

An Appeal to
the Texas
Legislature
from the
Texas Thrift
Coalition



WHICH DIRECTION
IS RIGHT FOR TEXAS?

Christian Life Commission of the
Baptist General Convention of Texas

Institute for American Values

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THIS APPEAL TO THE TEXAS LEGISLATURE COMES FROM THE
TEXAS THRIFT COALITION,

a nonpartisan, volunteer group of leaders and organizations whose goal is to promote thrift and encourage saving as a path to family prosperity and financial security for Texans.

The lead organization in convening the Coalition and preparing the Appeal is the Christian Life Commission of the Baptist General Convention of Texas, directed by Suzii Paynter. The lead researchers for the project are Dr. Barbara Dafoe Whitehead of the Institute for American Values, Stephen Reeves of the Christian Life Commission, and Charles E. Stokes of the University of Texas, who is also the Roy F. Bergengren Fellow at the Institute for American Values.

The *2010 Survey of Texas Savers* was carried out in partnership with the Chicago-based research firm, Knowledge Networks, Inc.

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WHY WE COME TOGETHER

With this Appeal, we respectfully urge all Texans to leave behind the debilitating, failed practices of debt and waste and embrace a new ethic of thrift and saving.

From this day forward, we ask our political leaders to govern our state according to principles of living within our means, saving for the future, transparency in financial matters, and careful stewardship of our human and natural resources.

From this day forward, we ask all of Texas to re-dedicate itself to protecting its middle class and to building a broad prosperity on true foundations – the foundations of hard work, honesty, saving, future-mindedness, and concern for others.

Our vision for change is a large one. We seek nothing less than getting rid of the old debt culture and replacing it with public and private thrift.

OUR ARGUMENT IN BRIEF

The Lone Star state has made it through the Great Recession in better economic shape than almost any other state.

At the same time, however, our state's hardworking families – our greatest asset – are not doing well. Indeed, they are in worse shape than those in most other states. By a number of well-established measures of economic security, Texas households rank near the bottom of households in the nation.

In particular, Texas families today are experiencing a major source of economic vulnerability: millions of Texas households face a savings crisis. According to the just-completed *2010 Survey of Texas Savers*:

- * Of all Texas households earning less than \$100,000 per year, nearly half have less than \$5,000 in total savings.
- * More than one-third of middle to lower income households have less than \$1,000 in total savings.
- * Of all Texas households earning less than \$30,000 per year, two-thirds have less than \$1,000 in total savings.
- * Ten percent of households earning under \$30,000 per year have only the cash in their wallet or purse.

Without a savings cushion, too many Texas families are living on the razor's edge of solvency. They are unprepared for the unexpected bumps in the road that can occur – a

car repair, a rent increase, or a job layoff. Even minor bumps can lead to major financial disasters. To forestall such a disaster, some strapped families are turning to high-interest lenders for quick cash, getting caught up in a debt trap and even risking bankruptcy.¹

The growing debt burden of today's families is especially troubling because it touches on a painful part of our past. Texans have had a long and bitter experience with debt. Many Texas families from earlier generations spent their entire lives trapped in debt servitude to powerful outside interests. This hard history bred a deep fear and even hatred of debt.

In times past, however, the state's leaders frequently took the side of ordinary families against those interests seeking to spread and encourage debt. Framers of the Texas Constitution banned usurious lending and capped interest rates at ten percent. Legislators fought loan sharking, established rural credit and cooperative lending institutions, and instituted protections – including prohibitions against jail time – for debtors. And for fear that some might fall into debt through reckless wagering, Texas leaders established a constitutional ban on gambling as well.

But in recent years Texas state government has struggled to maintain its traditional opposition to debt. Elected officials have allowed powerful new merchants of debt to exploit a loophole in the law

and to operate without state oversight. Unregulated payday lending, auto title lending, and other forms of high-cost lending have contributed to a new kind of debt servitude for large and growing numbers Texas families today.

Moreover, elected officials have set up barriers that make it harder for Texas families to save. In order to boost its own revenues, the state sponsors a lottery that extracts hard-earned dollars from a disproportionately large share of low and moderate-income Texans. Now, in this 82nd legislative season, some lawmakers are trying to reach deeper into Texans' pockets and to encourage even more reckless debt by proposing to expand casino gambling in the state. In short, instead of encouraging regular savings, the state is now promoting habitual betting.

Texas legislators today have a choice. They can support payday lending and big gambling interests. Or they can support ordinary Texas families. They can expand the culture of Texas debt. Or they can help to rebuild a culture of Texas thrift. Which direction will they choose?

MAJOR FINDINGS

- * Texas families face a savings crisis.
- * Anti-thrift institutions are trapping Texas families in debt.
- * Texans see a danger in the rise of anti-thrifts.
- * Texans oppose the expansion of state-sponsored gambling.
- * Texans want to save more.

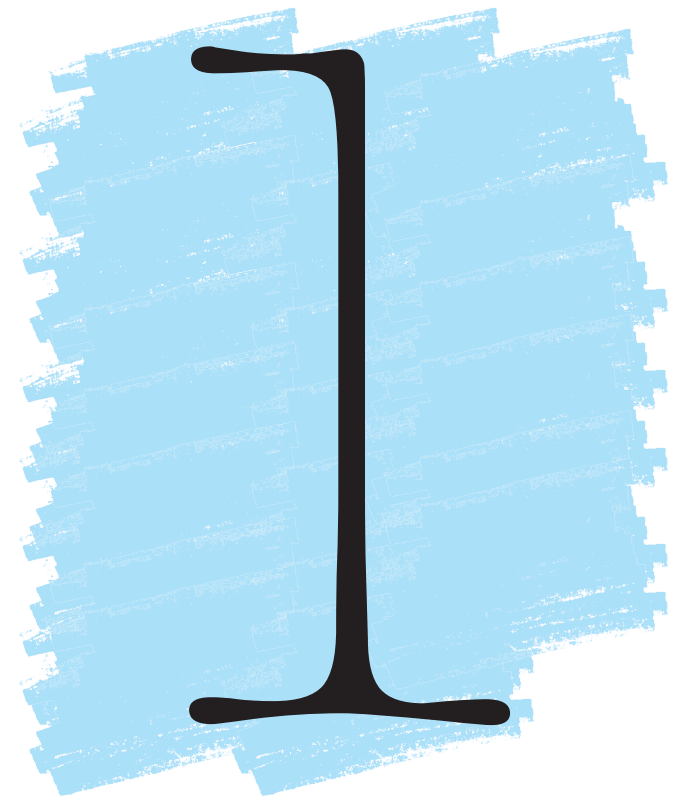
MAJOR RECOMMENDATIONS

To oppose debt:

- * Close the payday lenders' "lucrative loophole."
- * Protect military families from payday lenders.
- * Vote "no" on casino gambling.

To support thrift:

- * Create a Texas "Savings Ticket."
- * Promote alternatives to payday lenders.
- * Bring back National Thrift Week.



THE TEXAS
SAVINGS CRISIS

The Lone Star state is a bright spot amid the economic gloom that still engulfs much of the country. Texas made it through the Great Recession in better shape than most other states. The economy is on a roll. The population is growing. Jobs are coming back. Exports are rising. Home sales have improved in all metro areas. Texas, as some like to say, is wide open for business.

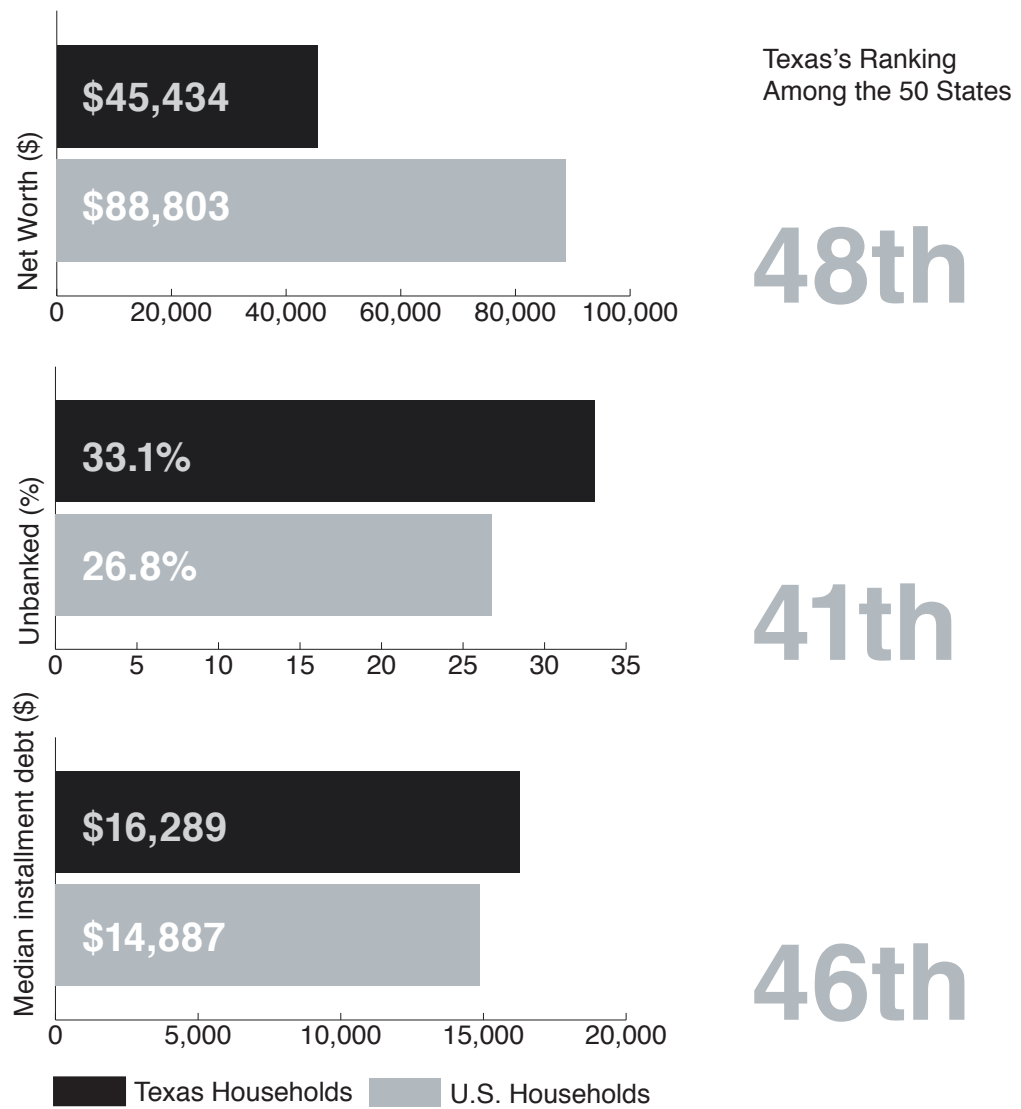
Texas' economic resilience can be chalked up to the state's many assets and advantages – relatively low living costs, modest taxes, oil and gas wealth, great research institutions, a youthful working-age population, and an attractive business climate.²

At the same time, Texas families – ultimately the state's greatest economic asset – are not riding this latest wave of success. Far from it. While the state's economy overall surges ahead, the state's hardworking families are struggling harder and harder to stay afloat.

