The following article appeared in the Houston Chronicle on April 14, 2015 (subscription required).

**Payday lenders draw further scrutiny**  
By Andrea Rumbaugh

David Sampson understands the danger, and sometimes the necessity, of payday loans. When he was working part-time in retail, the short-term, high-interest loans helped him cover car repairs and other emergencies.

They also gave him a first-hand look at the cycle of debt that has made payday loans notorious. Payments could quickly spiral out of control. One month, he was making payments but needed an additional payday loan to cover the rent.

"At that point, it was just too much to deal with," said Sampson, 37, who now works for a title insurance company and says he hasn't needed a payday loan in years. To get there, he closed the bank account where lenders could automatically withdraw money if he missed a payment, then set up more affordable repayment plans.

It's experiences like Sampson's that the Consumer Financial Protection Bureau is trying to stop with a nationwide initiative that follows action in several Texas cities, including Houston, to crack down on predatory lenders.

In late March, the federal bureau, created in the wake of the recent financial crisis, outlined rules it's considering proposing for payday and auto title lenders, among others. Regulations for short-term loans include verifying consumers' ability to repay the loan, providing an affordable way out of debt, determining when consecutive loans can be made and regulating how many times a loan can be rolled over.

Payday lenders aren't sold on the outlined regulations. Rob Norcross, spokesman for the Consumer Service Alliance of Texas that represents payday and auto title lending businesses, expressed concerns about the focus on ability to repay. He hopes it is clarified because, if too strict, it could prevent people from taking out loans.
"Many of the customers in the payday and auto title stores have less than perfect credit," he said.

Kathryn Bruning, assistant director for the Houston Administration and Regulatory Affairs Department, said the bureau and the city have similar goals: making sure consumers can repay their loans.

"We think these rules will help strengthen aspects of our ordinance," Bruning said. Local ordinances will be changed to match federal regulation if the rules pass.

Houston began cracking down on the industry in July, following ordinances passed in Dallas, Austin, San Antonio and El Paso. The city, which has 315 payday and auto title lenders within its limits, caps payday loans to 20 percent of the borrower's gross monthly income and limits auto title loans to 3 percent of the borrower's gross annual income or 70 percent of the vehicle's retail value, whichever is less.

The ordinance also restricts the number of refinances or installments per loan, depending on the loan type.

In a written statement, the Consumer Service Alliance of Texas said the ordinance "restricts consumer access to short-term credit and will likely force some borrowers into higher-cost alternatives."

Bruning said it's too soon to tell if the city's regulations are helping consumers avoid debt traps.

With dramatic changes in legislation nationwide, Jim Hawkins, associate professor at the University of Houston Law Center, chose to study the differences between large and small lenders.

His research on payday and auto title lender advertisements - at 189 storefronts and 30 websites in Houston - found that 59 percent of large companies listed interest rates higher than 600 percent on their website for the least expensive loan. Just 11 percent of small companies, those with 50 or fewer stores in Texas, listed rates higher than 600 percent.

Hawkins said this is concerning because additional regulation can push small lenders out of business, as was reported in Colorado. Before new legislation passed in 2010, seven of the largest operators owned 59 percent of Colorado stores. That rose to 73 percent in 2013, according to an October 2013 report by The Pew Charitable Trusts.
Hawkins is concerned that rules outlined by the Consumer Financial Protection Bureau push consumers to larger, more expensive lenders in Texas.

Bureau spokesman Sam Gilford said the Small Business Review Panel process will assess how these rules would affect lenders of different sizes.

Sara Smith, director of the Texas Public Interest Research Group, said she would like to see the bureau go further.

"I think the proposed rules are definitely a good first step," she said.