



Legislation Details (With Text)

File #: 14-292 **Version:** 1 **Name:** Credit Access Business
Type: Ordinance **Status:** Agenda Ready
File created: 2/20/2014 **In control:** City Council Regular
On agenda: 2/27/2014 **Final action:**
Title: Presentation, possible action, and discussion regarding the approval of an ordinance to amend Chapter 4 "Business Regulations" of the College Station Code of Ordinances by amending Section 17 to include "Credit Access Businesses" which would provide registration requirements and credit extension guidelines for credit access businesses.
Sponsors:
Indexes:
Code sections:
Attachments: [PayDay Lender Ordinance](#)

Date	Ver.	Action By	Action	Result
------	------	-----------	--------	--------

Presentation, possible action, and discussion regarding the approval of an ordinance to amend Chapter 4 "Business Regulations" of the College Station Code of Ordinances by amending Section 17 to include "Credit Access Businesses" which would provide registration requirements and credit extension guidelines for credit access businesses.

Relationship to Strategic Goals:

- Financially Sustainable City
- Neighborhood Integrity
- Diverse Growing Economy

Recommendation(s): Staff recommends approval.

Summary: Credit access businesses offer both payday and auto title loans. Payday loans are small cash advances with two-week loan terms. These loans are unsecured, but a postdated check is required. With an auto title loan, the car title is used as collateral and has a one month loan term. If the borrower defaults, the lender can take the car. These types of loans create a cycle of debt wherein high fees are paid month after month, often with no reduction in the loan principal. In 2012 there were over 31,000 payday/auto title loans and refinances in the College Station - Bryan Metro Area, and \$2.4 million in fees. 269 vehicles were repossessed.

After receiving a Call to Action from the United Way's Financial Stability Committee concerning Payday and Auto Title Lending Activities as well as an informative presentation, Council directed staff to bring a Payday Lending Resolution for their consideration. Council passed the Resolution on January 10, 2013 calling on the State Legislature and Governor to take action to stop usurious lending by credit access businesses that exploit economically vulnerable College Station citizens. The City of Bryan passes a similar resolution in support of State action. The State Legislature has passed no significant regulation governing credit access businesses.

The proposed ordinance is crafted from a model provided by the Texas Municipal League. Other cities across the State, including the City of Bryan, have adopted similar legislation. The purpose of this proposed ordinance is to protect the welfare of the citizens of the City of College Station by monitoring credit access businesses in an effort to reduce abusive and predatory lending practices. The amending of this Chapter will establish a registration program for credit access businesses, impose restriction on extensions or consumer credit made by credit access businesses, and impose recordkeeping requirements on credit access businesses. The key terms of this proposed ordinance are as follows:

- A credit access business must apply for and receive a certificate of registration from the City.
- A credit access business must maintain complete records of all loans made by the business for at least three (3) years and make the records available to the City for inspection upon request.
- The amount of a payday loan may not exceed 20 percent (20%) of the consumer's (borrower's) gross monthly income.
- The amount of an auto title loan may not exceed the lesser of three percent (3%) of the consumer's (borrower's) gross annual income or seventy percent (70%) of the retail value of the motor vehicle.
- Any loan from a credit access business that provides for repayment in installments may not be payable in more than four (4) installments, and the proceeds from each installment must be used to repay at least twenty-five percent (25%) of the principal amount of the loan. No renewals or refinancing of installment-payment loans are permitted.
- Any loan from a credit access business that provides for a single lump sum repayment may not be refinanced or renewed more than three (3) times, and the proceeds from each refinancing or renewal must be used to repay at least twenty-five percent (25%) of the principal amount of the loan. Any loan made to a consumer within seven (7) days of a previous loan being paid by the consumer constitutes a refinancing or renewal.

Budget & Financial Summary : N/A While specific funding is not necessary, staffs resources will be needed to administer certificates of registration, perform records reviews, and other duties and responsibilities as may be necessary and appropriate to administer this new Ordinance.

Reviewed and Approved by Legal: Yes

Attachments:

1. Proposed Ordinance

ORDINANCE NO. _____

AN ORDINANCE OF THE CITY OF COLLEGE STATION, TEXAS, AMENDING CHAPTER 4 “BUSINESS REGULATIONS” BY AMENDING SECTION 17, TO INCLUDE “CREDIT ACCESS BUSINESSES”; PROVIDING REGISTRATION REQUIREMENTS AND CREDIT EXTENSION GUIDELINES FOR CREDIT ACCESS BUSINESSES; AND REPEALING ALL ORDINANCES OR PARTS OF ORDINANCES IN CONFLICT HEREWITH; PROVIDING PENALTIES; PROVIDING A SAVINGS CLAUSE; PROVIDING FOR SEVERABILITY; FINDING AND DETERMINING THAT THE MEETINGS AT WHICH THE ORDINANCE IS PASSED ARE OPEN TO THE PUBLIC AS REQUIRED BY LAW; PROVIDING FOR PUBLICATION; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the City Council of the City of College Station, Texas, represents the citizens of the City of College Station; and

WHEREAS, citizens of the City of College Station are deeply concerned about the harmful effects of credit access businesses’ lending practices in our community.