So at the very heart of Texas life today is a great disparity. On the one hand, a buoyant economy. But on the other hand, large and growing numbers of Texas families going broke.

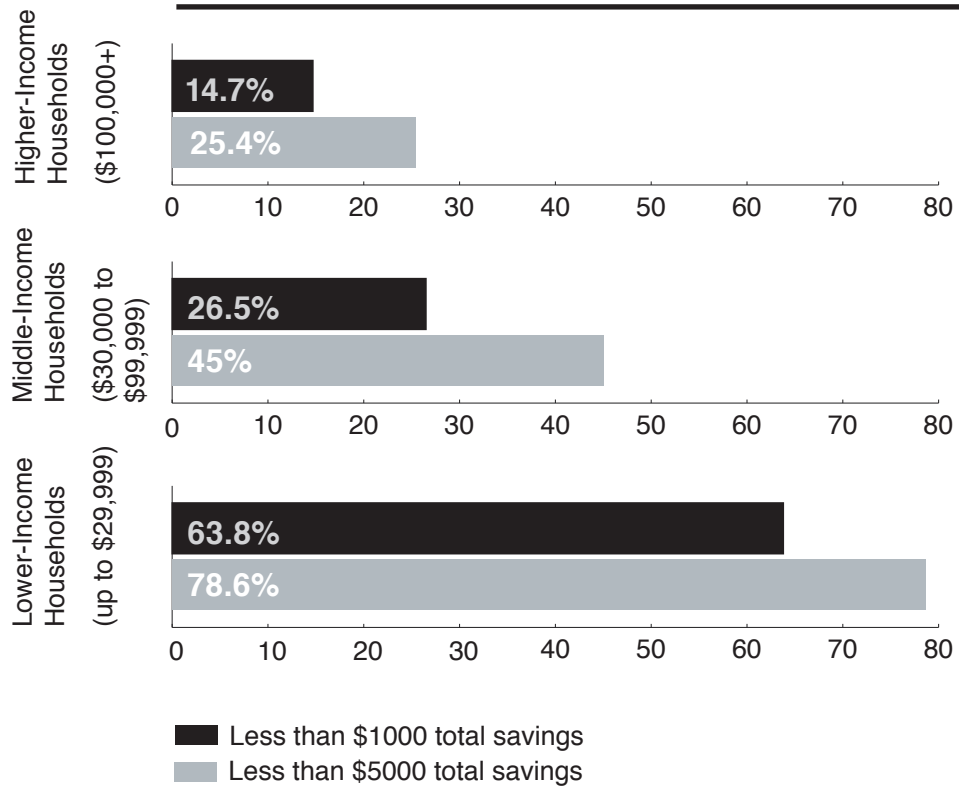
As Table 1 shows, Texas households today lag well behind households in most other states on three key measures of economic security: household debt, access to banking, and net worth.

Table 1 Texas and U.S. Households by Assets and Income: 2009-2010



SOURCE: Corporation for Economic Development, *2009-2010 Assets and Opportunities Scorecard*

Table 2 Texas Under-Savers, 2010



SOURCE: 2010 Survey of Texas Savers

A new survey points to a dangerous absence of saving among Texas households.

What is the result? Probably the most troubling consequence of these trends is that Texas families today face a savings crisis.

In the *2010 Survey of Texas Savers*, commissioned for this report and conducted by the survey research firm Knowledge Networks, we asked a representative sample of Texans about their finances. The findings from this survey are dramatic. They point to a dangerous absence of saving among Texas households.

UNDER-SAVING

First, let's consider the phenomenon of *under-saving* in Texas. Table 2 spells out the basic story.

Our survey reveals these facts on the extent of under-saving in Texas today:

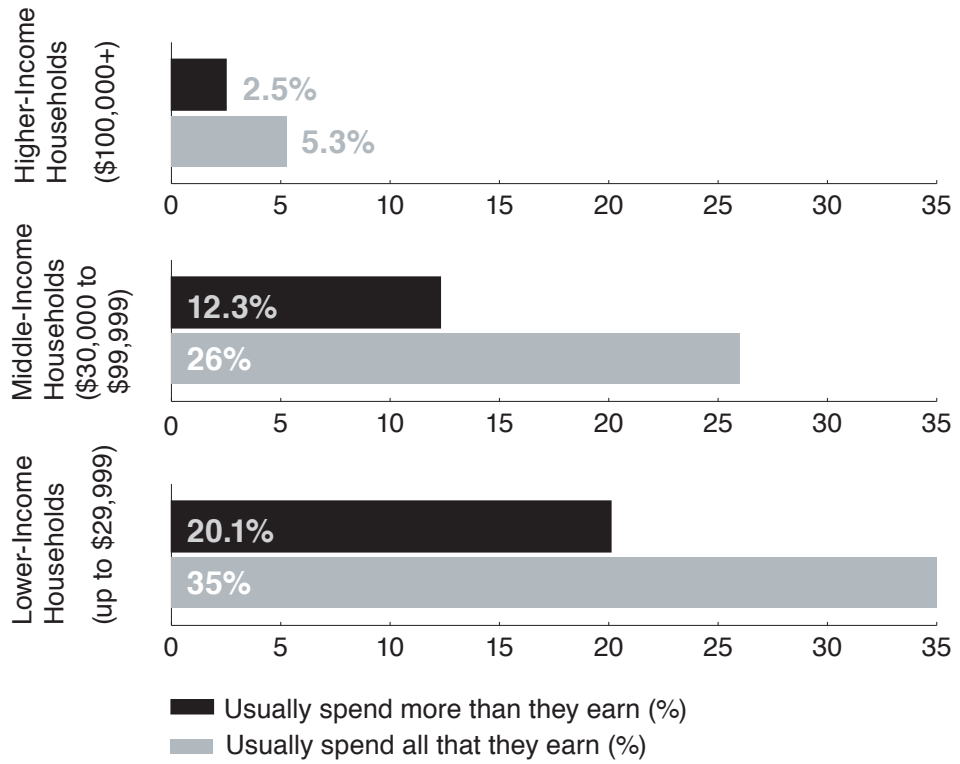
- * In middle-income Texas households, nearly half report less than \$5000 in total savings, and over a quarter report that they have less than \$1000 in savings.

Even among Texans living in six-figure earning households, a surprisingly high 15 percent report that they have less than \$1,000 in savings.

And as we might expect, under-saving is even more widespread among Texans of more modest means:

For Texas households making under \$30,000 per year, the proportion of under-savers (less than \$5,000 saved) rises to *three-fourths*.

Table 3 Proportion of Non-Saving Texas Households by Income Group, 2010



SOURCE: 2010 Survey of Texas Savers

NON-SAVING

Next, let's consider the extent of *non-saving* in Texas today.

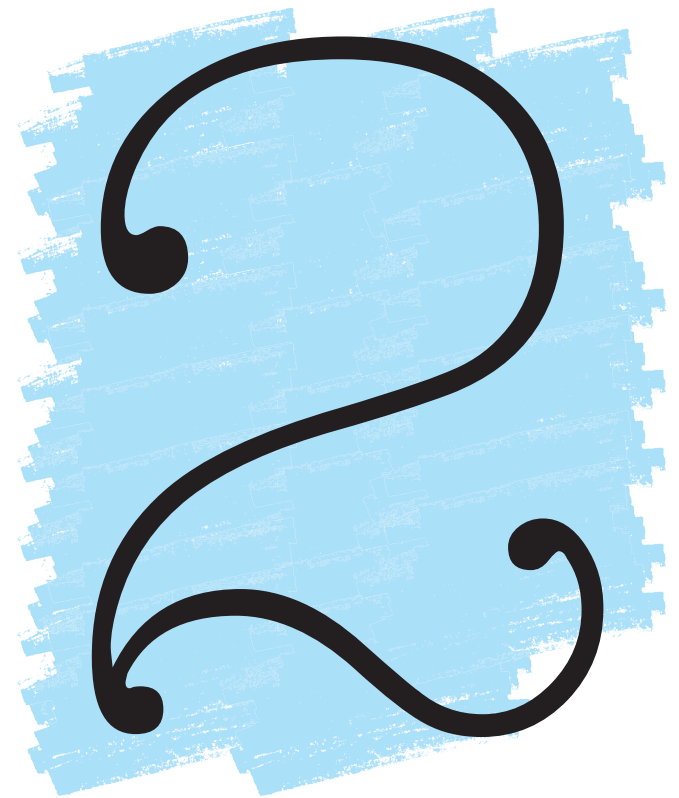
Perhaps the most troubling set of findings from our survey reveals that a significant number of Texan households are saving nothing at all. The basic dimensions of the problem are presented in Table 3.

Our survey reveals these facts on the severity of the savings crisis in Texas today:

- * About 26 percent of Texans in middle-income households live on the razor's edge of solvency, reporting that they usually spend as much as they make.
- * And about 12 percent of Texans in middle-income households are steadily digging themselves into debt, reporting that they usually spend more than they make.

With little or no savings, a great number of Texas households are in a chronically precarious position. Something as simple as an unexpected car repair or a past due electric bill can push them over the financial edge.

In order to avert such a disaster, some strapped Texans are turning to new and fast-growing businesses that will lend them money in a hurry, or provide them with what these new lenders like to call "EZ Cash."



THE RISE OF PAYDAY
LENDERS IN TEXAS

For much of the 20th century, a Texas wage-earner in need of extra cash to pay an overdue bill or to make the rent had limited ways to get a small loan. Family and friends might be the first place to turn. Failing that, pawn shops might take a wedding ring or musical instrument or firearm as security for a small loan. As a last resort, the local “loan shark” might provide cash at predatory interest rates.

But most Texans did everything they could to avoid falling into the clutches of the loan sharks. Loan sharking was an illegal business on the seedy fringes of the financial world. Borrowing from loan sharks was considered financially desperate and socially disreputable.

Today, however, financially strapped Texans have more places to go to borrow money in a hurry. Today they can turn to any one of the thousands of payday lenders who have in recent years set up shop in the state. That means that Texas families today have many more opportunities to borrow money at loan-shark levels and to fall deeply into debt.

Payday lenders barely existed a few decades ago. Today, they represent one of the most successful and highly profitable businesses in the Texas financial services industry. Indeed, payday lending has spread across the state and the nation in a breathtakingly short period of time.

Like fast food,
payday loans can
be ordered up
and ready-to-go in
minutes.

The number of payday stores in Texas has shot up from virtually zero in the early 1990s to an estimated 3000 today, more than McDonald's and Whataburger outlets combined. The Lone Star state is the corporate headquarters for some of the biggest chains in the industry: Ace Cash Express and Cash Store, based in Irving; First Cash and Cash and Go, both based in Arlington; EZMoney, based in Austin; and Cash America International, based in Fort Worth.

Payday lending is hugely profitable. Texas payday lenders handle an estimated \$3 billion in loans annually and rake in about \$400 million in fees each year. The Great Recession has been especially good for payday lenders. Cash America, EZCorp, and Advance America all reported hefty profits for 2010.³

Today's payday lenders boast a new image as well. They've shed almost all association with the shady lending businesses of the past. Today they are legal lenders in the financial mainstream. They fit comfortably within the contemporary franchise landscape. Their clean and brightly lit stores are nearly indistinguishable from McDonald's. And like fast food, payday loans can be ordered up and ready-to-go in minutes.

