



## Testimony for SB 253

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Texas Association of Goodwills

Texas association of Goodwills is comprised of 15 separate Goodwill corporations around the state. Our mission is to serve people with disabilities and other barriers to employment, to become self-sufficient, contributing members of our communities. Goodwill offers an array of training and employment opportunities, to help people meet their goals and go to work. Goodwill is committed to helping Texans help themselves, not through charity but with dignity and skill development. Last year we provided services to 112,879 people and placed 7,059 Texans into jobs.

Payday lending has become one of Goodwill's top legislative issues as it affects our employees and clients around the state. Furthermore, payday loans and the chronic debt imposed by them is a deterrent to our mission and the communities in which we live and serve. Across the state, communities are passing ordinances to restrict the footprint of payday lenders and passing resolutions asking the Legislature to address this serious problem.

**Goodwill supports SB 253.** The loophole in the statute must be closed so that payday lenders cannot continue to operate as CSOs without any oversight.. Closing the CSO loophole achieves several of Goodwill's goals. By moving payday lenders back into Chapter 342 of the Finance Code:

1. There is a complaint process for borrowers
2. There is increased transparency, although further improvements are warranted
3. There is an ability to collect data on high risk lenders (how many loans are awarded. how many are renewed, what is the average amount of the loan, etc.)

Additionally, there are other items we request be considered:

1. Limit number of renewals allowed in one year
2. Allow partial payments
3. Require waiting or "cooling off" periods between loans
4. Consider fee adjustments and longer loan repayment schedules

I asked Goodwills to share some of the stories of employees and people we have served regarding payday loans and auto title loans. I received too many stories to share with you today. But most of the

stories have a similar theme: a person becomes desperate, secures a loan with good intentions, cannot pay back the loan in the limited time frame allowed, gets caught up in a vicious cycle of new loans to pay off old loans, ends up paying between 300% and 500% in interest and fees for loans that are not repaid in a few days or weeks, but rather paid over months and sometimes years. Sadly, many of the stories I have do not have happy endings. In many cases, the people are still in the process of trying to pay off their loans that were initiated months or even years ago.

Sonni works as an administrative assistant for the Goodwill Industries in West Texas. She makes \$11.85 per hour and has no benefits. She is a single mom raising her 12 year-old daughter. Sonni took out her first loan in 2008 for \$1000. She was unable to pay back the loan in the time frame allowed so she refinanced the loan; however the fees to refinance were extremely high and she found herself paying a large amount of money every week but it just paid off the mounting interest of the loan and did not address the principal. She then took out a second loan for \$900 to help pay off the first loan. But let's stop for a moment to talk about *how* these loans were to be paid off: She was required to write out a series of checks with different dates on them and trust the CSOs to submit them accordingly. When she refinanced, she was required to destroy the first set of checks and write a second series of checks. She never understood any of this, asked for an explanation and was given none except, "if you want the loan, you have to do this". She was in trouble, didn't know what to do and basically had to do whatever they told her to do or they wouldn't "help" her. Sonni gets overwhelmed; she can't pay her bills and stops paying on the loan. Now the collection calls start, and not just to Sonni but to every person she has listed as a reference on her application. They accuse her of check fraud, threaten prosecution and tell her friends and family members that she is a criminal. When she asks to review the paperwork so that she could see how much she still owes and to whom the loan is written, she is told, "we already gave that to you and we are not going to play these games with you".

Fearful of being sent to jail, Sonni met with them to set up a payment schedule. She arranged to pay \$150 every two weeks for 10 months. They required for her to set up a debit card for this purpose and they would debit her account accordingly. She wanted to pay with a money order but they refused and told her she would just have to (again) "trust" them to take out the right amount. She followed their rules, ended up paying \$3000 on a \$1000 loan but they continued to debit her card after the balance was paid. She has since canceled the debit card but she has never received money back from these over payments.

The sad part is Sonni is refusing to use a debit card to pay off her second loan and they refuse to work with her. So Sonni's nightmare will continue. She says, "I have raised 5 children as a single mom and I have struggled a lot. But I have never struggled like I have since I began using these payday loans. They are enticing and deceiving, and have caused me financial ruin. I have been forced to give up my home and now live in a group home for struggling single moms. Frankly, now I'm just grateful I have a place to live. I will NEVER use another payday loan and I don't recommend them for anyone else."

The process of using post-dated checks or debit cards, and the threatening phone calls from collection agencies are common in almost EVERY story. And while the process is unscrupulous, it appears that because there is no oversight, in most cases, it is completely legal.

The lobbyists for the CSOs have distributed to legislators and advocates a "best practices" approach to their payday loans. They say they are committed to full disclosure to ensure customers fully understand the cost of the service and that they will be truthful in their advertising and encourage customer responsibility. They also state they will not use unlawful threats or intimidation to collect accounts. Frankly, that is not what we are hearing from our Goodwill clients or employees. And maybe the CSOs in the room actually do this but it is painfully apparent that some do not. And what about the hundreds of CSOs who are NOT in the room today? This business is completely without oversight. These businesses can legally do whatever they want, charge whatever they want and require anything they deem necessary from the borrower. The only way to manage this business is to provide some level of oversight where ALL CSOs will be required to follow basic, reasonable regulations.

In today's business climate of high unemployment and slow job growth, regulation has become a dirty word. No one, including Goodwill wants to pass legislation which could eliminate jobs or businesses. We recognize that payday lending is a legitimate \$3 billion dollar business in Texas. And while these loans may not be good for a lot of people, there is certainly a high demand for this product. However, we think as lawmakers, you have a responsibility to ensure that people who use payday loans, have some legal assurances that they are not exploited by these businesses.

So what is the solution? Goodwill is concerned that unless the loophole is closed, CSOs will continue to circumvent the law and remain completely unregulated. On page two of CSAT's best practices list they identify "enforcement" and indicate that, "members will participate in self-policing the industry. A member will be expected to report violations of best practices to CSAT, which will investigate the matter and take appropriate action". Goodwill feels strongly that based upon the hundreds of complaints to the AG's office and the pervasiveness of the problems caused by these loans today, we are past the point of self-policing. Close the CSO loophole and make some adjustments to Chapter 342 of the Finance Code for high risk lenders so that they are able to more easily make the transition to the High Risk Lending statute.

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