WHEREAS, certain credit access businesses engage in abusive and predatory lending practices, offering easy money to those members of our community who are in a tight spot with onerous terms and fees; and

WHEREAS, the practices of certain access businesses cause members of our community to become trapped in a cycle of short term, high interest loans resulting in large debt and huge payments; and

WHEREAS, The State of Texas has no significant regulation governing credit access businesses; and

WHEREAS, data reported to the Texas Office of Consumer Credit Commissioner show that in 2012 over \$2.4 million in fees were charged and 269 vehicles repossessed by credit access businesses in the College Station - Bryan Metropolitan Statistical Area; and

WHEREAS, the Pew Charitable Trusts, in their publication entitled *Payday Lending in America: Who Borrows, Where they Borrow, and Why*, (July 2012), wrote that “payday loans are sold as two-week credit products that provide fast cash, but borrowers are actually indebted for an average of five months per year.” The report further noted that “on average, a borrower takes out eight loans of \$375 each per year and spends \$520 on interest;” and

WHEREAS, the Pew Charitable Trusts, in their publication entitled *Payday Lending in America: Who Borrows, Where they Borrow, and Why*, (July 2012), also noted: “How much borrowers spend on loans depends heavily on the fees permitted by their state. The same \$500 storefront loan would generally cost about \$55 in Florida, \$75 in Nebraska, \$87.50 in Alabama, and \$100 in Texas, even if it were provided by the same national company in all those states. Previous research has found that lenders tend to charge the maximum permitted in a state;” and

WHEREAS, the Pew Charitable Trusts, in their publication entitled *Payday Lending in America: Who Borrows, Where they Borrow, and Why*, (July 2012), also stated that “the vast majority of borrowers use the loans on a long-term basis, not temporary one. Thus it seems that the payday loan industry is selling a

product few people use as designed and that imposes debt that is consistently more costly and longer lasting than advertised;” and

WHEREAS, the Community Financial Services Association of America (CFSA), the national trade association for companies that offer small dollar, short-term loans or payday advances includes the following in the “Member Best Practices” as listed on its internet site (<http://cfsaa.com/cfsa-member-best-practices.aspx>): “Members shall not allow customers to rollover a payday advance (the extension of an outstanding advance by payment of only a fee) unless expressly authorized by state law, but in such cases where authorized will limit rollovers to four or the state limit, whichever is less.” The need for consumer understanding was also outlined on this website: “A contract between a member and the customer must fully outline the terms of the payday advance transaction. Members agree to disclose the cost of the service fee both as a dollar amount and as an annual percentage rate (“APR”);” and

WHEREAS, the Center for Responsible Lending, a non-profit, non-partisan organization, states on its internet site (http://www.responsiblelending.org/other-consumer-loans_tools-resources/fast-facts.html) that: “car title loans are based on the value of a borrower’s car - the ability to repay the loans is not factor in the lending decision...”; “loan rates for a car title are typically 20-30 times that of rates charged by credit card issuers...”; “the average car title customer renews their loan 8 times...”; and, “on a \$500 title loan, this average customer will pay back \$650 in interest over eight months; the principal borrowed will be in addition;” and

WHEREAS, lenders hold onto the motor vehicle title and when borrowers cannot continue to pay the fees, they can lose their vehicles, which can drastically affect the borrower’s means of transportation for work and other essential household functions.

WHEREAS, the City Council finds and determines that local regulation of credit access businesses would substantially curtail the likelihood of borrowers becoming trapped in a cycle of debt, affording the borrowers who utilize such intuitions the opportunity to reduce their indebtedness while still affording the industry member institutions the opportunity to receive a fair return on their investment.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF COLLEGE STATION, TEXAS, THAT:

PART 1: The findings and recitations contained in the preamble to this ordinance are hereby adopted and incorporated for all purposes.

PART 2: That Chapter 4 of the City of College Station Code of Ordinances is hereby amended, by adding Section 17, “Credit Access Businesses,” to read as follows:

Sec. 4-17. CREDIT ACCESS BUSINESSES.

