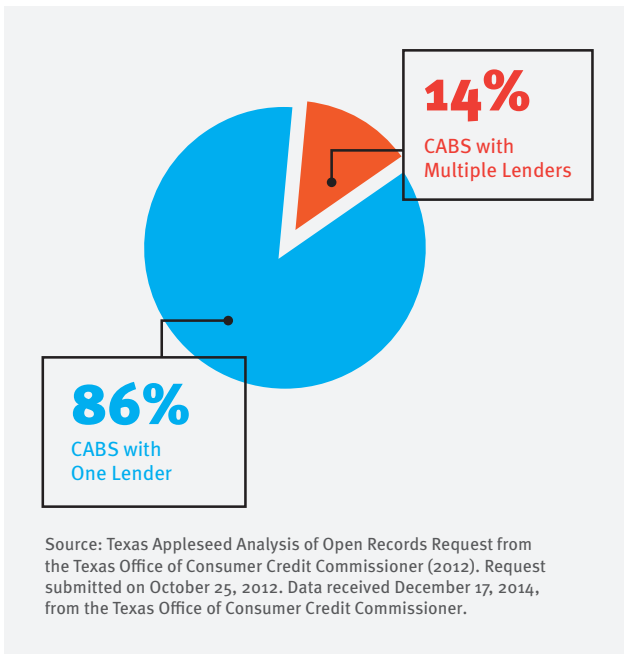
CABs are licensed under Title 5 of the Texas Finance Code, entitled “The Protection of Consumers of Financial Services.” Yet, the business model appears to work counter to consumers’ best interests, funneling borrowers into high-cost credit transactions, rather than allowing them to benefit from market competition to find the best deal. CABs play the role of loan broker in payday and auto title loan transactions in Texas, but most work with just one lender.

Based on the 2012 license application data, 86% of CABs reported working with just one third-party lender.²¹

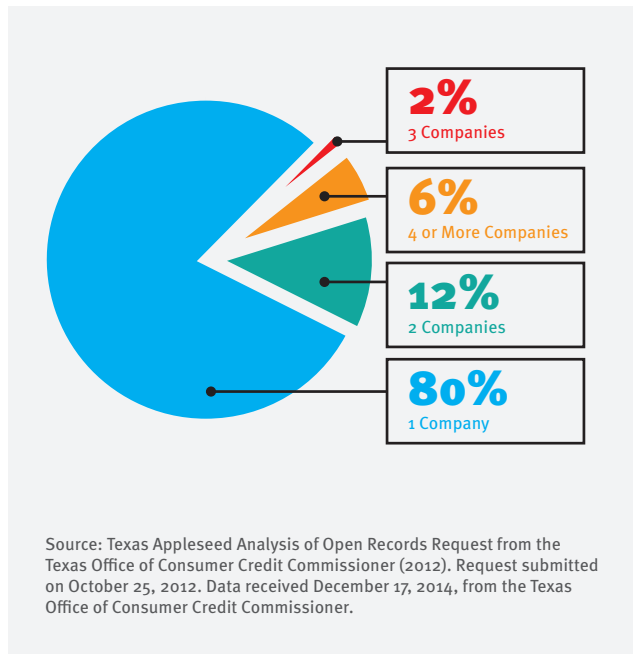
Among CABs with multiple lenders, most listed having two third-party lenders. Only four CABs were listed as having more than two third-party lenders. In some cases, this loyalty to a specific third-party lender is due to a shared interest or relationship between that third-party lender and the CAB.²²

The majority of third-party lenders only serve one CAB, which indicates that relationships between CABs and their respective third-party lenders may be more about loyalty than fostering competition to benefit consumers.

Percent of CABs Served by One Third-Party Lender, 2012



Percent of Third-Party Lenders by Number of CAB Companies Served, 2012



²¹ Open Records Request from the Texas Office of Consumer Credit Commissioner (2012). Request submitted on October 25, 2012. Data received December 17, 2014, from the Texas Office of Consumer Credit Commissioner.

²² Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

Just as CABs tend to be served by only one third-party lender, most third-party lenders only serve one CAB company, rather than multiple companies. Of the 135 third-party lending companies, 80% served only one CAB, although the lender may serve multiple licensed locations affiliated with that company.²³ Lenders serving four or more CAB companies only made up 6% of the

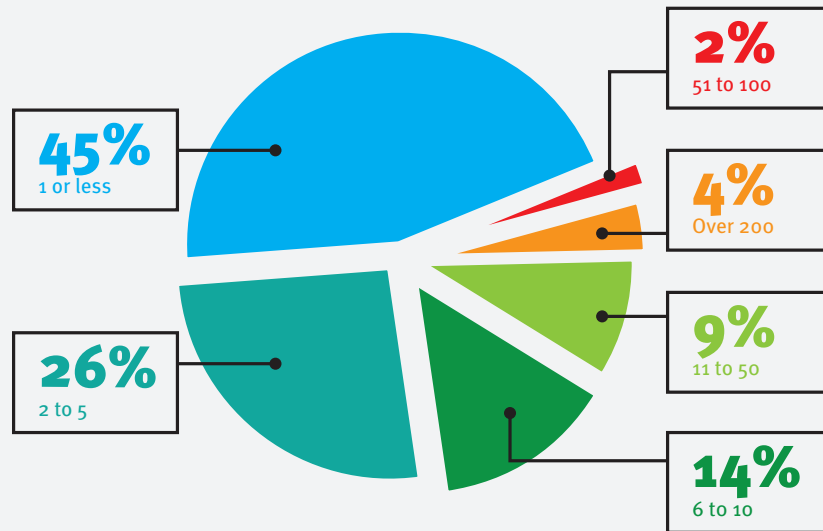
total number of third-party lenders.²⁴ This finding indicates that most third-party lenders are likely to be smaller companies that have an exclusive partnership with the CAB they serve. In some cases, the exclusive partnership is attributed to shared interests between the companies. Part 3 of this study examines shared interests in greater detail.

B. Market Dominated by Handful of Third-Party Lenders

According to the data provided by the Texas Office of Consumer Credit Commissioner, in 2012 there were 217 licensed CABs, with 3,272 licensed locations throughout Texas, and 135 third-party lenders serving these CABs.²⁵ Examining the number of licensed locations served by each third-party lender sheds light on the total market

share of the different third-party lenders. Most third-party lenders serve a small number of licensed CAB locations, with 45% serving one location or less (in the case of online lenders), and 26% serving two to five licensed locations.²⁶ Just 4% of lenders serve over 200 licensed locations each, but these lenders dominate the market.²⁷

Percent of Third-Party Lenders Serving Licensed CAB Locations Grouped By Number of Locations Served, 2012



Source: Texas Appleseed Analysis of Open Records Request from the Texas Office of Consumer Credit Commissioner (2012). Request submitted on October 25, 2012. Data received December 17, 2014, from the Texas Office of Consumer Credit Commissioner.

²³ Open Records Request from the Texas Office of Consumer Credit Commissioner (2012). Request submitted on October 25, 2012. Data received December 17, 2014 from the Texas Office of Consumer Credit Commissioner.

²⁴ *Id.*

²⁵ Open Records Request for CAB licensees and provisional licensees from the Texas Office of Consumer Credit Commissioner (Apr. 2012).