But there is a catch. Unlike fast food, "fast cash" is not cheap. It is the most expensive money a cash-starved consumer can pick up in a hurry at the local mini-mall.

THE NEW ANTI-THRIFTS

*A **thrift** institution is a depository institution – such as a savings bank, a savings and loan, or a credit union – whose core mission is to promote thrift and encourage savings.*

*An **anti-thrift** institution is a non-depository credit intermediary – such as a pawn shop, a rent-to-own store, or a payday lender or other provider of high-interest consumer loans – whose core mission is to gain profit through the promotion of dissaving and the expansion of debt.*

The rise of payday lending in Texas reflects a larger transformation in the nation’s financial landscape.

A two-tier financial system has emerged in recent decades. The upper tier consists of pro-thrift institutions that provide multiple ways and means for higher-earning families to save, invest, and build wealth. The lower tier consists of anti-thrift institutions that provide multiple ways and means for lower-earning families to forego savings, borrow at predatory interest rates and, all too often, fall into a debt trap.⁴

For most of the past century, a pro-thrift institutional sector served a wide segment of the working population. Families of modest means had easy access to local community banks, savings and loans, and credit unions. These financial institutions particularly catered to families of modest means. They counted the “small saver” and

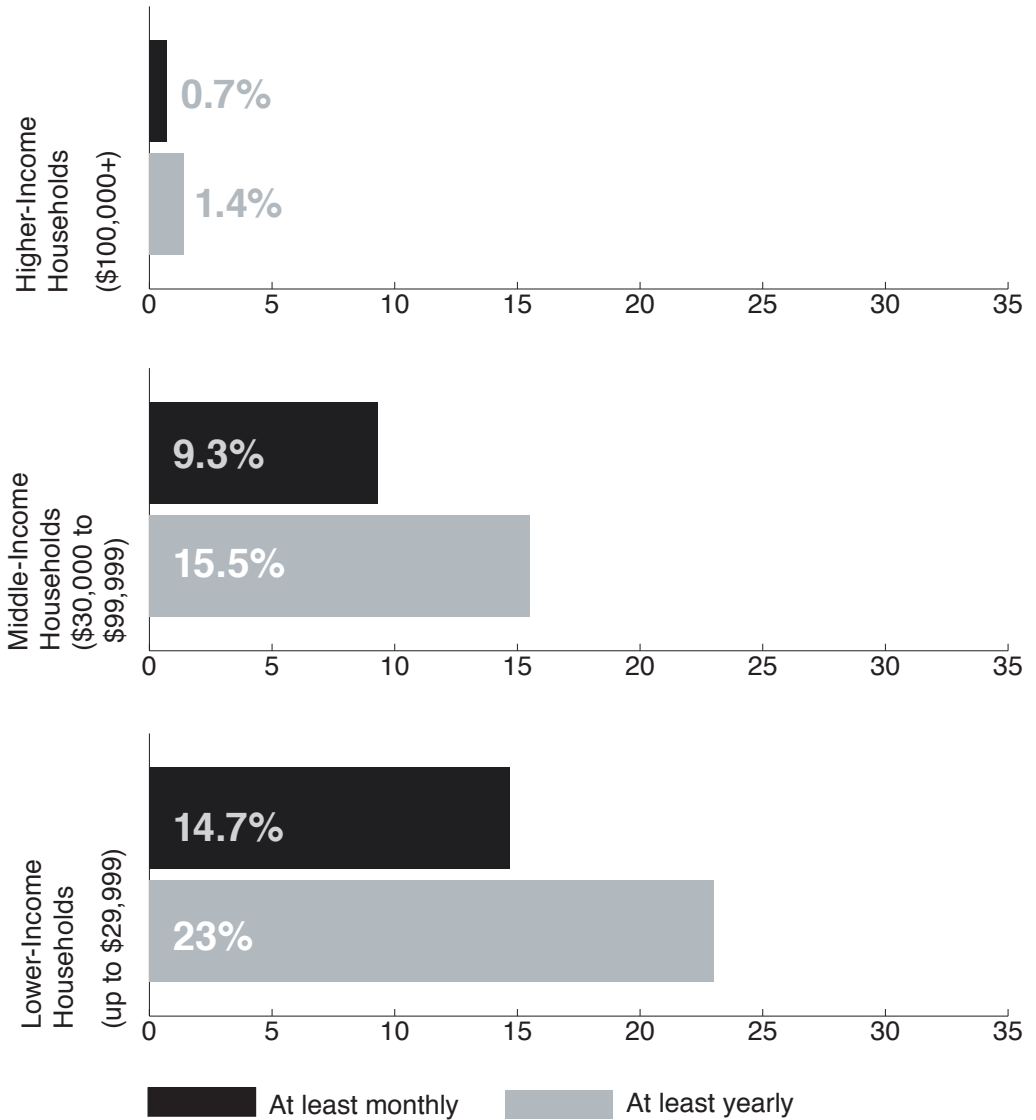
Anti-thrift institutions are the new “people’s banks.”

the responsible borrower as their best customers. They offered a variety of savings plans and programs, including passbook accounts for children. Taken together, these institutions made up a broad-based “pro-thrift” sector of the financial services industry.

Pro-thrift institutions still exist, but many have shifted to providing services for a more upscale clientele. Leading financial institutions now cater mainly to the affluent investor. Major commercial banks and brokerages provide an ever-wider array of tax-advantaged opportunities to invest and build wealth. Changes in tax laws have contributed to this upscale trend. Subsidies for savings, now totaling more than \$300 billion a year, go mainly to wealthier households. Finally, upper income individuals are far more likely to work for organizations that offer profit-sharing, 401ks, deferred compensation plans, and retirement savings. With pro-thrift opportunities and disciplines seamlessly integrated into their work cultures, those in the upper end of the income distribution have a clear, well-marked pathway into savings and wealth-building.

Meanwhile, at the lower end of the income distribution, a host of new “anti-thrift” businesses have emerged in Texas and 34 other states to serve families of modest means. Along with payday lenders, these businesses include rent-to-own merchants, auto title lenders, refund anticipation tax lenders, chain pawnshops, and check cashing outlets.

Table 4 Texans Who Make Transactions at Anti-Thrifts



SOURCE: 2010 Survey of Texas Savers

These anti-thrift institutions have become the new “people’s banks.” In some respects, they resemble traditional pro-thrift institutions. They provide the same kind of face-to-face relationships, convenient service, and easy access that many families of modest means once found at the local bank or the neighborhood savings and loan. Unlike the pro-thrift institutions of the past, however, today’s anti-thrifts are not offering their customers a variety of opportunities to save. Instead, they offer just one basic product: a high-cost, short-term, small-dollar loan secured by a paycheck, a car title, a tax refund, or, in the case of pawnshops, perhaps jewelry, tools, or china.

As Table 4 shows, on the previous page, a substantial share of Texas households do business with the state’s anti-thrift sector:

- * Nearly a quarter (23 percent) of lower-income Texas households report that they have a transaction with an anti-thrift business at least once a year.
- * Slightly more than 15 percent of middle-income households report that they have a transaction with an anti-thrift business at least once a year.

UP CLOSE: AUSTIN'S CHANGING FINANCIAL LANDSCAPE

Austin, Texas, 2011



Austin's financial landscape, like the landscape in many Texas cities, is divided into pro-thrift and anti-thrift sectors. In upscale West Austin and downtown (West of I-35), a visitor will encounter a variety of pro-thrift institutions.

Big commercial banks, including the Frost Bank Tower, are common downtown. Just a few blocks to the north, in the Capitol and University district, the city's most prominent pro-thrift institution, the University Federal Credit Union, is a highly visible presence.

These pro-thrift institutions mainly serve the creative class – the affluent and more highly educated residents who have been attracted to the energy, verve, and excitement of this booming capital city.

But in the more downscale East Austin, where most of the other half of Austin lives, a visitor will find a financial landscape dominated by anti-thrift institutions. Particularly along East Seventh Street, a major pathway from the airport into the downtown, payday lenders, auto title lenders, and chain pawn shops have set up shop. Their signs tell the story:

*EZ Loan... Kwik Cash... Cash Today... Cash Express...
Cash Store... Check 'n Go*

Sandwiched among these private anti-thrifts are the convenience store outlets for Texas' leading public sector anti-thrift: the state lottery. Like the payday lenders, lottery outlets apparently purport to meet the needs of financially struggling Texans who have low or no rainy day savings and therefore find their dreams of getting ahead steadily slipping away – unless they get some “Kwik Cash” today, or bet a dollar today and win megamillions tomorrow!

For a visitor crossing the city from East to West, it is hard to imagine that the impressive edifice of the State Capitol – building height regulations keep the pink-granite Capitol Dome in clear sight – has anything to do with the cluster of storefront anti-thrifts that crowd East Seventh and environs as one makes one's way toward the State Capitol.

The Texas Legislature has directly contributed to the division of Texas into two financial cultures, separate and unequal.

But in fact, these two institutions – the State Capitol and the city’s rapidly-spreading anti-thrifts – are closely linked:

- * Payday lenders and auto-title lenders thrive in Austin and all over Texas precisely because they take advantage of a gift, a special privilege, that comes to them courtesy of the State Capitol – the gift of a huge legal loophole that gives these anti-thrifts the special privilege of operating as they please, with virtually no oversight or regulation.
- * Similarly, the Texas Lottery is entirely a creature of the State Capitol – created by and for state officials seeking to raise money from the public.

Without the active sponsorship of Texas state government, the lottery would not exist at all, and debt-spreading private sector anti-thrifts such as payday lenders would have little or no stranglehold on the citizens of Texas.

By permitting the rise of anti-thrift institutions, the Texas Legislature has directly contributed to the division of Texas into two financial cultures, separate and unequal. The pro-thrift sector serving the affluent works to instill and incentivize a culture of saving, planning, and long-term thinking. The anti-thrift sector serving everyone else works to instill and incentivize a culture of borrowing, betting, fantasizing about instant riches, and short-term thinking.

WHY TEXANS HATE DEBT SERVITUDE

During the long course of Texas' frontier history, settlers struggled against two great adversaries. One was the land. The men and women who settled the vast Texas territory struggled against a tough and often unforgiving environment. The land held great riches, but it did not surrender those riches quickly or easily.

The other adversary was indebtedness. Most settlers in Texas started out poor, with little more than their own two hands, strong backs, and a driving ambition for a better life. But in struggling to achieve those goals, they often had to borrow money to buy their seed, plant their crops, feed their livestock, and make it through droughts and crop failures. For generations, many Texas families spent their entire lives trapped in debt servitude to powerful outside interests. The railroad interests, the utility powers, and the big banks in the East ensnared hundreds of thousands of Texas farmers and ranchers in debt. The sharecropping and merchant lien systems, in which small farmers were always borrowing against next year's crop, brought even more intense forms of debt peonage. No matter how hard Texans worked – and they worked very hard – they often owed more than they could ever repay.

In the past, Texans believed that debt took away personal freedom.

Of these two great adversaries, land and debt, debt proved to be the greater threat. Texans had confidence that they could withstand the physical hardships of frontier life. If they worked hard, they could prevail against the wind and the sun and the soil. Through hard work, they could make the land productive and pull themselves up by their bootstraps.

What they could *not* abide was constantly being held captive to debt. Debt was humiliating. Debt took away your freedom. Debt put lead in your boots.