- A. Short Title** - This Section may be known and cited as “Credit Access Businesses Regulation.”
- B. Purpose** -The purpose of this article is to protect the welfare of the citizens of the City of College Station by monitoring credit access businesses in an effort to reduce abusive and predatory lending practices. To this end, this article establishes a registration program for credit access businesses, imposes restrictions on extensions of consumer credit made by credit access businesses, and imposes recordkeeping requirements on credit access businesses.

C. Definitions.

As used in this chapter:

- (1) CERTIFICATE OF REGISTRATION means a certificate of registration issued by the director under this article to the owner or operator of a credit access business.
- (2) CONSUMER means an individual who is solicited to purchase or who purchases the services of a credit access business.
- (3) CONSUMER'S LANGUAGE OF PREFERENCE is the language the consumer understands best.
- (4) CREDIT ACCESS BUSINESS has the meaning given that term in Section 393.601 of the Texas Finance Code.
- (5) DEFERRED PRESENTMENT TRANSACTION has the meaning given that term in Section 393.601 of the Texas Finance Code.
- (6) DIRECTOR means the director of the department designated by the City Council, City Manager, or City Councilor City Manager's Designee, to enforce and administer this chapter.
- (7) EXTENSION OF CONSUMER CREDIT has the meaning given that term in Section 393.001 of the Texas Finance Code.
- (8) MOTOR VEHICLE TITLE LOAN has the meaning given that term in Section 393.601 of the Texas Finance Code.
- (9) PERSON means any individual, corporation, organization, partnership, association, financial institution, or any other legal entity.
- (10) REGISTRANT means a person issued a certificate of registration for a credit access business under this chapter and includes all owners and operators of the credit access business identified in the registration application filed under this chapter.
- (11) STATE LICENSE means a license to operate a credit access business issued by the Texas Consumer Credit Commissioner under Chapter 393, Subchapter G of the Texas Finance Code.

D. Violations; Penalty

- (a) A person who violates a provision of this chapter, or who fails to perform an act required of the person by this chapter, commits an offense. A person commits a separate offense for each and every violation relating to an extension of consumer credit, and for each day during which a violation is committed, permitted, or continued.
- (b) An offense under this chapter is punishable by a fine of not more than \$500.
- (c) A culpable mental state is not required for the commission of an offense under this article and need not be proved.
- (d) The penalties provided for in Subsection (b) are in addition to any other remedies that the city may have under city ordinances and state law.

E. Defenses

It is a defense to prosecution under this article that at the time of the alleged offense the person was not required to be licensed by the state as a credit access business under Chapter 393, Subchapter G, of the Texas Finance Code, as amended.

F. Registration Required

A person commits an offense if the person acts, operates, or conducts businesses as a credit access business without a valid certificate of registration. A certificate of registration is required for each physically separate credit access business.

G. Registration Application

(a) To obtain a certificate of registration for a credit access business, a person must submit an application on a form provided for that purpose to the director. The application must contain the following:

(1) The name, street address, mailing address, facsimile number, and telephone number of the applicant.

(2) The business or trade name, street address, mailing address, facsimile number, and telephone number of the credit access business.

(3) The names, street addresses, mailing addresses, and telephone numbers of all owners of the credit access business, and the nature and extent of each person's interest in the credit access business.

(4) A copy of a current, valid state license held by the credit access business pursuant to Chapter 393, Subchapter G of the Texas Finance Code, as amended.

(5) A copy of a current, valid certificate of occupancy showing that the credit access business is in compliance with the City of College Station Code.

(6) A non-refundable application fee for the amount established.

(b) An applicant or registrant shall notify the director within 45 days after any material change in the information contained in the application for a certificate of registration, including, but not limited to, any change of address and any change in the status of the state license held by the applicant or registrant.

H. Issuance and Display of Certificate of Registration; Presentment upon Request.

(a) The director shall issue to the applicant a certificate of registration upon receiving a completed application under Section 4-28.

(b) A certificate of registration issued under this section must be conspicuously displayed to the public in the credit access business. The certificate of registration must be presented upon request to the director or any peace officer for examination.

I. Expiration and Renewal of Certificate of Registration.

(a) A certificate of registration expires on the earliest of:

(1) One year after the date of issuance; or

(2) The date of revocation, suspension, surrender, expiration without renewal, or other termination of the registrant's state license.

(b) A certificate of registration may be renewed by making application in accordance with Section 4-28. A registrant shall apply for renewal at least 30 days before the expiration of the registration.

J. Non-transferability.

A certificate of registration for a credit access business is not transferable.

K. Maintenance of Records.

(a) A credit access business shall maintain a complete set of records of all extensions of consumer credit arranged or obtained by the credit access business, which must include the following information:

(1) The name and address of the consumer.

