

Appleseed This Week

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A non-profit network of 16 public interest justice centers in the U.S. and Mexico, Appleseed is dedicated to building a society where opportunities are genuine, access to the law is universal and equal, and government advances the public interest.

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Last week's symposium,

Texas Center Confronts Payday Lending Abuses

Study reveals harmful impact, proposes better consumer protection

As staunch advocates for economic justice and opportunity, a number of Appleseed Centers, as part of a collaborative project with the National Office, are working to curb the predatory practices of payday lenders. In Texas this week, House members co-sponsoring reform legislation stood alongside Texas Appleseed for the release of the Center's new survey of payday borrowers in four Texas cities.

In addition to providing detailed demographic information on Texas payday borrowers - the industry caters disproportionately to minorities, single mothers, and other vulnerable populations - the report, "[Short-term Cash, Long-term Debt: The Impact of Unregulated Lending in Texas](#)," makes a strong case for greater consumer protection.

Taking advantage of a loophole in Texas law, a growing number of payday lenders operate as "credit services organizations" (CSOs), thereby circumventing regulatory oversight, licensing and any limitation on fees. As a result, the state's payday loans are among the most expensive in the country, with annualized interest rates of 500 percent or higher, said Senior Policy Analyst Ann Baddour.

"Payday borrowers typically pay \$20 to borrow \$100 for a two-week period to cover basic expenses like rent, food and utilities," Baddour said. "Nearly 60 percent of payday borrowers must roll over their loans, trapping consumers in a destructive cycle of debt. Many borrowers end up paying more in loan renewal fees than the original loan amount - and still fail to make a dent in the loan principal owed."

Though defaults on small-dollar loans do not have the same immediate impact as a home mortgage default, a 2008 study

"*Creating a Pro Bono and Philanthropic Culture in Mexico*," can now be viewed on the website of the [Washington College of Law](#). Click on the links below to view each panel discussion.

Panel I

[Overview of Pro Bono Efforts in the U.S., Mexico, and Latin America](#)

Panel II

[The Importance of Pro Bono Support in Mexico's Social Development and Challenges Ahead](#)

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found that Texas payday borrowers are much more likely to file for bankruptcy, because these loans often create a deeper financial crisis for borrowers already in desperate straits.

In addition to closing the CSO loophole, Texas Appleseed recommends better collection of data from payday lenders. This information would include types of loan, rates and fees, repeat customers, and rollover history, thus allowing for more informed policymaking in the future.

Just as importantly, the Center is encouraging financial institutions to explore ways of meeting short-term consumer credit needs without excessive fees. Forty percent of the payday borrowers surveyed said they had approached mainstream lenders, but were turned away.

Three Texas banks - Amarillo National Bank, Main Street Bank in Kingwood, and Liberty National Bank in Paris - are currently participating in a FDIC pilot to offer alternative short-term loans. In the second quarter of 2008, these banks made a combined \$2.5 million in loans (or 3,900 loans of \$1,000 or less) at 16 percent APR, a mere fraction of the typical interest rate on a payday loan.

To read the report in full, [click here](#) or visit Texas Appleseed's website, www.texasappleseed.net.

Texas Appleseed and pro bono partner Mayer Brown LLP will soon release a second study providing an in-depth legal and market analysis of payday lending in Texas. Appleseed Centers in Alabama, Nebraska, New Mexico, and South Carolina are also participating in payday lending reform projects.