But today, many hardworking families in our state are falling into a new debt servitude – a servitude to payday lenders and other new anti-thrifts.

Texas payday borrowers are not the poorest of the poor. Their annual household incomes generally fall between \$20,000 and \$50,000. Nor are they among the unemployed. They have jobs and regular paychecks. They maintain checking accounts at depository institutions like a bank or credit union. Indeed, they must have regular jobs and checking accounts in order to get payday loans.

Yet most payday borrowers are living paycheck to paycheck. They may have flawed credit. They are likely to have limited financial knowledge and little experience shopping for loans. And they have no rainy day fund to get them through a temporary shortfall until the next pay day.

ROSA NEEDS A SMALL LOAN

Consider a typical scenario: Rosa is an employed single mother who needs a small loan in a hurry to pay a utility bill that is \$500 in arrears.⁵

Her options are limited. She has maxed out her credit cards and has used up all of her meager savings. She is reluctant to ask family or friends for help this time because she has borrowed from them in the past and hasn't yet repaid them. Moreover, her closest family members don't have ready cash to lend. Like her, they are struggling to get by.

She could apply for a bank loan but banks intimidate her. She dreads the thought of the paperwork. She's embarrassed by her bad credit. And even before applying, she is pretty sure she will be turned down. In any case, getting the best terms for a loan is not her most urgent concern. She needs cash now at almost any cost. If she can't get it fast, her electricity will be cut off.

On her way to work, she passes a Check'n Go and decides to visit the lender's website during her lunch break. What she finds is reassuring. No credit checks. No complicated paperwork. Fast cash in minutes.

Rosa is also attracted to the success stories featured on the website. In one, a mother takes out a loan and is able buy her son a saxophone. In another, a college student, a computer science major, is able to replace his stolen laptop in time for class.

Of course Rosa's circumstances are a bit more constrained. She needs to keep the lights on. But the stories make her feel that she is not alone. As the folks at Check'n Go like to say, everybody gets into a financial jam and needs a payday loan once in awhile.

Encouraged by what she learns, she stops at one of the many payday stores she passes on her way home. The person behind the counter is friendly and nonjudgmental. Better still, the paperwork is fast and easy. Rosa is quickly approved. The terms are as follows: She gets \$500 on the spot. In return, she must pay the lender an upfront "service fee" of \$100 and repay the full \$500 at the end of two weeks. She writes a post-dated personal check for the amount of the loan. The payday store holds the check as security and will cash it at the end of the two-week period – or return it to her if she decides to repay the loan in person. Meanwhile, Rosa pays off her long past-due electric bill with the borrowed money.

At the end of fourteen days, however, Rosa doesn't have enough money to repay the entire \$500. She can repay \$400, but not the full amount. When she returns to the payday store, the person behind the counter politely reminds her that the terms of her loan

do not allow her to pay it off in installments. Virtually every other kind of debt that Rosa has heard of allows repayment in installments. But not a payday loan. It has to be paid off in a single payment for the full amount – not one penny less.

Rosa is scared. If the payday store cashes her check, the check will bounce. She will have to pay her bank a steep penalty for insufficient funds – she’s been through that before – and the payday lender can also levy punitive penalties. And she will still have to make good on the \$500 – which she does not have. If she defaults, the payday lender can send collection agencies after her, garnish her wages, or even charge her with bad check passing.⁶

There is one way to forestall that outcome. The payday lender will give Rosa another two weeks to pay the loan in full – but only if Rosa pays another \$100 fee. Rosa feels that she has no choice but to pay the fee. But this puts a \$100 dent in the \$400 she has saved to pay off the loan. So now she is even farther away from repaying the loan and she doesn’t know where she will come up with \$500 in two weeks time.

Rosa is falling into debt servitude. Each time she has to roll over the loan, she will have to deplete her funds further simply to pay the fees, thus each time increasing the already stratospheric cost of the loan, and leaving her ever less able to repay the original amount of the loan. Over time, Rosa may end up owing vastly more than the original amount of the loan.

THE PAYDAY LENDERS' BUSINESS MODEL

The payday industry makes its profits by keeping working people in debt servitude.

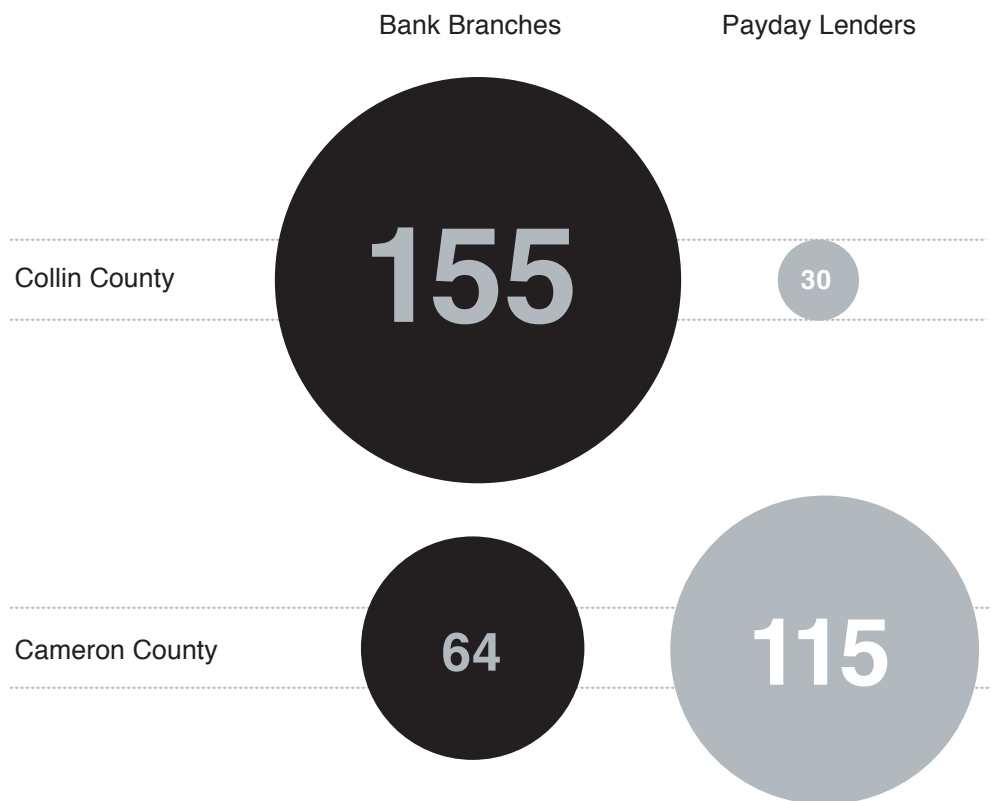
The payday industry's business model is structured to make it easy for borrowers like Rosa to get into debt and hard for them to get out. Indeed, it could not be otherwise. The industry makes its profits by keeping working people in debt servitude.

Payday lenders target customers like Rosa – the young, single mothers, minorities, and other breadwinners whose household income falls under \$50,000, and who likely have flawed credit and little or no savings. The lenders locate their stores near these target populations. In less well-off counties, payday lenders now outnumber bank branches. For example, as shown in Table 5, Cameron County, with a high proportion of low and middle-income households, has 115 payday lenders and just 64 bank branches, while the more affluent Collin County has 30 payday lenders and 155 bank branches.

Payday lenders are skillful at exploiting their customers' fears of being turned down for a loan by a conventional lender. They trumpet their own easy terms. No credit checks! Approval in 15 minutes on the first loan! Five minutes or less after the first loan!

Further, they seek to dispel anxiety over their strained financial circumstances. They want their customers to know that "we're here for you." EZ Money stores in Texas

Table 5 Banks vs. Payday Lenders in Two Texas Counties



SOURCE: Michael A. Stegman, “Payday Lending,” *The Journal of Economic Perspectives* 12, no. 1 (Winter 2007), 174.

declare that “our customers are our heroes!” And with their customer success stories and testimonials, these companies seek constantly to reassure customers that payday borrowing is an everyday experience: “When it comes to facing the unexpected, we’ve all been there.”

Finally, payday lenders spend lavishly on advertising and other incentives to pull new customers into their

stores. One Texas-based payday lender has a “rewards” program that pays \$40 to anyone who brings in a new borrower.⁷

However, payday lenders are not as open and friendly about other features of their EZ loans and Kwik Cash. For starters, they prohibit repayment of the loan in installments, making it almost a certainty that a high share of their customers will be unable to pay their loans in full in the limited time allowed.

For another, they hide the true costs of their loans. Texas payday loans, as we will soon see, are among the most expensive in the entire nation – reaching close to 1000 percent APR for some short-term loans. But the Texas lenders conceal that cost in their “processing and servicing fee” – usually \$20-25 per \$100 – a dollar figure that looks affordable to the typical borrower. Indeed, a significant percentage of payday borrowers are in the dark about how much their loans cost. In a 2009 survey of payday borrowers conducted by Texas Appleseed, the highest proportion of borrowers, 38 percent, thought they paid \$10 for every \$100 borrowed, half the fee usually charged by Texas payday lenders. Eighteen percent reported that they did not know the cost of the loans.⁸

Likewise, the payday industry is silent about the most predatory and profitable feature of payday loans: the loan “roll-over.” Most borrowers who take out a payday loan find that they are still short of the full amount of the payday loan at the end of the two-week loan period. In

that case, they are faced with two options: They can default on the loan, incur stiff penalties for a bounced check, get insistent calls from collection agencies, and face prosecution for bad check passing for which they have few consumer protections.

Or they can accept the payday lenders' offer to extend the credit for another two weeks and pay another "processing" fee pegged at the same \$20 per \$100 on the original loan amount and renew or "roll-over" the loan for another two-week period. Given the two options, it is not surprising that borrowers usually opt for the roll-over. In Texas, for example, more than half of payday borrowers select the roll-over option at least once, and nearly a quarter roll-over the loans multiple times.⁹

Texas payday lenders fail the transparency test. They do not reveal information about their customers' borrowing behavior, number of repeat loans, and total indebtedness. Nor do lenders come clean about the harms and hardship that befall families who get caught in the debt trap. As we will explain later, all of this remains secret, hidden from government oversight, consumer agencies, and ordinary customers.

Payday and auto title lenders also target the military. Their stores are densely concentrated in and around Texas military bases where they have done a booming business lending to young enlisted service men and women.

THE U.S. MILITARY'S BAN ON PAYDAY LENDING

Military personnel are very attractive to lenders because they have a guaranteed paycheck ... Many military car buyers are also young and inexperienced consumers. They don't recognize a bad deal when they see it ... and through lack of experience, they're signing on the dotted line when they shouldn't.

—Holly Petraeus of the Office of Servicemember Affairs of the Consumer Financial Protection Bureau, *Washington Post*, January 4, 2011

With scores of installations and fifteen major military bases within its borders, Texas has long been a target for payday lending and auto title lending to the military. A comprehensive study of payday lenders by ZIP code found that almost every base in our state had concentrations of payday lenders well in excess of statewide averages. Further, the study concludes, “no industry, with the possible exception of the illegal narcotics business, so openly ignores [consumer protection] laws” against predatory lending.¹⁰

The concentration of payday lenders in close proximity to Texas military bases is a direct assault on the military's longstanding anti-debt tradition. The U.S. Military views over-indebtedness as the enemy within. Its leaders say

Military requires service families to live within their means and stay clear of debt.

that debt weakens troop preparedness and morale; causes family stress and conflict; triggers bankruptcy and divorce; and leads to security clearance revocations and denials. For all these reasons, the military has enforced stringent anti-debt rules: it requires service men and women to live within their means and stay clear of debt.