(2) The principal amount of cash actually advanced.

(3) The length of the extension of consumer credit, including the number of installments and renewals.

(4) The fees charged by the credit access business to arrange or obtain an extension of consumer credit; and

(5) The documentation used to establish a consumer's income under Section 4-33 of this ordinance.

(b) A credit access business shall maintain a copy of each written agreement between the credit access business and a consumer evidencing an extension of a consumer credit (including, but not limited to, any refinancing or renewal granted to the consumer).

(c) A credit access business shall maintain copies of all quarterly reports filed with the Texas Consumer Credit Commissioner under Section 393.627 of the Texas Finance Code, as amended.

(d) The records required to be maintained by a credit access business under this section must be retained for at least three years and made available for inspection by the city upon request during the usual and customary business hours of the credit access business.

L. Restriction on Extension of Consumer Credit.

(a) The cash advanced under an extension of consumer credit that a credit access business obtains for a consumer or assists a consumer in obtaining in the form of a deferred presentment transaction may not exceed 20 percent of the consumer's gross monthly income.

(b) The cash advanced under an extension of consumer credit that a credit access business obtains for a consumer or assists a consumer in obtaining in the form of a motor vehicle title loan may not exceed the lesser of:

- (1) Three percent of the consumer's gross annual income; or
 - (2) 70 percent of the retail value of the motor vehicle.
- (c) A credit access business shall use a paycheck or other documentation establishing income to determine a consumer's income.
- (d) An extension of consumer credit that a credit access business obtains for a consumer or assists a consumer in obtaining and that provides for repayment in installments may not be payable in more than four installments. Proceeds from each installment must be used to repay at least 25 percent of the principal amount of the extension of consumer credit. An extension of consumer credit that provides for repayment in installments may not be refinanced or renewed.
- (e) An extension of consumer credit that a credit access business obtains for a consumer or assists a consumer in obtaining and that provides for a single lump sum repayment may not be refinanced or renewed more than three times. Proceeds from each refinancing or renewal must be used to repay at least 25 percent of the principal amount of the original extension of consumer credit.
- (f) For purposes of this section, an extension of consumer credit that is made to a consumer within seven days after a previous extension of consumer credit has been paid by the consumer will constitute a refinancing or renewal.

M. Requirement of Consumer Understanding of Agreement.

- (a) Every agreement between the credit access business and a consumer evidencing an extension of consumer credit (including, but not limited to, any refinancing or renewal granted to the consumer), must be written in the consumer's language of preference. Every credit access business location must maintain on its premises, to be available for use by consumers, agreements in the English and Spanish languages.
- (b) For every consumer who cannot read every agreement between the credit access business and a consumer evidencing an extension of consumer credit (including, but not limited to, any refinancing or renewal granted to the consumer) must be read to the consumer in its entirety in the consumer's language of preference, prior to the consumer's signature.
- (c) For every consumer who cannot read, every disclosure and notice required by law must be read to the consumers in its entirety in the consumer's language of preference, prior to the consumer's signature.

N. Referral to Consumer Credit Counseling.

A credit access business shall provide a form, to be prescribed by the Director, to each consumer seeking assistance in obtaining an extension of consumer credit which references non-profit agencies that provide financial education and training programs and agencies with cash assistance programs. The form will also contain information regarding extensions of consumer credit, and must include the information required by Section 4-32 (a)(1)-(5) of this ordinance specific to the loan agreement with the consumer. If the Director has prescribed a form in the consumer's language of preference, the form must be provided in the consumer's language of preference.

PART 3: It is hereby found and determined that the meetings at which this ordinance was passed were open to the public, as required by Section 551.001 et seq., Texas Government Code, and that advance public notice of time, place and purpose of said meetings was given

PART 4: That if any provisions of any section of this ordinance shall be held to be void or unconstitutional, such holding shall in no way effect the validity of the remaining provisions or sections of this ordinance, which shall remain in full force and effect.

PART 5: That any person, firm, or corporation violating any of the provisions of this chapter shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be punishable by a fine of not less than Twenty-five Dollars (\$25.00) nor more than Two Thousand Dollars (\$2,000.00). Each day such violation shall continue or be permitted to continue, shall be deemed a separate offense. Said Ordinance becomes effective six (6) months after its date of passage by the City Council, on August 27, 2014, as provided by Section 35 of the Charter of the City of College Station.

PASSED, ADOPTED and APPROVED this _____ day of _____, 20__

CITY OF COLLEGE STATION

NANCY BERRY, Mayor

ATTEST:

SHERRY MASHBURN, City Secretary

APPROVED:

Carla Robinson

CARLA ROBINSON, City Attorney