²⁶ *Id.*

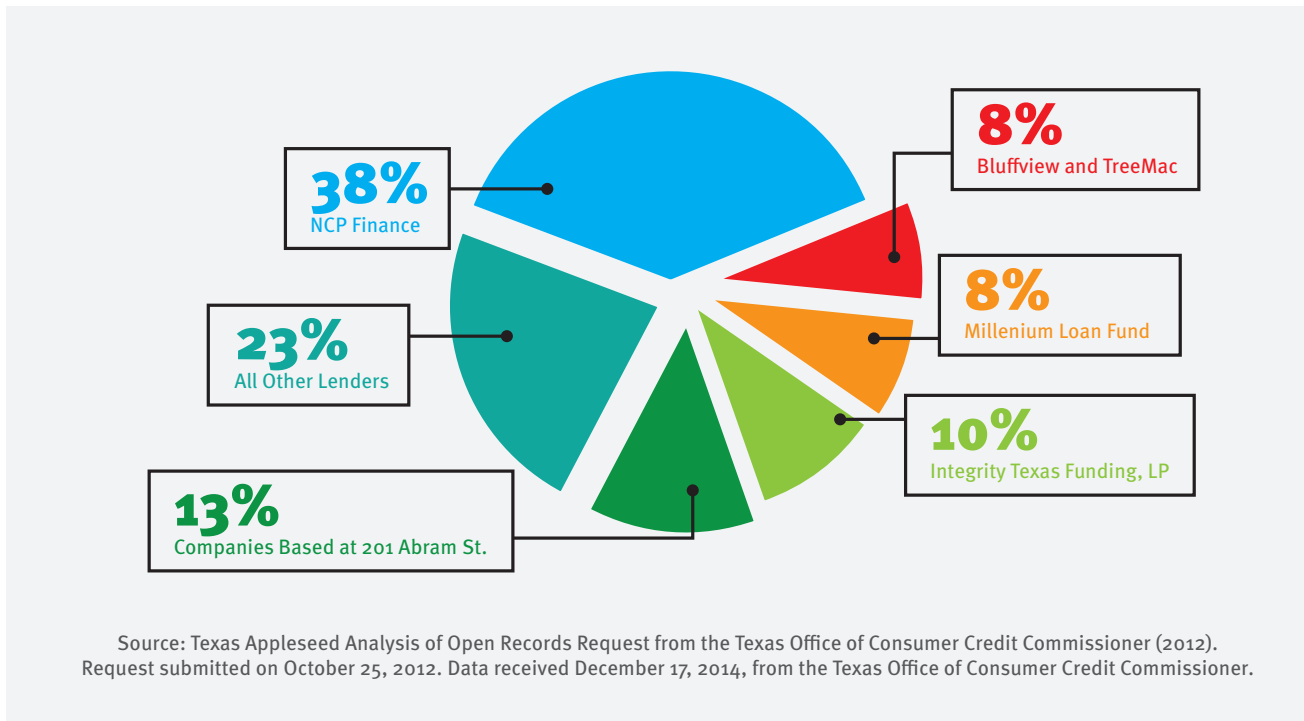
²⁷ *Id.* (Red Point Financial Group and JBC Funding are excluded from this calculation because information regarding the locations each lender serves was missing from the documents. Both of these lenders serve Cash America Financial Services locations. If either of these companies serve all of Cash America's 258 licensed locations, these third-party lenders would surpass Bluffview and TreeMac, which are currently listed among the top five lenders in this report.)

The top five lenders in Texas (by number of licensed locations served) served 77% of all licensed CAB locations in Texas, despite making up only 4% of all third-party lenders.²⁸ The number of licensed locations served by the top five lenders range from 252 to 1,237 licensed locations:²⁹

- NCP Finance LP (“NCP”): 1,237 licensed locations, 38% of total licensed locations in Texas;³⁰
- Companies based at 201 E. Abram Street, Arlington, Texas, with the same ownership: 434 licensed locations, 13% of total licensed locations in Texas;³¹

- Integrity Texas Funding LP (“Integrity Texas”): 343 licensed locations, 10% of total licensed locations in Texas;
- Millennium Loan Fund: 265 licensed locations, 8% of total licensed locations in Texas; and
- Bluffview Funding Group, LLC (“Bluffview”) and TreeMac Funding Group, LLC (“TreeMac”): 252 licensed locations, 8% of total licensed locations in Texas.³²

Percentage of Licensed Locations Served by Top Five Third-Party Lenders, 2012



²⁸ *Id.*

²⁹ *Id.*

³⁰ NCP and Integrity Texas both list Steven Camp as a registered agent and may be connected. However, no ownership information is available, and these companies are listed at different addresses. NCP is listed as being in Dayton, Ohio, while Integrity Texas is listed as being in Greenville, South Carolina. Steven Camp is an attorney located in Dallas, Texas. It is also of note that there are other ACE Credit Access locations in cities served by NCP that were not listed in the third-party lender organization reporting data from the OCCC. It is possible that NCP may serve these locations, up to a potential total of 441 locations.

³¹ DSI Lending Resources, ISF Texas LLC, L&G Finance Inc., LGM Finance, S&G Finance Inc., SGS Credit Services, SGS Finance Inc., Sundance Finance LLC, and Texas Loan Corporation are owned by Eugene McKenzie and David King.

³² Dona and Lesley McArron own Bluffview and Scott McArron owns TreeMac. Scott McArron is also listed as an officer of Bluffview. Both companies list their addresses as 8340 Meadow Rd., Suite 244, Dallas, TX 75231. Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

Five of the 17 CAB companies served by NCP are particularly large, such as ACE Credit Access, LLC (516 total locations, 320 served by NCP), ACSO of Texas, LP (238 licensed locations),³³ Cash America Financial Services, Inc. (258 licensed locations),³⁴ Southwestern & Pacific Specialty Finance, Inc. (231 licensed locations), and TitleMax of Texas, Inc. (133 licensed locations). NCP and another

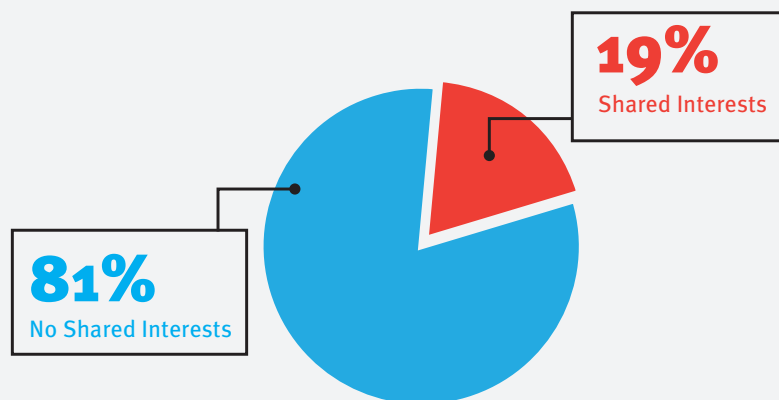
major third-party lender, Integrity Texas (which serves 343 licensed locations), have the same registered agent.³⁵ However, the companies do not have matching addresses, and no ownership information is on file for either, so they are listed separately in this chart.³⁶ If these two companies are in fact affiliated, they would collectively serve 48% of all licensed locations in Texas.³⁷

C. Overlapping Ownership Among Third-party Lenders

Some third-party lenders appear to have overlapping ownership with other third-party lenders, meaning that these lenders may be owned by the same individuals, by relatives, or by business partners who share an interest

in another company together. Twenty-five of the 135 third-party lenders, or 19% percent have overlapping ownership with another third-party lender.³⁸

Percent of Third-Party Lenders with Overlapping Ownership, 2012



Source: Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

³³ Cash America Financial Services is also served by two other third-party lenders, JBC Funding LLC and Red Point Financial Group. However, the data received from the OCCC did not include an attached list detailing which locations are served by these third-party lenders. If either of these companies serve all of Cash America's 258

³⁴ Open Records Request from the Texas Office of Consumer Credit Commissioner (2012). Request submitted on October 25, 2012. Data received December 17, 2014, from the Texas Office of Consumer Credit Commissioner.