But this is not always easy for young military families. They live on tight budgets and face expenses associated with deployments, back-up child care, and other challenges of military life. Like civilian families who live from paycheck to paycheck, military families, especially those in the junior enlisted grade, struggle to stay on top of their bills – and sometimes fail. Moreover, military families live in geographically concentrated areas on or near military bases and therefore are easy to locate and to prey upon.

In August 2006, the Department of Defense issued the *Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents*. The report to Congress found that an estimated 17 percent of active military used payday loans and took out an average of 4.6 loans annually, for an average loan amount of \$1,654. Some military families acquired crushingly high levels of debt as they were driven to take out one predatory loan to repay another.¹¹

The report concluded that payday lending and other

In Texas, there is no “cop on the beat” to enforce the federal law against predatory lending to the military.

high-cost consumer lending had a profoundly negative impact on military readiness, unit cohesion, and family life. Congress enacted Section 670 of the John Warner National Defense Act for Fiscal Year 2007 (P.L. 109-364) in order to prevent unregulated payday lenders from using predatory loan products to take advantage of military personnel. Since the law went into effect, payday lenders are prohibited from charging military service persons and their dependents more than 36 percent APR on consumer loans. This law effectively shuts down payday lending to active duty military.

Yet despite the Pentagon’s successful efforts to protect military families from extortionately priced payday loans, Texas military families are still vulnerable to these practices for two main reasons: first, the vast majority of payday lenders in Texas are able to evade both state and federal government laws that prohibit predatory interest rates on consumer loans. In addition, there is no “cop on the beat” in Texas to make sure that the federal law against predatory lending to the military is strictly enforced. Base commanders are quick to take action against reports of predatory lending businesses but they have limited time and means to ensure that the more than 3,000 payday lenders in the state are playing fair with the men and women under their command.

THE TEXAS “LUCRATIVE LOOPHOLE”

Among the 35 states permitting payday lending, Texas enjoys a dubious distinction. It offers some of the most expensive payday loans in the nation. For example:

- * In Texas, the median payday loan is \$533, substantially higher than the median payday loan of \$350 in other states.¹²
- * In Texas, the annual interest rate typically starts at a 500 percent Annual Percentage Rate (APR) and can approach 1000 percent – a rate that is the highest in the nation.
- * In Texas, payday loan service fees are an amazing \$20 to \$25 per \$100, compared to \$10 to \$15 in other states.
- * In Texas, the median amount owed on a payday loan is \$600, compared to \$500 nationally.
- * In Texas, payday lenders can lend any amount that consumers will agree to. Many other states set ceilings on the amount of a payday loan.
- * In Texas, there are no restrictions on the fees, loan sizes, number of rollovers, or interest rates on a loan. Other payday lending states set limits on some or all of these lending features.

Payday lenders and their lobbyists have made a mockery of the state's constitutional ban on usurious lending.

In an earlier era, Texans would have called (and in fact did call) these practices “loan sharking.” But back then, the state kept the loan sharks out. Today, it’s a different story. The state has let the loan sharks in and allowed them a uniquely privileged status. Payday lenders are legally free to charge any fees they want at any level they choose because they have been able to exploit a loophole in the law.

Why would the Texas Legislature, with its historic antipathy to debt and its statutory restrictions on usurious lending, give payday lenders free rein? The simple answer is that payday lenders and their lobbyists have outmaneuvered the Legislature. Indeed, ever since payday lenders and other anti-thrifts set up shop in Texas, they have been able to dodge the legislative restrictions on fees and interest imposed on other Texas lending institutions. In so doing, they’ve made a mockery of the state’s Constitutional ban on usurious lending.

A bit of history: During the 1990s, Texas payday lenders set themselves up as loan brokers who arranged and serviced loans from national banks outside of Texas. Their partner banks – many in Delaware and North Dakota – were allowed to charge borrowers in Texas the same usurious interest rates permitted in their home states while the Texas payday lenders collected a fee of \$20 for every \$100 borrowed. This

“rent-a-bank” business model essentially revived the old and hated system of debt servitude: it put Texas borrowers under the yoke of out-of-state banking interests.

In 2005, however, the FDIC strictly limited the number of loans per customer that partner banks could provide. This reform killed the rent-a-bank model for payday lenders. Soon after, however, Texas payday lenders found a new way to market their high-priced loans. They took advantage of a unique consumer protection provision in the state Finance Code covering “credit service organizations” (CSOs).

Recognized under a 1987 Texas state law, a credit service organization exists to help people improve their credit history or credit ratings. According to the law, a CSO therefore has a right to arrange “an extension of consumer credit” for its customers, presumably to help them with timely debt repayment.

This seemingly benign provision of the 1987 law gave Texas payday lenders just what they needed. For a fee of only \$100, Texas payday lenders could now register with the Secretary of State as “credit service organizations.” One hardly knows whether to laugh or cry.

It is certainly hard to imagine a political maneuver more cynical than this one. By exploiting this loophole in Texas law, payday lenders and auto title lenders have seized upon a pro-thrift measure intended to help Texans climb *out of* debt and inverted it for their own purposes

into an anti-thrift measure that permits them to make it easier for more Texans to fall hopelessly *into* debt. They have turned a consumer protection law into a law that permits them to prey on consumers.

This loophole in current Texas law harms large numbers of Texans. It's not too much to say that it is destroying lives. In the name of fairness and simple decency, we must end it now.



THE RISE OF STATE-
SPONSORED GAMBLING

The Lone Star state promotes another kind of anti-thrift institution. But this one is not in the private sector. It is instead in the public sector.

This public sector anti-thrift is government-sponsored gambling. Texas is hardly alone in this regard. Nearly every state in the union now gets revenues from some form of state-sponsored gambling. (Hawaii and Utah are the only two states that permit no form of state-sponsored gambling whatsoever.)

For 70 years, between 1894 and 1964, every state in the Union prohibited state-sponsored gambling. Then, in 1964, New Hampshire broke the ban and established the first modern state lottery. Classically thrifty New England states, fearful that they would lose revenue to neighboring New Hampshire, soon followed by establishing their own lotteries. Thereafter, the adoption of government-sponsored lotteries rolled on, state-by-state, region-by-region, until the state lottery became an established anti-thrift institution across the entire nation.

Texas was a relative late-comer to the lottery. Like other states in the South and Southwest, Texas held out against pressures to lift the state constitution's ban on gambling for nearly two decades. But by 1991, the pro-lottery forces, aided and abetted by lobbyists in the gambling trade, persuaded the public that the state lottery would bring in more revenue for education

Less than a quarter of Texans believe the lottery has lived up to its promise to fund Texas schools.

without imposing new taxes, and the voters approved an amendment to the state constitution allowing a government lottery.

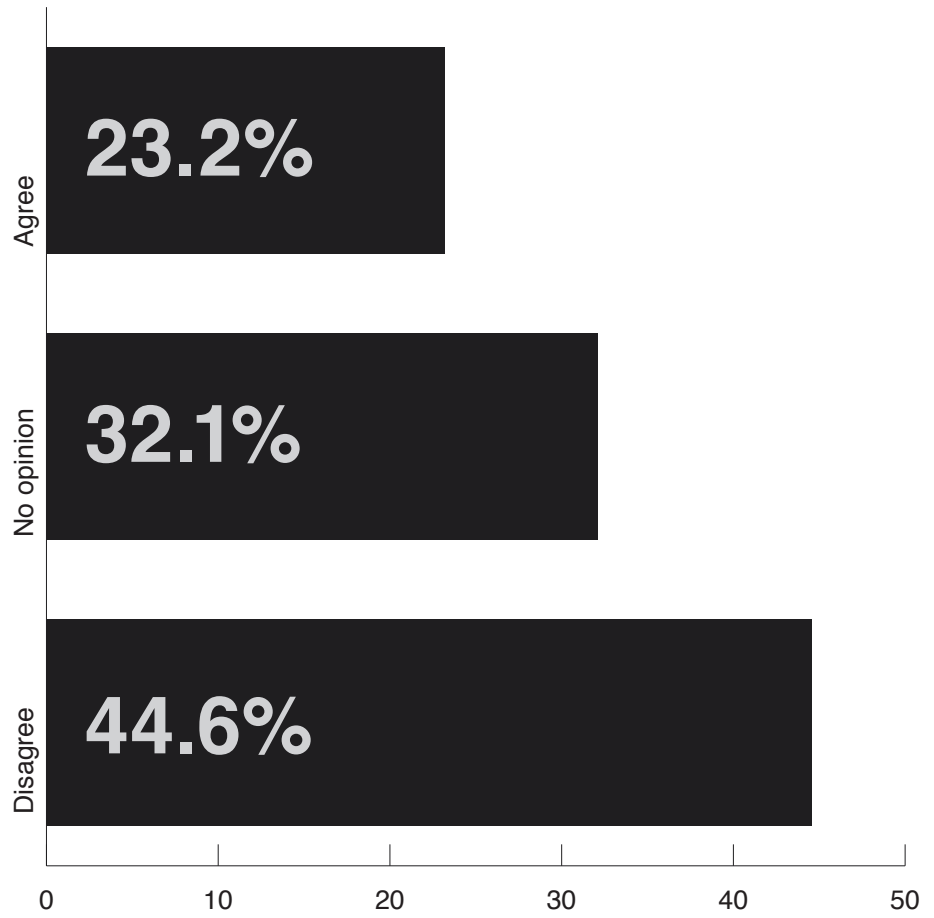
The rise of government sponsored gambling marks a historic turning point in the classic role of state government policy. Whereas the government once encouraged savings and thrift, it now promotes dissavings and debt.

More to the point, what began as a limited effort by the states to raise supplementary revenues for education and other good things has now morphed into the relentless pursuit of more gambling revenues in order to climb out of budget holes. With its own budget deficit estimated as high as \$27 billion, Texas is now joining the hunt for new sources of revenue to help it get out of the red. One proposal currently under consideration is to expand into casino gambling.

The pro-casino forces pushing this proposal argue that gambling is an adult entertainment that Texans already enjoy. The problem, they contend, is that Texans are traveling to out-of-state casinos and spending their dollars there. If the state were to legalize casinos, they say, then it could keep Texas dollars in Texas rather than leaving them on the table for their neighbors in the Sooner State.

These arguments sound eerily similar to those made more than two and a half decades ago in support of legalizing the Texas state lottery. The lottery was sold to Texas voters as a way to keep dollars in the state and to provide funding for education without burdening the taxpayer.

Table 6 Has the Texas Lottery made good on its promise to fund Texas schools?



SOURCE: 2010 Survey of Texas Savers

But as our survey shows in Table 6, more than 4 out of 10 Texans now say that the lottery has failed to live up to its promises. And there is abundant evidence to back up their views.

