TEXAS PUBLIC POLICY FOUNDATION
Testimony

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Center for Economic Freedom

Consumer Benefits of Access to Short-Term Credit

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Ms. Chairwoman, 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 regulating short-term lending options to Texas consumers.

- 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 percent of domestic banks indicated that they had tightened their lending 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 therefore turn to credit service organizations. Banning fees would make the cost of these credit service organizations higher than their returns on investment.

- 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.

- Recently there has been discussion about finding a "sweet-spot" of price regulation. In a competitive market, the "sweet-spot" is what the borrowers and lenders agree to in a market transaction. The amount currently being charged by lenders is what the market dictates, and thus capping those fees below the established market value will put short-term lenders out of business and reduce lending options and choices for consumers.

- There are already examples of this. New Hampshire has passed a law capping short-term loan interest rates at 36 percent, and that cap forced many payday lending locations to close. Similar caps have passed in Pennsylvania and Arkansas with similar effects.

- The U.S. Securities and Exchange Commission has issued a report on the expenses of publicly traded companies offering small, short-term loan services. The report finds that regulating CSOs under Chapter 342 price cap regulations would cause CSOs to operate at a loss. It would not be very long before Texans would be denied access to small, short-term loans under Chapter 342 rates.

- 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.

- 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. ✩

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