³⁵ Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015) (Steven Camp with Gardere Wynne Sewell LLP, is listed as the registered agent for both entities.).

³⁶ *Id.* (NCP lists its address as 100 E. Third Street, 5th Floor in Dayton, Ohio, while Integrity Texas lists its address as 84 Villa Road, Greenville, South Carolina. No owner or officer information is available for either of these companies. Consequently, it is unclear whether or not they share the same ownership.).

³⁷ Open Records Request from the Texas Office of Consumer Credit Commissioner (2012). Request submitted on October 25, 2012. Data received December 17, 2014, from the Texas Office of Consumer Credit Commissioner.

³⁸ Thirteen of these twenty-five companies have owner and officer data showing that they have direct overlapping ownership. The remaining twelve have the same registered agent as another third-party lender, while no owner or officer information is available. It is possible that having a matching registered agent does not constitute overlapping ownership between these third-party lenders. Ten of these companies have matching addresses at 110 Cypress Station Dr., Suite 111, Houston, Texas 77090. The remaining two companies are NCP and Integrity Texas, both of which list Steven Camp as their registered agent. Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

Companies Based at 201 Abram Street, Arlington, Texas

Nine third-party lenders share the same Arlington address and are owned by the same two individuals, according to public records:

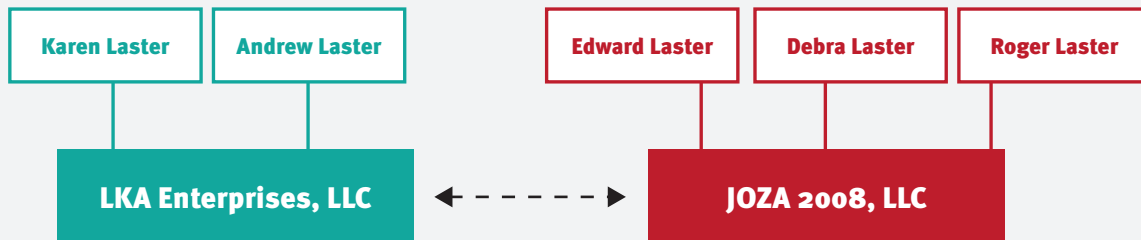
- DSI Lending Resources;
- ISF Texas, LLC;
- L&G Finance, Inc.;
- LGM Finance;
- S&G Finance, Inc.;
- SGS Credit Services;
- SGS Finance, Inc.;
- Sundance Finance, LLC; and
- Texas Loan Corporation.

Eugene McKenzie and David King are listed as jointly owning eight third-party lending companies, with McKenzie listed as the registered agent and director of each, and King listed as director and controller.³⁹ All of these companies have addresses listed as 201 E. Abram St. Suite 120, in Arlington, Texas.⁴⁰ An additional company, S&G Finance, Inc., is listed at this address, but no ownership information is available for this company.⁴¹ However, due to the matching address, this lender is included with the eight others and is assumed to belong to McKenzie and King as well.

LKA Enterprise, LLC and JOZA 2008, LLC: All in the Family?

LKA Enterprises, LLC (“LKA”) and JOZA 2008, LLC (“JOZA”) are connected through what appears to be a family relationship.⁴² Based on publicly available documents, there is no common ownership between these two companies. LKA is owned by Karen and Andrew Lasater, while JOZA is owned by Edward, Roger, and Debra Lasater.

LKA Enterprise, LLC and JOZA 2008, LLC: Ownership Connections



Source: Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

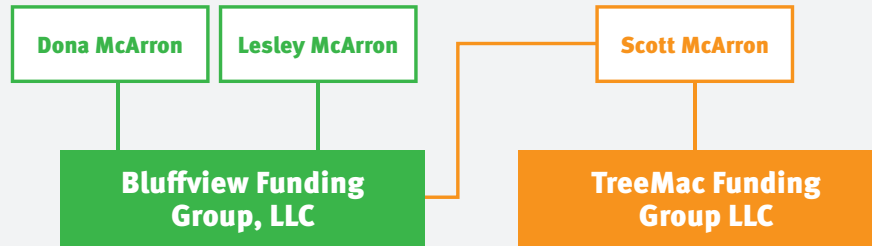
³⁹ *Id.*

⁴⁰ *Id.*

⁴¹ Open Records Request from the Texas Office of Consumer Credit Commissioner (2012). Request submitted on October 25, 2012. Data received December 17, 2014 from the Texas Office of Consumer Credit Commissioner.

⁴² Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

Bluffview and TreeMac: Ownership Connections



Source: Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

The ownership of these companies is likely structured in this way to enable these third-party lenders to serve CABs that are owned by other family members, but not the same individuals. This structure will be discussed in further detail in a later section.⁴³

Bluffview Funding Group, LLC and TreeMac Funding Group, LLC

Bluffview and TreeMac are both owned by members of the McArron Family.⁴⁴ Bluffview is owned by Dona and Lesley McArron, and Scott McArron is listed as an officer of this company. Scott McArron also owns TreeMac. These lenders are also linked by a shared address, 8340 Meadow Rd. Suite 244, Dallas, TX 75231.⁴⁵ Bluffview is one of five lenders serving ACE Credit Access, LLC, and TreeMac is the sole lender to Cottonwood Financial.⁴⁶

KRC Management Company

The third-party lenders associated with KRC Management Company, LLC, are as follows:

- Cactus Lending Group, LP;
- DDB Investment Company, LP;
- Imperial Lending Group, LP;
- Preferred Lending Group, LP;
- Progressive Lending Group, LP;
- Qualified Lending Group, LP;
- Source Lending Group, LP;
- Texas Gulf Coast Capital, LP;
- Texas Investors Choice, LP; and
- United Texas Investors, LP.

⁴³ The structure of LKA and JOZA is likely set up in this way to allow these Lasater-owned third-party lenders to lend to Lasater-owned CABs without lending directly to a CAB with overlapping ownership. This structure is explained further on page 19 of this report.

⁴⁴ Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

⁴⁵ Id.

⁴⁶ Cottonwood Financial is owned by Trevor Ahlberg, who was a high school classmate of Scott McArron at St. Mark's School of Texas. They both graduated in 1986. TreeMac does not serve any CAB companies other than Cottonwood Financial. St. Mark's School of Texas, 2013-2014 Annual Report: Alumni Giving by Class (2014), available at <http://annualreport.smtexas.org/Page/Gift-Report/Alumni-Giving-by-Class/19801989> (last visited June 1, 2015).

These third-party lenders are connected to one another by way of the entity, KRC Management Company, LLC. Most of their company names include “c/o KRC Management” when listed as part of a CAB’s third-party lender information, with the exception of Cactus Lending Group, LP.⁴⁷ These companies are associated with multiple addresses, however, all except Cactus Lending Group have at least one address listed as 2040 N. Loop 336 W, Suite 101 in Madisonville, Texas. Other addresses that are listed multiple times include P.O. Box 1657 and 100 W. Main St., both in Madisonville.⁴⁸

All of these companies list KRC Management Company, LLC as their registered agent, but only Cactus Lending Group has ownership and officer information on file.⁴⁹ Although the connection between these third-party lenders is strong, it is not possible to know the full complexity of the connection between these lenders without ownership or membership information for the remaining nine lenders.