For one thing, the lottery promised to generate dollars from a broad base of players. However, according to a new Texas Lottery Commission survey, it is losing broad participation. In 1994, 70 percent of Texans played the lottery; in 2010, that percentage plunged to one-third, an all-time low.¹³

For another, the lottery promised to increase dollars for public schools. But in fact, the lottery's contribution to education has remained stagnant at an annual \$1 billion in recent years while education spending has grown nearly threefold since the lottery began. Like other forms of gambling, revenue from the lottery doesn't grow with inflation. Lottery funding now covers just three days of schooling for Texas students.¹⁴

Finally, the lottery promised to be painless and harmless. But this claim has also proven false. The lottery is not pain-free for the most financially vulnerable. A disproportionate share of the state's lottery revenue comes from lower income, less-well educated, and minority populations.

As lottery participation shrinks, the state and its partners in the gambling industry must come up with ever more enticing ways to extract more dollars from

fewer players in order to maintain its current revenue stream. Lottery proponents argue that, without the lottery, Texans of low and moderate means would simply find other, less “taxable,” ways to spend their hard earned cash on entertainment. But other forms of entertainment don’t market themselves as government sanctioned “get-rich-quick” schemes. And if demand for lottery products is simply waiting to be tapped, the millions of dollars the Texas lottery spends on advertising are difficult to justify.

The lottery’s failed promises should serve as a cautionary lesson to those who want the state to expand into casinos. Indeed, Texans themselves are disenchanted with the state’s partnership with gambling interests, as Tables 7 through 10 clearly demonstrate.

In this area, our survey includes the following findings:

- * Nearly half (47.3 percent) of Texas respondents in our survey say that the gambling industry takes advantage of poor people.
- * Close to six out of ten Texans say the gambling industry exploits human weakness for profit.
- * When asked if Texas should expand state sponsored lotteries and casinos, Texans who were against gambling expansion outnumbered those in favor by nearly 5 to 1.

Table 7 The gambling industry takes advantage of poor people

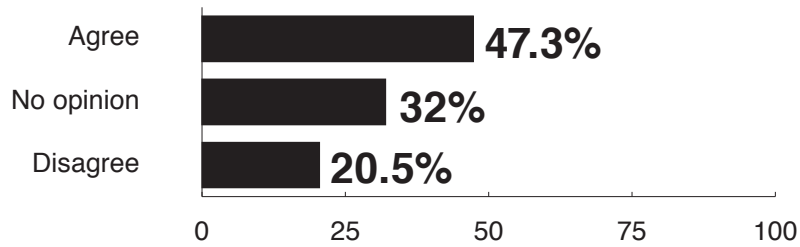


Table 8 The gambling industry makes its profit by exploiting human weakness

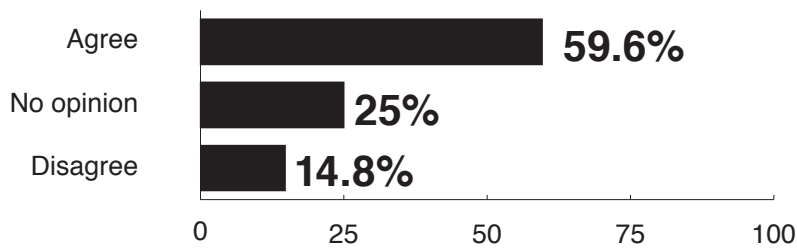


Table 9 Do state lotteries help Texans “get ahead” financially?

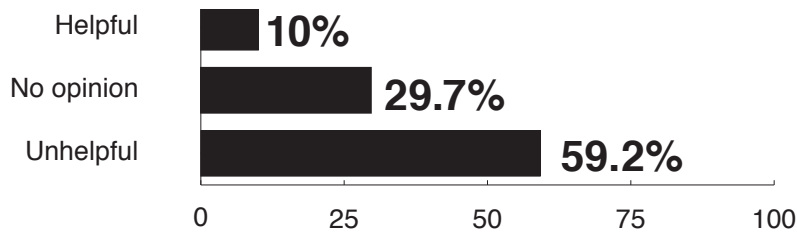
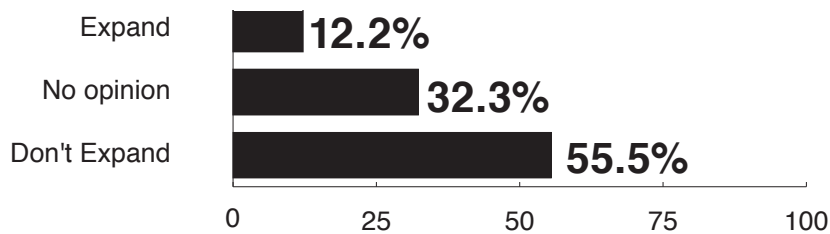


Table 10 Should Texas expand state lotteries and state sponsored casinos?



SOURCES FOR TABLES 7-10: 2010 Survey of Texas Savers

IS IT THE STATE'S JOB TO PROVIDE "FUN"?

Casino advocates like to argue that gambling is fun, and what is wrong with government providing and promoting fun for its citizens? To test this idea, in our survey we asked a representative sample of Texans:

Should state government try to expand entertainment options for Texans?

- * Texans oppose that notion, with 49 percent against, compared to 15 percent in favor. (The rest were undecided.)

Since casinos and lotteries are only two of many possible ideas for state-sponsored fun that could also generate tax revenue for the state, we also asked Texans:

Should Texas government consider sponsoring a pro football or baseball team?

- * No: 45 percent of Texans are opposed, compared to 21 percent in favor.

What about the government sponsoring a NASCAR racing team?

- * No: 49 percent are opposed, compared to 12 percent in favor.

What about the government sponsoring concerts that would showcase popular entertainment artists?

* No: 42 percent are opposed, compared to 25 percent in favor.

What about government setting up a movie studio to produce and market movies?

* No: 43 percent are opposed, compared to 20 percent in favor.

Overall, Texans seem to reject the notion that part of the job of state government is to sponsor (in order to tax) fun things for Texans to do.

OUR EXPERIMENT IN GOVERNMENT- SPONSORED GAMBLING HAS FAILED

1. It has failed to deliver on its promises for education.

Lottery dollars were supposed to provide extra funding for education. But the fact is that the Texas lottery has failed as a source of increased supplemental funding, as was once promised. Lottery dollars go into the education fund but an equal number of dollars are taken out of the education fund and transferred into the general state revenue fund. As a result, there is no net gain for schools of Texas.

2. It has failed as a form of limited and efficient government.

States have high costs for every dollar raised. States retain an average of thirty-eight percent out of every lottery dollar. (By comparison, the Las Vegas house “take” is ten percent.) Further, the state lottery has become the most visible face of state government for many citizens – diminishing the dignity of the state and its traditions of service to citizens.

3. It has failed the test of tax transparency and fairness.

State lotteries impose a highly regressive tax. It takes revenues disproportionately from the less well-off. People with lower incomes spend more on the lottery per year and spend a greater share of their income on lotteries than higher income people. And although the lottery is sold to the public as a form of government-provided entertainment, it is an excise tax on players just like the excise taxes on purchasers of cigarettes and alcohol – with one important difference: the state *does not* aggressively promote alcohol and cigarettes. It *does* aggressively promote gambling.

4. It has failed as a reliable revenue stream.

A recent Rockefeller Institute study shows a 2.6 percent decline in gambling revenues from lotteries, casinos, racinos, and pari-mutuel betting in 2009.¹⁵ Likewise, tribal gaming operations fail to meet revenue expectations. Take California: this revenue-starved state has seen an explosion in Indian gaming, but it has realized far less in actual revenues than anticipated – down 25.3 percent this year and likely to fall to 32.9 percent in the coming year.¹⁶

Throughout the nation, casinos and slot parlors are going bankrupt and require financial help from states. In Rhode Island, to cite just one example, Twin Rivers casino filed for bankruptcy protection in 2008 and received concessions of more than \$3.6 million in new marketing subsidies from the state.

5. It has failed as a government-led economic development policy.

State sponsored gambling does not create stable jobs or boost long-term economic growth. New casino construction creates short-term jobs, but those jobs end once the casino is built. As for “high-paying” casino jobs, they, too, have failed to produce real growth. Many of those “good” jobs vanished with the Great Recession. Indeed, Las Vegas’ unemployment rate stands at 15 percent – a sign that casino-dependent economic development strategies are risky and ultimately unsustainable. Finally,

casinos are greedy businesses. They seek to capture the entire entertainment market in a community. In so doing, they may drive out locally owned restaurants, tourism, and “family-friendly” businesses.

6. It has failed as “harmless” entertainment.

A recent New Hampshire study,¹⁷ commissioned by the State’s Gaming Study Commission and conducted by the New Hampshire Center for Public Policy, examined the relationship between expanded casino gambling and increased social problems and costs. The study finds that:

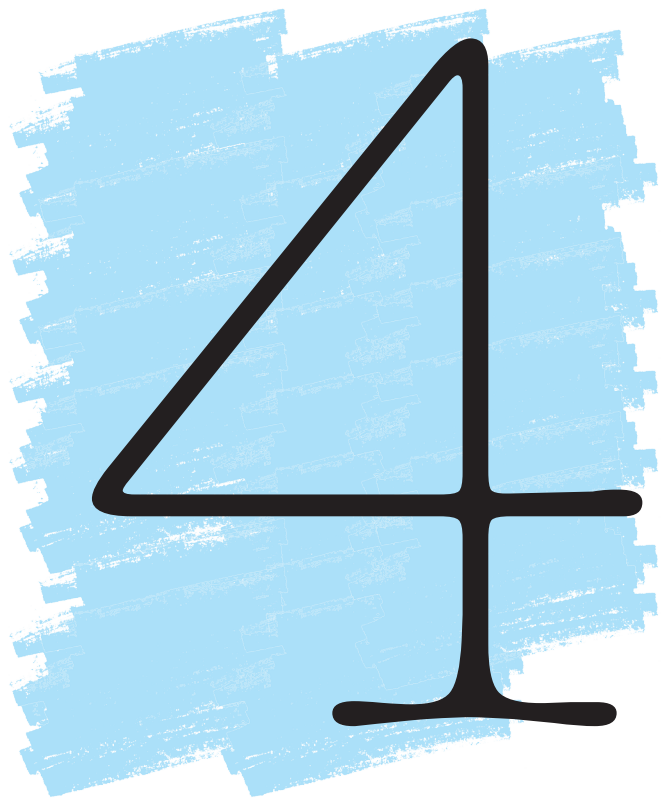
- * The presence of a new casino in southern New Hampshire would result in more than 1200 additional, FBI-classified Index I crimes, mostly related to money, auto theft, burglary, and larceny.
- * The calculated social costs of problem gambling at a new casino would be as high as \$60.1 million, of which \$22.4 million would be borne by the government.
- * There would also likely be extra-economic damage to the state’s “social capital” infrastructure, which includes civic participation, voluntarism, and other civil society activities.

Government-sponsored gambling has put luck ahead of work.

In short, the study concludes, the introduction of a new casino in southern New Hampshire could turn a diverse and vibrant New England community into a sad company town.

7. It has failed as a public virtue.

Government-sponsored gambling betrays our highest public ideals and our best hopes and aspirations for our citizens. The relentless pursuit of revenues through government expansion of lotteries, casinos, race tracks, and other gambling venues has not made us a better people or a stronger nation. Indeed, it has done just the opposite. It has put luck ahead of work, unfairness ahead of fairness, public gain ahead of public good. It has trampled on the prudential virtues of hard work, wise spending, regular savings, and stewardship of our resources – virtues that are at the foundation of a strong nation and a prosperous society – and sold the public the fantasy of a ticket to “instant riches.” In so doing, government-sponsored gambling has helped to turn citizens from potential savers into habitual bettors.



