

April 13, 2021

The Honorable Rafael Anchía
Chairman, Pensions, Investments & Financial Services Committee
Room 1N.5
P.O. Box 2910
Austin, TX 78768-2910

Re: HB 2432 – relating to increasing the maximum reference base amount for certain consumer loans

Dear Chairman Anchía:

I write on behalf of the American Financial Services Association (“AFSA”)¹ in support of HB 2432, which would enact a much-needed update to the maximum loan amounts for small loans in Texas. HB 2432’s changes will modernize the state’s laws and ensure credit remains available for consumers most in need.

Small loans are a critical source of credit, allowing consumers to access money that helps them to deal with unforeseen circumstances. HB 2432 updates the reference base amount from \$200 to \$300 for cash advances, an amount that has not been increased since 2005. The reference base amount is part of the statutory formula for calculating the maximum loan amount, and this legislation would change the current maximum small loan amount from \$1,460 to \$2,190. The bill does not increase fees or rates on small loans. Instead, HB 2432 makes additional credit available and accessible to Texas consumers. With additional credit options, individuals and families may build or repair their credit, consolidate debts, free up funds to deal with emergencies, and take advantage of opportunities that would otherwise be missed. Importantly, consumers would not need to turn to unlicensed, unregulated credit products in order to get a loan above the current maximum amount. HB 2432 gives consumers more options for safe, affordable loans.

For short-term, small-dollar loans, the quality, affordability, and soundness of the loan is best judged by its structure – not its interest rate. For decades, traditional installment lenders have consistently provided consumers with reliable, community-based small-dollar credit that is accessible and affordable, giving borrowers a tried-and-tested mechanism to safely manage their household credit. Traditional installment loans (TILs) are widely acknowledged by consumer groups and others as a safe and affordable form of credit, carrying with them significant socio-economic benefits for individuals, families, and communities. This appreciation for TILs as tools of financial capability and even mobility, hinges on the fact that TILs are repaid in regularly

¹ Founded in 1916, the American Financial Services Association (AFSA), based in Washington, D.C., is the primary trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including direct and indirect vehicle financing, traditional installment loans, mortgages, payment cards, and retail sales finance. AFSA members do not provide payday or vehicle title loans.

scheduled, equal payments of principal and interest. Furthermore, unlike payday loans, TILs require an underwriting process that includes a calculation of the borrower's ability to repay a loan out of their monthly budget and also report loan performance directly to credit bureaus, which is vital for Texas borrowers looking to build a credit history and increase their financial mobility.

In fact, TILs have repeatedly been recognized as safe payday alternatives by government officials at both the federal and state levels. For instance, the National Hispanic Caucus of State Legislators (NHCSL) passed a resolution supporting loans that meet the elements of TILs in Texas, stating:

NHCSL supports the development of lending products that encourage responsible underwriting, and attempts to assess a borrower's stability, ability, and willingness to repay the loan.²

The National Black Caucus of State Legislators (NBCSL) has also passed several resolutions in support of TILs, including one in 2016 that stated:

NBCSL supports the expansion of Traditional Installment Loans as an affordable means for borrowers to establish and secure small dollar closed end credit while preventing cycle of debt issues inherent with non-amortizing balloon payment loans.³

The federal Consumer Financial Protection Bureau (CFPB) also recognized that TILs are safe and affordable forms of credit, as demonstrated by its exclusion of TILs from the provisions of its Payday Lending Rule.

We urge you to support HB 2432 and make safe and affordable credit more accessible for Texas borrowers. Thank you in advance for your consideration of our comments. If you have any questions or would like to discuss this further, please do not hesitate to contact me at 202-469-3181 or mkownacki@afsamail.org.

Sincerely,



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American Financial Services Association
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cc: Members of the House Pensions, Investments & Financial Services Committee

² See NHCSL Resolution 2013-10, available at <https://nhcsl.org/resources/resolutions/2013/2013-10/>

³ NBCSL Resolution BED-16-21, *A Resolution Promoting Safe and Affordable Lending Practices*, available at <https://nbcsl.org/public-policy/docs/file/56-resolution-bed-16-21.html>