Although the CSO model is structured in a way that is intended to promote competition among a variety of third-party lenders, in practice, this does not seem to be the case. **While, on the outside, it appears that the third-party lender market is robust with competition, behind the corporate veil, there seems to be significant concentration in the capital sources for payday and auto title lending businesses in Texas—through overlapping ownership among third-party lenders and the market domination of a few large players.**

⁴⁷ Open Records Request from the Texas Office of Consumer Credit Commissioner. (2012). Request submitted on October 25, 2012. Data received December 17, 2014 from the Texas Office of Consumer Credit Commissioner.

⁴⁸ Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

⁴⁹ *Id.* (While owner and officer information is generally not available for the third-party lenders associated with KRC Management, both Clinton Carroll and Krystal Carroll are listed as Members for Cactus Lending Group.).

PART 3

Transparency and Competition Hindered by Complex Web of Ownership of CABs and Third-Party Lenders

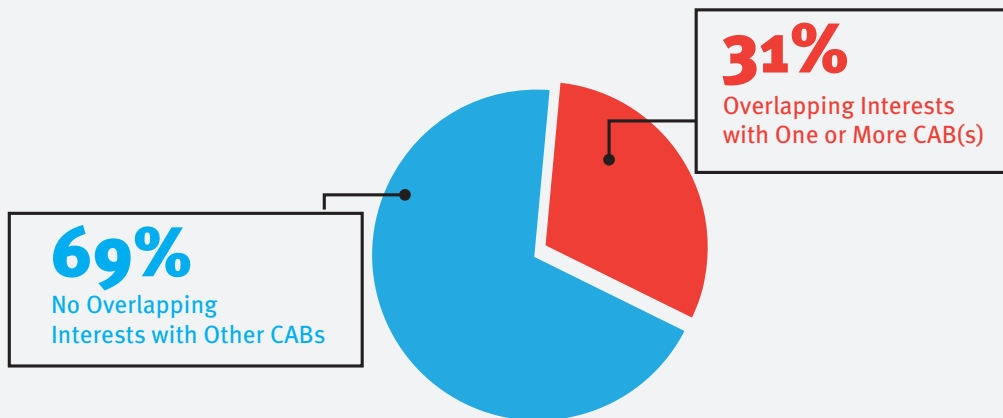
A. While There Appear to be Many CAB Licensees, Multiple Licensees Share Ownership

Just as shared interests in ownership exist between third-party lenders, the same situation is the case for many CABs. However, these shared interests are even more prevalent among CABs than third-party lenders. Sixty-eight, or 31%, of CABs appear to have some sort of shared interest with one or more other CABs. This shared interest generally involves ownership by the same individual or multiple individuals, but may also

involve a complex web of ownership involving multiple CABs and individuals.

Thirty-nine of these 68 CABs have shared interests that are direct in nature, meaning that the same individuals are involved with the ownership and membership of all of the related CABs. Most of these direct connections exist between two CABs.

Percent of CABs with Overlapping Interests, 2012



Source: Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

⁵⁰ Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

⁵¹ *Id.*

⁵² *Id.*

The Credit Access Businesses with direct overlapping ownership are as follows:

Direct Overlapping Ownership Among CABs ⁵³	
Company Names	Individual(s) Involved in Each CAB
AEL Net of Texas, LLC CNU of Texas, LLC	Timothy Ho, President
All FastBucks Companies (7 total) ⁵⁴ Payday Everyday CSO, LLC	Charles Horton, Director/President
Allied Cash Advance Texas, LLC Southwestern & Pacific Specialty Finance, Inc.	A. David Davis, President
Approved Money Center Online MyCashTime	Robert Gross, President Evan Katz, Director Brian Hawkins, CEO/CFO Frank Cerda, COO
BB & DC Enterprises DC & BB Enterprises	Brian Baker, President David Carr, Vice President
Check into Cash of Texas, LLC Loan by Phone of Texas, LLC	Stephen Scoggins, President
Cybernet Funding, Inc Webnet Funding, Inc.	Lawren Jones, President Shawn Jones, Vice President Ruth Jones, Treasurer
ETRC, Inc. Federal Cash Advance of Oklahoma, LLC	Jimmy Whitaker, President
Express Title Loans, Inc. Southwest Texas Title Loans, Inc.	Earl Linder
Financial Service Centers of Texas, Inc. My Cash Center, LLC	Douglas Pruett Mary Pruett William Pruett
Graham Cash Express, LLC Joshua Cash to Go, LLC	Tim Eminger Dan Eminger Ben Eminger David Eminger
Meadowwood Financial Services, LLC Wellshire Financial Services, LLC	Roderick Aycox, Director Leslie Aycox, Member Kenneth Wayco, President
DBA Cash Loan Texas (entity name N/A) 77496 LLC	Salima Dharani, Officer
SCIL Texas, LLC The Money Store, LP	Douglas Rippel Chadwick Faulkner, President Matt Miller
Texas EZMONEY, LP Texas EZPAWN, LP EZMONEY Loan Services	James Whatley, President Thomas H. Welch, Director
TitleMax of Texas, Inc. TMX Credit, Inc.	Tracy Young, President

⁵³ *Id.*

⁵⁴ The seven FastBucks CAB companies include FastBucks CSO LLC, FastBucks CSO III LLC, FastBucks of Anthony CSO VI Texas LLC, FastBucks of McKinney CSO IV Texas LLC, FastBucks of North Richland Hills CSO IX Texas LLC, FastBucks of Sherman CSO V Texas LLC, and FastBucks of Terrell CSO XII Texas LLC.