DO TEXANS WANT TO SAVE?

Texans say that saving for a rainy day was their single most important financial goal for 2011.

- * Are Texans tired of the old ideas of borrow and spend, spend and borrow?
- * In the wake of the Great Recession, do they want to reduce debt, save more, and get their financial affairs in better shape?
- * Would they like Texas government to support Texas savers?

The answer to these questions is clearly “yes.”

Let’s first look at America as a whole. According to a June 2010 Pew Research Center survey, more than six out of ten Americans say that they are cutting back on household spending. Half of those surveyed have recently reduced their mortgage, credit card, and other consumer debt.

Close to half (48 percent) of the respondents report that they plan to save more as the economy recovers.¹⁸ An even higher percentage of younger adults – 68 percent – plan to boost their savings as conditions improve. Overall, as the *Wall Street Journal* puts it, Americans today have a priority of “paying off debt and increasing savings.”¹⁹

This renewed American commitment to thrift is reflected in the current downward trend in U.S. consumer debt.²⁰ It is also reflected in the U.S. personal savings rate, which had dropped to a remarkably anemic 1.7 percent in 2007, but has since risen appreciably, a promising trend.²¹ Most economists agree that long-

term economic recovery and growth in the United States will require a reduction in debt and an increase in savings.

Now let's look specifically at Texas. When we asked Texans in households earning less than \$100,000 per year to rank the importance to them personally of over 20 financial goals for 2011, *saving more* – building up a larger “rainy day” or emergency fund – was their single most important and frequently cited goal, as seen in Table 11.

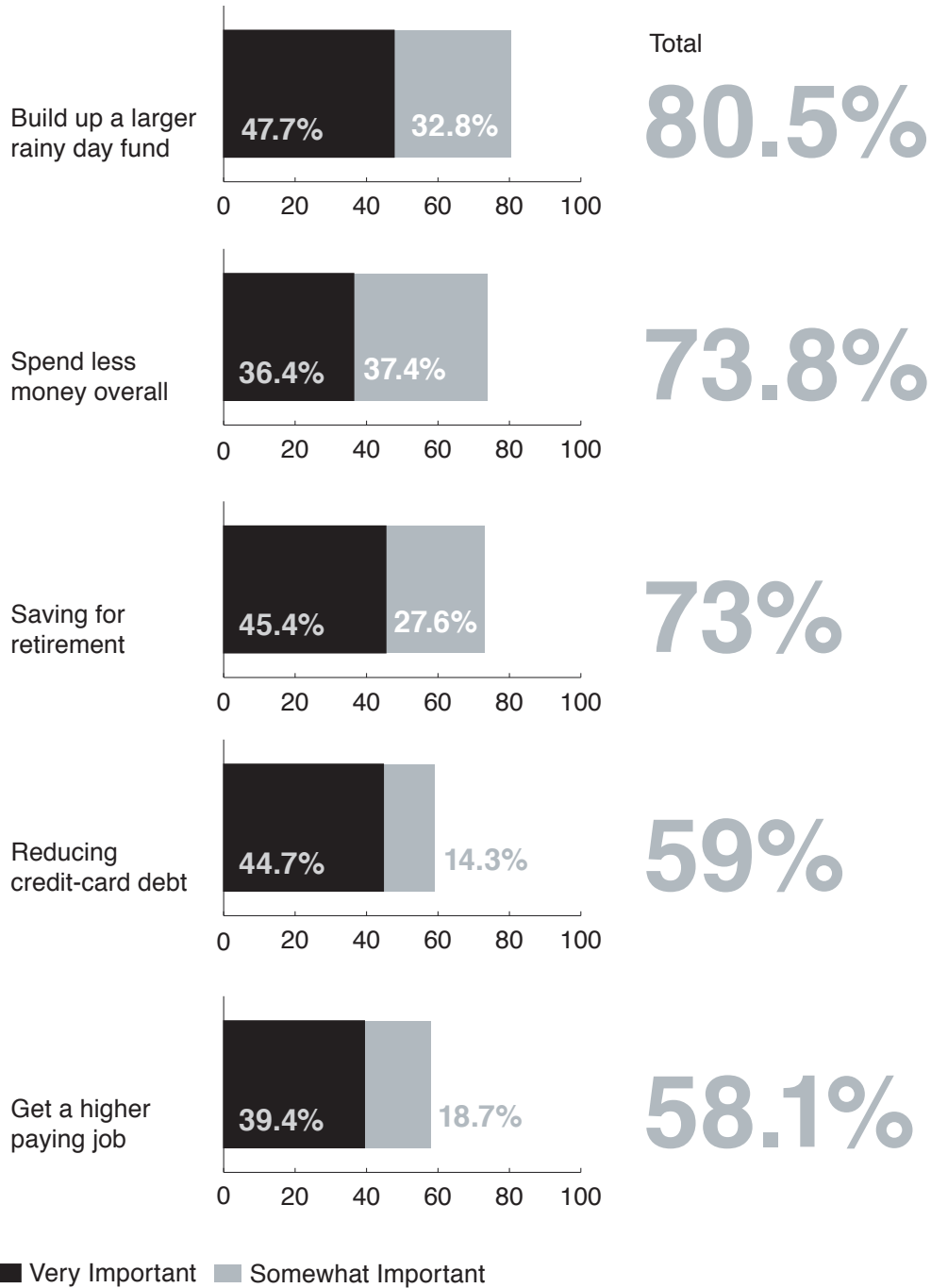
But if we think saving is so important, why haven't Texans saved more? Perhaps the simplest answer is human frailty. And another and perhaps related reason is that many Texans believe that it's harder to save today, compared to earlier times.

For example, in our survey, we asked Texans, “Compared to your parents, is it easier or harder for you to save money?” Among Texans in households earning less than \$100,000:

- * 18 percent say that it's easier to save today.
- * 29 percent say that it's about the same.
- * 52 percent said it's harder to save today.

And surely a third reason for the current Texas savings crisis is this one: *Texans today are increasingly surrounded by anti-thrift institutions which invite and promote dissaving and debt.*

Table 11 Top 2011 Financial Goals Texas Households Earning Less than \$100,000 (Percentages)



SOURCE: 2010 Survey of Texas Savers

Texans rank
payday and auto
title lenders
as the top two
most “unhelpful”
resources in
improving
their finances.

So maybe Texans have a legitimate point about it being harder to save today, compared to their parent’s generation. After all, their parents and grandparents typically had school savings programs to teach them thrift and almost certainly lived in the vicinity of buildings with signs in front saying things like “Savings Bank,” “Home Savings, Building and Loan Association,” and “Credit Union.” Today, by contrast, young Texans regularly receive lottery scratch tickets as birthday gifts and Texas residents are much more likely to live in the vicinity of buildings with colorful signs advertising “Kwik Cash” and “Cash Today.”

Yes, no one *forces* people to be thrifless, and each individual is ultimately responsible for his or her own decisions and behavior. But we are also inescapably social creatures. Our environment helps to shape and orient us. We are significantly influenced, for both good and ill, by those institutions that surround us every day, try to persuade us, and invite us with a smile to participate. And today, for most Texans, that environment is increasingly and stridently anti-thrift.

Texans themselves seem to recognize this fact. In our survey, we asked Texans to tell us who or what helps them the most when it comes to improving their financial situations. For Texans in households earning less than \$100,000 per year, the five most frequently chosen answers were banks, employer-sponsored

savings plan, parents, credit unions, and financial advisors. Churches and other places of worship finished just outside the “top five.”

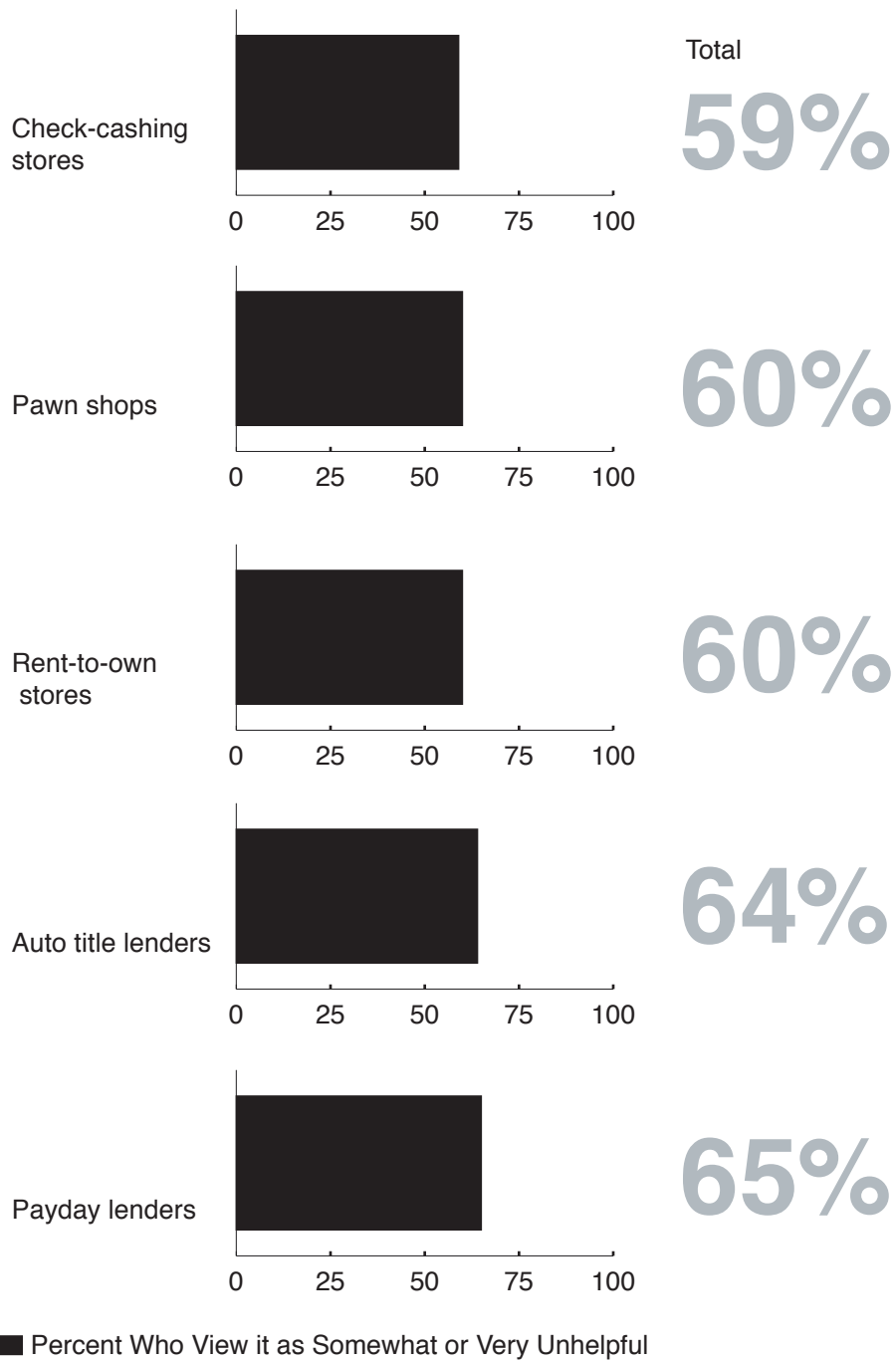
But we also wanted to know about the “bottom five.” Who or what do Texans today view as the *least* helpful to them when it comes to their financial affairs? For Texans in households earning less than \$100,000 per year, the answers are presented in Table 12.

