TEXAS PUBLIC POLICY FOUNDATION

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Center for Economic Freedom

Consumer Benefits of Access to Short-Term Credit

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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 uniformed. 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 landing 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. ☆