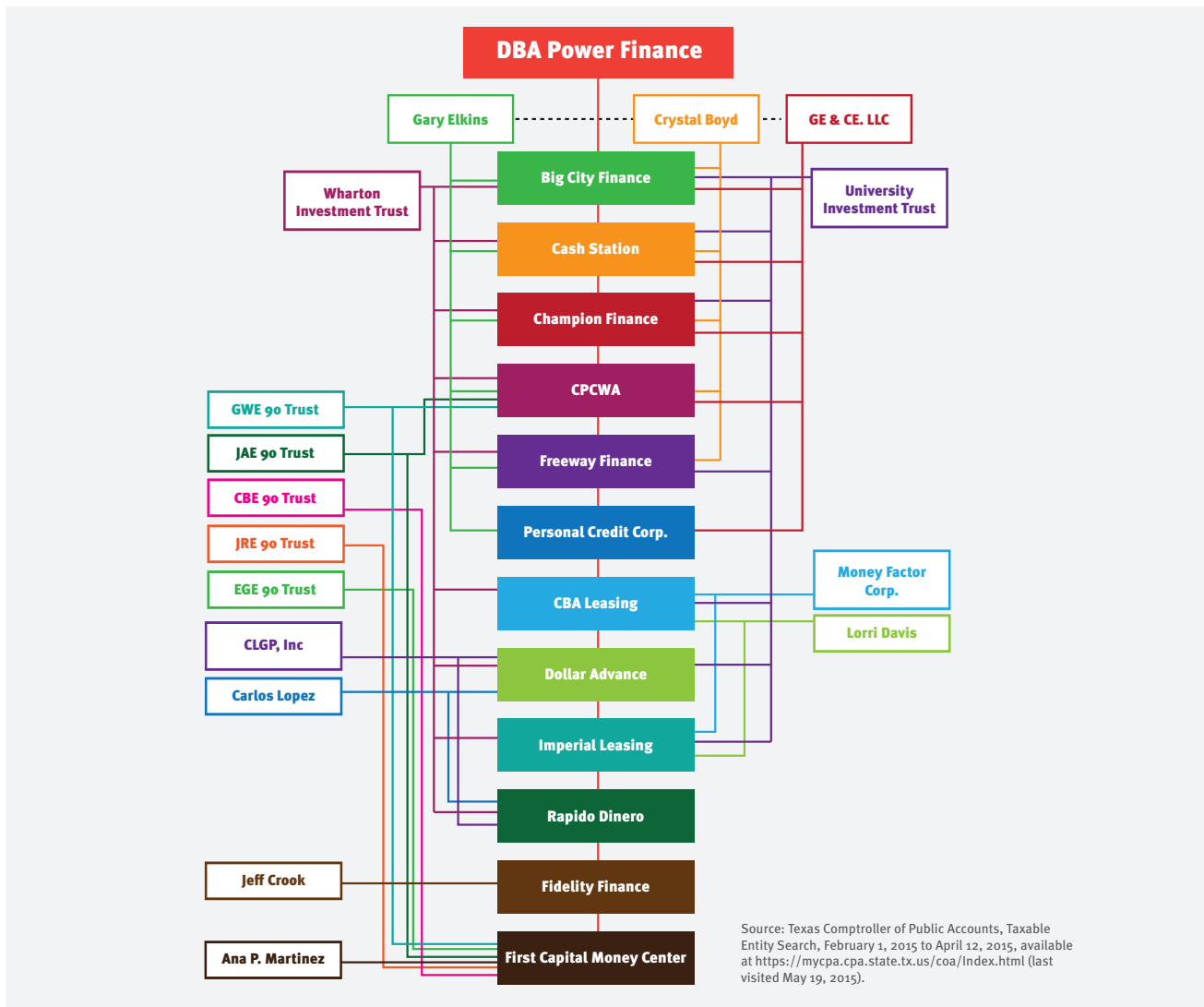
Twenty-five of the 68 companies with overlapping ownership have more complex relationships.⁵⁵ For example, in some instances, a group of individuals are involved in the companies, but not all are involved in each one. These connections generally involve a larger number of CAB companies. These relationships will be presented in the following diagrams to illustrate the complex connections between these companies.

“Doing Business As” (DBA) Power Finance⁵⁶

Twelve different CABs operate under the DBA of Power Finance. The ownership of the various CABs include a web of six individuals, seven trusts, and three corporations.

Many of the trusts appear to be connected to one or more of the individual owners or their family members.

DBA Power Finance: Ownership Connections



⁵⁵ The four remaining CABs of these 68 may not be connected at all, but are owned by individuals with the same, or similar names. David Hendrick is listed as the president of Quick Cash Check Cashing, and another CAB has the entity name, “Hendricks, David.” While these CABs may not actually be related, there is a possibility that the last name is misspelled in one of these instances, and they may refer to the same person. Two other CABs, Jonah Investment Group LLP, and Trezor LLC list Joe Hernandez as President and Director, however, the addresses listed for these companies do not match up, and it is possible that these companies may not have overlapping ownership. Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015)

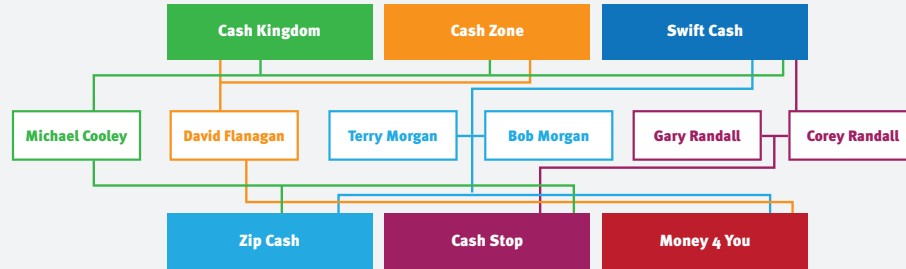
⁵⁶ *Id.*

A Web of “Zones,” “Kingdoms,” and “Cash”⁵⁷

Six CABs share a web of connections. Each CAB appears to be owned by two or three individuals, with each individual having an ownership interest in between one

and three of the group of CABs. With the exception of Cash Kingdom and Cash Zone, each of the CABs shares a different combination of owners.

**“Zones,” “Kingdoms,” and “Cash”:
Ownership Connections**



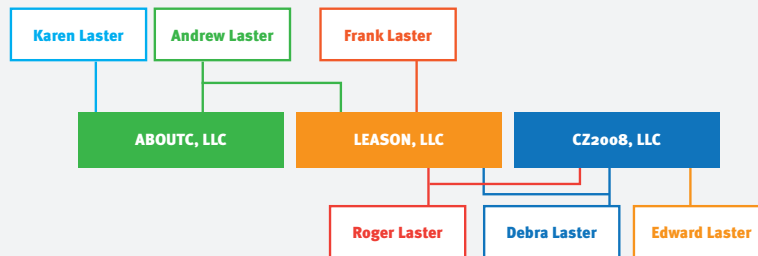
Source: Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

Three Separate CABs; One Family⁵⁸

The three CABs, ABOUTC, LLC, CZ2008, LLC, and Leason, LLC are connected with individuals with the Lasater name. However, only certain individuals are involved in each CAB, in a similar fashion to the ownership structure of the related third-party lending companies. **By only having certain individuals involved with each CAB, rather than having all owners involved in all three,**

the Lasater-affiliated companies are able to avoid having a direct lending connection between CABs and the third-party lenders that share overlapping ownership. These lender-CAB relationships will be discussed in greater detail under the heading “Family Connections: CAB and Third-Party Lenders.”

**ABOUTC, LLC; Leason, LLC; and CZ2008, LLC:
Ownership Connections**



Source: Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

⁵⁷ *Id.*

⁵⁸ *Id.*

A Mix of Joint and Separate Ownerships⁵⁹

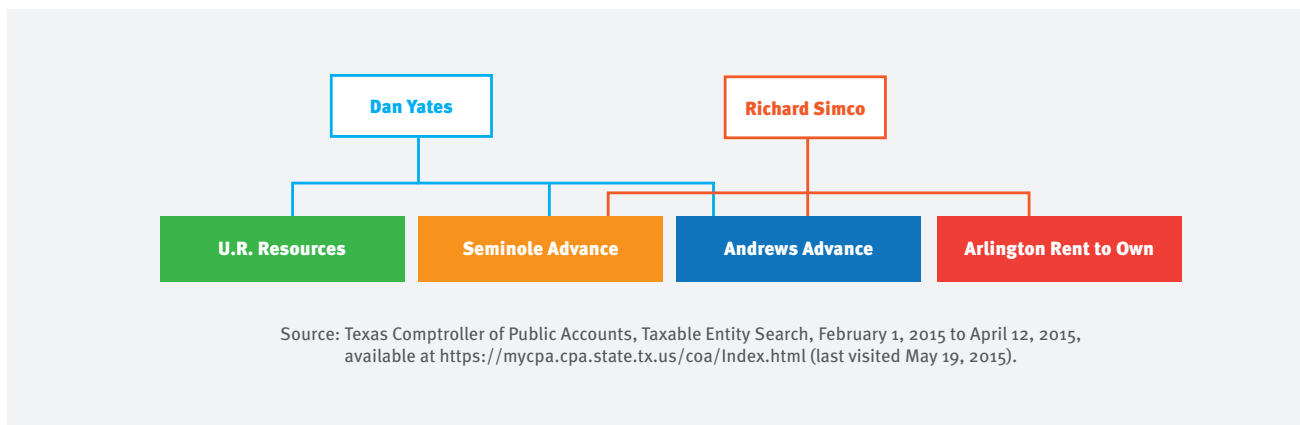
Four CABs, Seminole Advances, U.R. Resources, Andrews Advances, and Arlington Rent to Own, are connected through a mix of overlapping and separate ownership.

Richard Simco and Dan Yates jointly own Seminole Advance and Andrews Advance, but own Arlington Rent to Own and U.R. Resources, separately. This ownership structure seems to be designed to enable these business affiliates to lend to one another's companies without having a direct relationship between the CAB and the third-party lender, which will be evidenced in the section

of the report titled, "Third-party Lenders Serving CABs Owned by a Business Partner."

While most relationships between third-party lenders are characterized by the same individual(s) being involved in multiple companies, many others rely on a more complex web of ownership. The complex web of ownership could be a means to avoid obvious overlapping ownership and to give the appearance of complying with the legal standard of separation between the CAB and the third-party lender.

Overlapping Ownership Connections



B. CABs and Third-party Lenders Share Ownership, Operating on the Edge of the Law

Just as shared interests have been shown to exist between multiple third-party lenders and multiple CABs in previous sections, overlapping interests also exist between CABs and third-party lenders. In many cases, third-party lenders with overlapping interests with CABs are the sole lenders to those CABs.

Currently, Texas law permits CABs to utilize third-party lenders, or Credit Service Organizations, to obtain "an extension of consumer credit for a consumer." While the model relies on independence between CABs and third-party lenders, it is unclear how close the relationship

must be before it violates the law.⁶⁰ While some third-party lenders are owned by the same individual owning the CAB they serve, other lenders are owned by family members or business partners who are involved with the CAB owner in other companies, and it remains unclear if these CABs and lenders are operating on the edge of the law or are violating the law.

Of the 135 third-party lenders listed in 2012 CAB license applications, 30, or 22% have some sort of overlapping ownership with a CAB.⁶¹ While some instances of overlapping ownership involve a third-party

⁵⁹ *Id.*

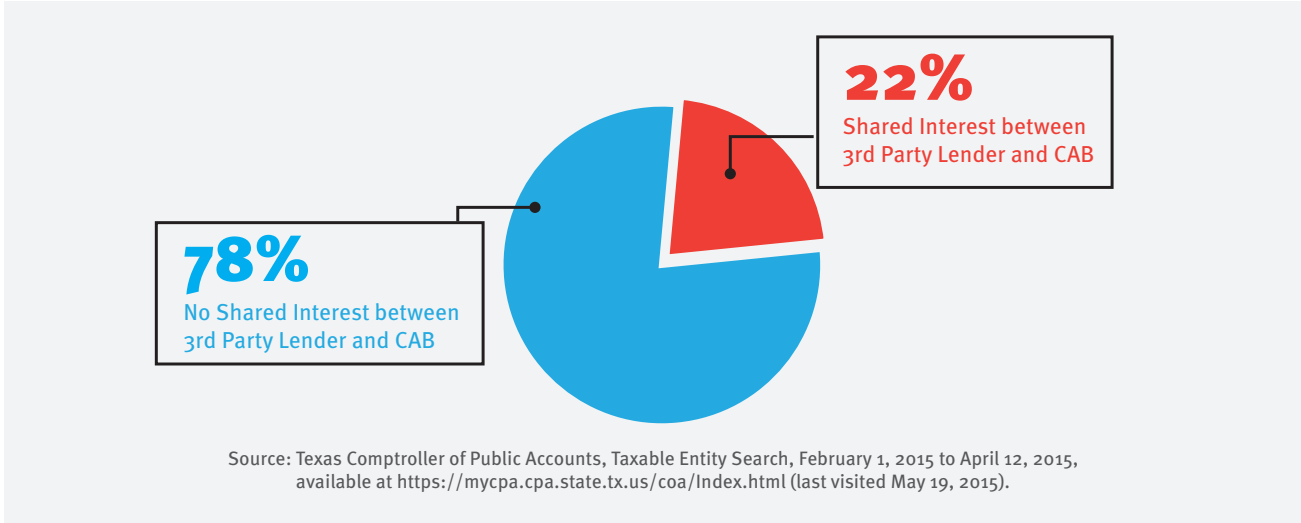
⁶⁰ See Tex. Fin. Code § 393.001. Definitions. 1 January 2012.

⁶¹ Texas Comptroller of Public Accounts, Taxable Entity Search, February 1, 2015 to April 12, 2015, available at <https://mycpa.cpa.state.tx.us/coa/Index.html> (last visited May 19, 2015).

lender serving a CAB with the exact same ownership, many involve lending to a CAB owned by family members or business partners. The remainder of these instances simply involve overlapping ownership between CABs and third-party lenders and do not involve any direct

lending relationship. Because these third-party lenders do not lend to a CAB with the same or related ownership, they do not appear to violate any laws or regulations regarding third-party lenders.

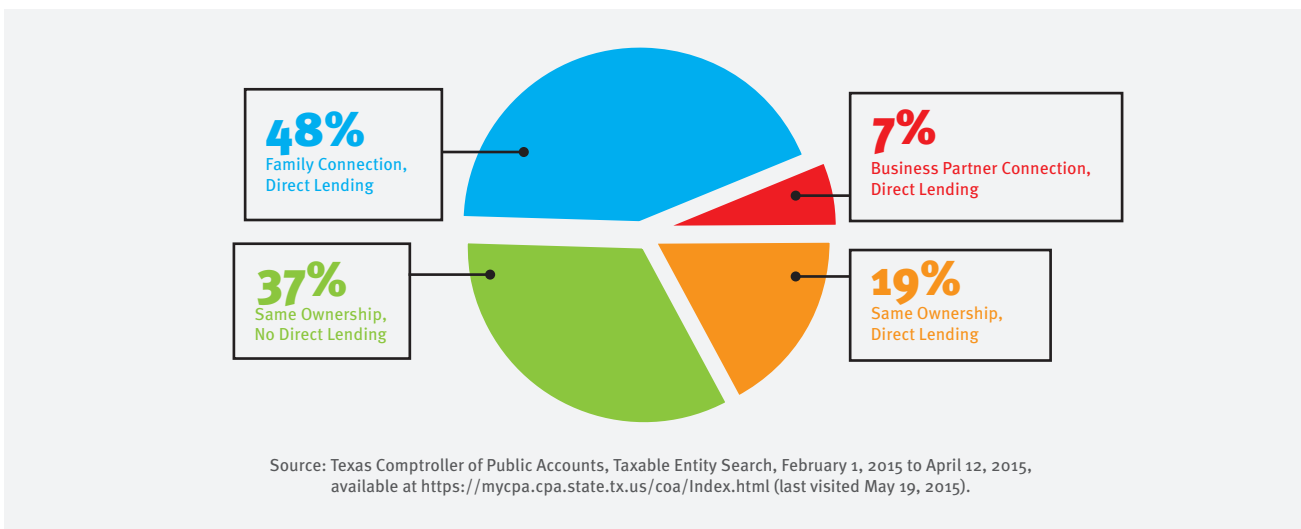
Percent of Third-Party Lenders Sharing Ownership with One or More CABs, 2012



Of the 30 third-party lenders that are connected to one or more CABs, five lend directly to a CAB with the same ownership as that lender.⁶² Thirteen lenders lend to family members who are not listed in direct

ownership of that particular third-party lending company. The remaining 10 lenders do not have a direct lending relationship to the CABs owned by the same individuals as the third-party lender.

Percent of Third-Party Lenders with Shared Interests with CABs by Type, 2012



⁶² *Id.*

Third-party Lenders Serving CABs with Same Owners and/or Officers

The five lending connections between third-party lenders and CABs with the same owners are as follows:

Third-party Lenders Serving CABs with Matching Ownership or Officers ⁶³				
CAB	Third-party Lender	Individual(s) Involved in Both Companies	Role(s) in CAB	Role(s) in Third-party
Mas Cash, LLC	Mex Grocer, LLC	Daniel Aceves	President, Member	Registered Agent (officers not on file)
Money Depot of Texarkana, Inc.	Paige Loan, LLC	Eric Botsch	Registered Agent	Registered Agent (officers not on file)
FABSO, Inc.	El Paso Loan Funding Associates, LLC	Marsha Choate	President, Director	Vice President, Director
Presto Loans, LLC	Sundance Finance, LLC	Eugene McKenzie	Registered Agent	Registered Agent, Director
		David King	Controller, Director	Controller, Director
Hill Country Lending Services, LLC	Ridgeback Lending, LLC	Dan Pearce	President, Manager	Registered Agent, Manager

⁶³ *Id.*

Third-party Lenders Serving CABs Owned by Individuals Sharing a Family Name

These CABs are owned by individuals with the same last name as the owners/officers of their third-party lenders, and thus could be related to their respective third-party lenders. Some of the CABs and lenders included in this table are individuals rather than entities, and are listed at the end of the table.

Third-party Lenders Serving CABs with Possible Family Connections					
CAB	Individual(s) Involved	Role(s) in CAB	Third-party Lender	Individual(s) Involved	Role(s) in Third-party
Shaw's R&R Jewelry and Loan, LP	Rodney Corolla	President, Registered Agent	FRAMCO, Inc	Frank Corolla	Registered Agent, President, Director
Advantage Finance, Inc	Asif Dharani	President, Manager	AAA Funding, Inc.	Amirali Dharani	Director
ABOUTC, LLC	Andrew Lasater	President, Registered Agent, Manager, Director	JOZA 2008, LLC	Edward Lasater	Registered Agent
	Karen Lasater	Manager, Director		Debra Lasater	Member
				Roger Lasater	Managing Member
CZ2008, LLC	Edward Lasater	Registered Agent	LKA Enterprises, LLC	Andrew Lasater	Registered Agent, Manager
	Debra Lasater	Member		Karen Lasater	Manager
	Roger Lasater	Managing Member			
Maximum Title Loans, LLC	Barry Marks	Registered Agent, President	JGM Capital	James Marks	Registered Agent, Director, Secretary
Scott St. Title Loans, LLC	Elizabeth Ramirez	President, Registered Agent	RMR Lending, LLC	Roy Ramirez	Registered Agent, Member
	Zach Ramirez	Member, Director			
Texas Loan Brokers I, LLC	Joseph Pearah	President, Registered Agent	Tri-State Funding, LLC	Norman Pearah	Registered Agent
	Todd Pearah	Member/Director			
Rio Title Loans, LLC	Rogelio Saenz	Registered Agent, Director, Member	D'Heights Lending, LLC	Virgilio Saenz	Registered Agent, Director, Member
Pancho's Title Loan, LLC	Molly Sayklay	Member	Say Fam Investments, LLC	Joseph Sayklay	Registered Agent
ETRC, Inc.	Jimmy Whitaker	Registered Agent, President, Vice President	L.B.C. Investments, LLC	Lynna Whitaker	Registered Agent, Managing Member
	Hendricks, David			James and Bobbie Hendricks	
	Nancy Kinuthia			Nelly Kinuthia	
	Cayle Womack			Bill Womack	

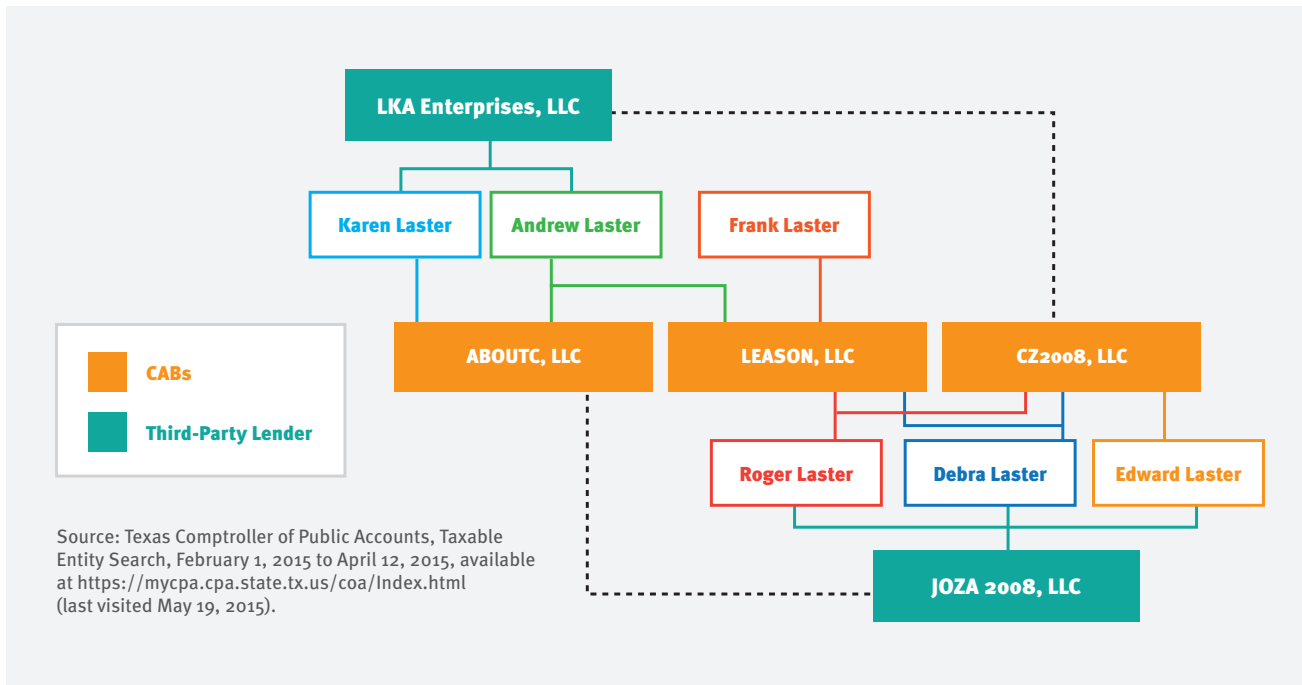
Family Connections: CAB and Third-Party Lenders

As discussed in previous sections, multiple CABs, including ABOUTC LLC, Leason LLC, and CZ2008 LLC, along with third-party lending companies, LKA, and JOZA, are owned by a variety of individuals with the Lasater name. The ownership of these companies is organized in such a way that allows these third-party lenders to lend to CABs owned by Lasaters without lending directly to a CAB owned by the same individual. For example, ABOUTC, LLC lists JOZA as its third-party lender. Karen and Andrew Lasater are owners and officers of ABOUTC, LLC, while Frank, Roger, Debra, and Edward Lasater are officers of JOZA.⁶⁴ This structure is inverted for the lending relationship between CZ2008, LLC and LKA.⁶⁵ Although Leason, LLC is also listed as a CAB owned by the Lasaters, no third-party lender information is provided for this CAB in the data from the OCCC.⁶⁶

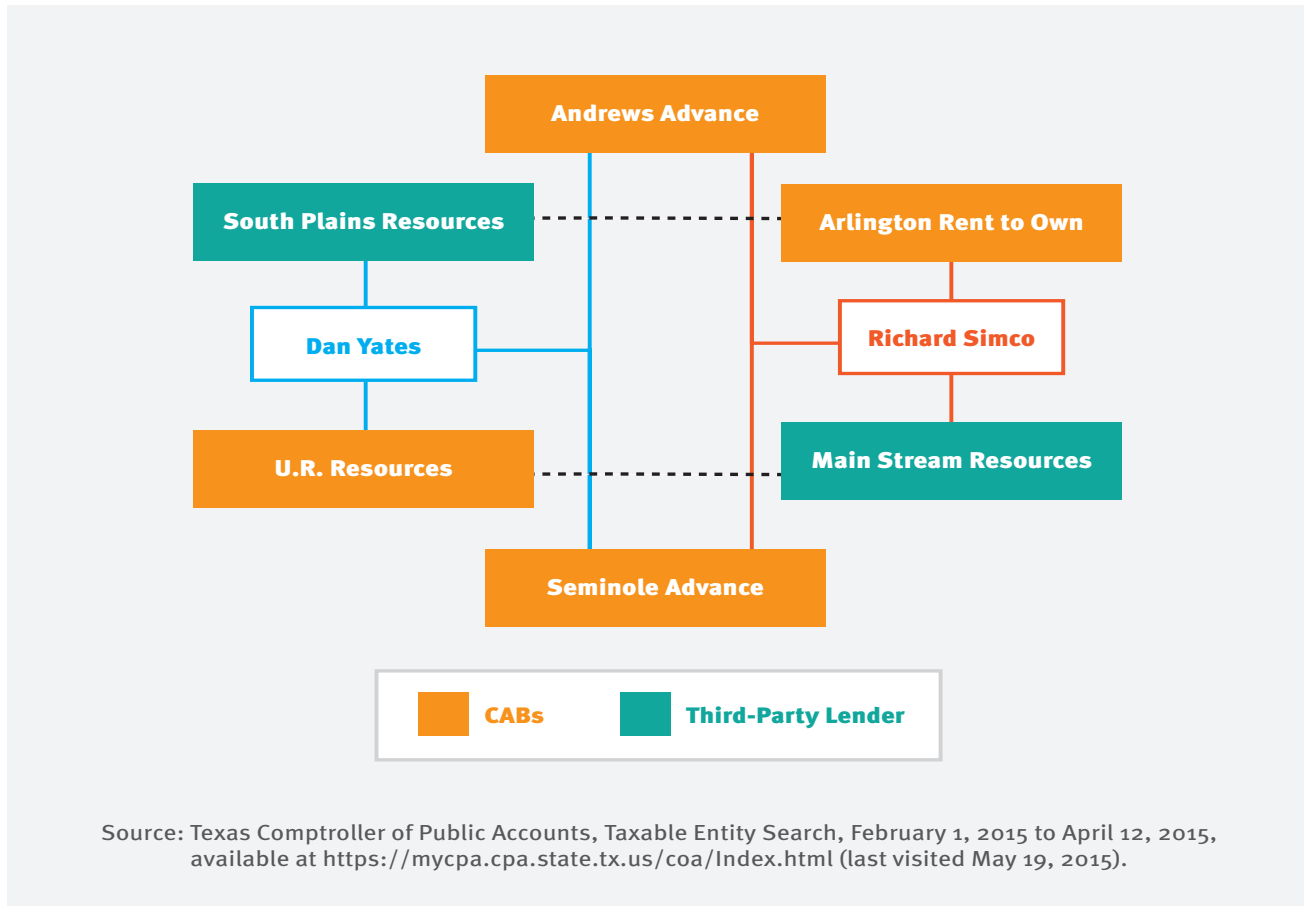
Third-Party Lenders Serving CABs Owned by a Business Partner

As mentioned in previous sections, Richard Simco and Dan Yates own two CABs together, Andrews Advance and Seminole Advance, which suggests that they are business partners. Although they each own a CAB separately from the other, they also each independently own a third-party lending company, which is listed as the lender to the CAB owned by the other. For example, Dan Yates owns U.R. Resources separately from Richard Simco, and Main Stream Resources serves as the lender to this CAB. Richard Simco owns Main Stream Resources, and this lending relationship, along with their joint ownership of Seminole Advance and Andrews Advance, suggests that these two individuals have a shared interest in lending to one another.⁶⁸

CAB and Third-Party Lender Connections



Overlapping Connections Between Owners of CABs and Third-Party Lenders



The law regarding relationships between CABs and third-party lenders clearly establishes that a CAB and third-party lender should be truly separate entities.⁶⁹ The models of operation that are illustrated in this section exist, at best, on the edge of the law, using technicality to evade the intent of the law. The data show that multiple CABs have been operating under arrangements that call to question the true independence

of the CAB from the third-party lender. The existence of overlapping ownership and shared interests between CABs and third-party lenders seems to indicate that the CAB lending model is largely a scheme to evade usury laws and consumer lending protections in Texas, rather than a tool to benefit consumers or enhance market competition.

⁶⁹ Tex. Fin. Code §393.001 (3).

PART 4

Conclusion and Policy Recommendations

The findings of this inside look at the structure and ownership of payday and auto title loan businesses and the third-party lenders that capitalize the loans supports the assertion that this model of lending is structured to get around the rate and fee caps that currently apply to consumer lending in state law.

More than documenting this structure, the information in this study points to concerning fact patterns in the industry—a pattern of limited competition, with a handful of third-party lenders dominating the market, compromised transparency, and a maze of overlapping ownership among CABs and third-party lenders. Perhaps one of

the greatest ironies of the Texas Finance Code is that the Credit Services Organization Act is under Title 5: “The Protection of Consumers of Financial Services.” As it has played out in the Texas market, it has, in sum, served to hinder rather than enhance consumer protection.

Policy Recommendation 1

CSOs and CABs should not be using the Credit Services Organization Act as an end-run around Texas rate and fee caps for consumer loans. The Texas Legislature should level the playing field for business and consumers alike by requiring that all consumer loan businesses comply with the same rate and fee structures currently established by statute and administrative rules under Title 4 of the Texas Finance Code.

Policy Recommendation 2

A deeper study must be conducted on the source of capital that drives the third-party lender model. The results of this study point to a concerning concentration of capital that undermines market competition and transparency for consumers.

Policy Recommendation 3

Establish clear and enforceable standards to ensure that CSOs do not evade the requirement that they arrange credit “by others.” Standards should prohibit any overlap in ownership, officers, or employees between CABs and third-party lenders that service them, including family relationships among the different owners, as well as business partnerships where the same group of individuals own CABs and third-party lenders, evading the spirit of the law.

Texas families need access to fair and responsible consumer loans. Fair consumer lending markets are key to successful families and local economies. If the CSO/CAB lending market is allowed to persist unchecked, it

will continue to undermine competition and transparency in the Texas market and hinder a fair playing field for consumer lending—for borrowers and lenders alike.



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