- * The Texas State Lottery, with an “unhelpful” rating of 56.3 percent, finished just outside the “bottom five.”
- * Texas state government weighed in with an “unhelpful” rating of 35 percent and a “helpful” rating of 23 percent.

Let’s sum up:

- * Texans are saving again and, as they look to the future, want to save more.
- * Most Texans today view the new anti-thrifts as unhelpful.

Table 12 The Five Most Unhelpful Financial Resources for Lower to Middle Income Texans, 2010



SOURCE: 2010 Survey of Texas Savers



RECOMMENDATIONS

Our Coalition's recommendations for the future divide into two categories.

The first set of recommendations aims to *oppose debt*. They are remedial, short-term, and focused primarily on actions that can and should be taken right now by the Texas Legislature.

The second set of recommendations aims to *support thrift*. They are pro-active, longer-term, and focused on actions that can be taken by Texas civil society as well as by Texas policy makers.

The driving vision behind each of these recommendations is putting Texas leaders on the side of Texas savers.

RECOMMENDATIONS TO OPPOSE DEBT:

1. Close the payday lenders’ “lucrative loophole.”

The Texas Legislature should amend the state Finance Code to insure that high-interest-charging non-depository businesses such as payday lenders and auto title lenders are no longer granted special recognition and protection as “credit service organizations.”

2. Protect military families from payday lenders.

The Texas Legislature should levy significantly higher fines and stronger penalties in cases of payday lenders who violate federal law by selling their loan products (consumer loans at more than 36 percent APR) to military personnel and military families.

The Legislature should significantly strengthen the state’s ability to oversee and monitor Texas payday lenders regarding their compliance with federal law with respect to military personnel and military families.

3. Vote “no” on casino gambling.

The Texas Legislature should not sponsor or permit the entry of casino gambling into our state.

RECOMMENDATIONS TO SUPPORT THRIFT:

1. Create a Texas “Savings Ticket.”

It’s not the role of state government to require Texans to save. It’s up to Texans themselves to make that decision. But what state government can do is this: it can lend a hand to Texans who want to begin to save or to rebuild their savings.

One intriguing pro-savings idea is to offer people the opportunity to purchase savings tickets at lottery retail outlets. Here’s how the plan would work: in addition to its usual line-up of lottery games, the state lottery would offer the opportunity for any adult to purchase a savings ticket for a small dollar amount at its retail outlets. The \$5, \$10, or \$20 purchase price for the ticket would be loaded onto a smart card and deposited in a savings account with a participating credit union, local bank, or other federally insured depository institution. In addition, the purchaser’s ticket number would be entered into a drawing for cash or merchandise prizes.

In many ways, the savings ticket purchase would be similar to the purchase of a lottery ticket: it would be convenient, easy, and eligible for prizes. But in another way, a savings ticket would be completely different.

Buyers would keep every penny of their own money. A savings ticket would always be a winning ticket.

As a public policy, the savings ticket idea would signal a positive shift in government values. It would uphold the philosophy that government is dedicated to helping people keep their own money rather than taking it from them in state-sponsored gambling activities. It would put government on the side of savers rather than on the side of the big gaming industry. Finally, it would make state government responsive to the expressed desires of citizens who want to save more but feel that their state currently does little or nothing to help them.

The idea of savings tickets is currently being explored in the state of Kansas.

2. Promote pro-thrift alternatives to payday lenders.

The Governor and Legislature should create a blue-ribbon commission charged with examining and reporting to Texans on pro-thrift alternatives to payday lending. Texans need access to credit – sometimes borrowing money is the most prudent thing to do. That’s why the alternative to anti-thrift institutions in Texas is not nothing at all. The alternative is pro-thrift institutions in Texas. That broadly accessible pro-thrift alternative is exactly what this special commission would investigate and help to create.

The pro-thrift lodestars in this area are fourfold: an APR of no more than 36; savings requirements; longer terms, and installment repayments. The Texas commission could examine, and customize for Texas, some excellent and already-established alternatives to payday lenders in other states.

Take North Carolina: the North Carolina State Employees Credit Union offers Salary Loans at 12 percent APR with the requirement that borrowers deposit five percent of each loan in a savings account. The program is highly successful.²²

Or take Pittsburgh: Grace Period, a partnership between the Allegheny Center Alliance Church and the Pittsburgh Central Federal Credit Union, offers loans of up to \$500 for a 13-day period with no interest. If a longer term is needed, borrowers must come up with a repayment plan and also put additional money into an “emergency” fund for a 12-month period.²³ The inspiration for this faith-based lending program came from the Gospel teaching urging the faithful to aid “those who are hurting, those who are oppressed, those who are suffering from injustice.”

3. Bring back National Thrift Week.

In the early and middle decades of the 20th century, millions of Americans across the nation participated in National Thrift Week – an events-filled seven days of thrift celebration and pro-saving activity that commenced each January 17th, the anniversary of Benjamin Franklin’s birth.

More than fifty national organizations – including the YMCA, the Girl Scouts and Boy Scouts, the American Red Cross, and the U.S. Postal Service – kept these celebrations alive and strong. Especially important in this earlier grassroots campaign were youth-serving organizations, which played a crucial role in teaching children how to be good stewards of material and natural resources. Today, we need a similar grassroots effort aimed at the young, for young people are often at the forefront of social change.

A grass-roots National Thrift Week campaign would vary from community to community, but everywhere it could bring together and celebrate the thrift achievements and plans of religious organizations, educators, youth groups and youth-serving programs, green and conservation efforts, community gardens, libraries, thrift shops, financial literacy initiatives, local banks, credit unions, and many others. It might revive the tradition of school banking programs where students run a savings bank in their school and make regular

deposits in their accounts, among other community thrift projects for children and young adults. In doing so, it could re-establish the community celebration of National Thrift Week at a moment in our national life when the thrift ethos is once again getting some respect, and at a time when that ethos is more important than ever.

In January of 2011, community leaders in Philadelphia organized a Thrift Leaders Roundtable and Mayor Michael Nutter declared January 17–23 to be “Thrift Week” in Philadelphia, making the home of Benjamin Franklin the first American city in more than four decades to celebrate Thrift Week. Which city will be next?

ENDNOTES

1. According to a 2008 study, Texans who use payday lenders are about 88 percent more likely than other Texans to file for Chapter 13 bankruptcy within two years. The study suggests that access to payday borrowing results in an additional source of financial stress for many Texans who are already financially vulnerable. See Paige Marta Skiba of Vanderbilt University and Jeremy Tobacman of the University of Pennsylvania, Working Paper, *Do Payday Loans Cause Bankruptcy?*, February 18, 2008: <http://bpp.wharton.upenn.edu/tobackman/papers/rd.pdf>.
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3. "Payday Lenders Go Hunting," *Wall Street Journal*, December 26, 2010; "Payday Lenders Offer Instant Cash – But It Will Cost You," *Dallas Morning News*, April 26, 2009.
4. *For A New Thrift: Confronting the Debt Culture* (New York: Institute for American Values, 2008); David Brooks, "The Great Seduction," *New York Times*, June 10, 2008.
5. This scenario draws on a 2009 survey report by Texas Appleseed. Among its findings, it notes that the majority of Texas borrowers are women and that the majority of respondents in Dallas, Houston, and San Antonio needed short-term credit to pay utility, food or rent bills. *Short-term Cash, Long-term Debt: The Impact of Unregulated Lending in Texas*, April 10, 2009. www.texasappleseed.net
6. Ruth Cardella, *Wolf in Sheep's Clothing: Payday Loans Disguise Illegal Lending* (Austin, Texas: Consumers Union Southwest, 1999.)
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16. Mary Lynne Vallinga, "California's Indian Casinos See Gamblers Spend Less," *The Sacramento Bee*, January 18, 2009.
17. New Hampshire Gaming Study Commission, *Final Report of Findings*, May 18, 2010.
18. Pew Research Center, *How the Great Recession Has Changed Life in America*, June 30, 2010.
19. Sudeep Reddy, "Fed Sees Recovery Slowing," *Wall Street Journal*, August 11, 2010.
20. Federal Reserve Board of New York, *Quarterly Report on Household Debt and Credit*, November 2010. This report finds (p. 1) that aggregate U.S. consumer debt continued to decline in the third quarter of 2010, "continuing its trend of the previous seven quarters."
21. The U.S. personal savings rate in July of 2010 was about 6.4 percent (see "Economists React: Cautious Consumers Save More," *Wall Street Journal* online, August 3, 2010) and by November of 2010 had dropped slightly to about 5.3 percent (see "Personal Income and Outlays: November 2010," U.S. Department of Commerce Bureau of Economic Analysis (BEA 10-63), news release of December 23, 2010). In the 1981-82 recession, the personal savings rate was close to 11 percent (10.9).
22. University of North Carolina Center for Community Capital, "North Carolina Consumers after Payday Lending: Attitudes and Experiences with Credit Options, November 2007, p. 19. www.ccc.unc.edu]
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APPENDIX: SURVEY METHODOLOGY

The *2010 Survey of Texas Savers* is an online survey conducted by the Chicago-based research firm, Knowledge Networks, Inc. The survey instrument was developed by Dr. Barbara Dafoe Whitehead of the Institute for American Values and Charles E. Stokes of the University of Texas, who is also a Fellow at the Institute for American Values. The instrument was reviewed and revised by Knowledge Networks.

The survey sample was drawn from Knowledge Network's online research panel, which is designed to allow representative national and local samples to be drawn using an online administration.

The *2010 Survey of Texas Savers* was part of a larger, national survey on thrift and saving, and that national survey contained a representative over-sample of Texas adults. The survey was fielded on November 5, 2010, and concluded on November 23, 2010, at which time it contained 1,154 completed surveys from Texas. The completion rate for Texas was approximately 65 percent. The Texas sample also featured a representative proportion of surveys completed in Spanish.

All proportions presented in this report from the *2010 Survey of Texas Savers* are based on weighted data.

Weights were provided by Knowledge Network to adjust for over-samples in the panel design in order to produce representative estimates.

Proportion estimates have a plus or minus 3 percent margin for error. Estimates of median dollar amounts from the *2010 Survey of Texas Savers* are based on unweighted data.

For more information regarding the *2010 Survey of Texas Savers*, including a list of survey questions, descriptive statistics, information about data access, and a comprehensive field report, please visit the website, newthrift.org, or contact the Institute for American Values.

About the Christian Life Commission

Seeking a ministry of Christian citizenship, the Christian Life Commission since 1950 has served as the ethics agency of the Baptist General Convention of Texas. The CLC has the assignment of speaking *to*, but not *for*, churches and individuals about important ethical issues, including family life, the wise stewardship of resources, and many others. (True to the Baptist distinctives of soul freedom, priesthood of the believer, and congregational church governance, no one Baptist can speak *for* another.)

The CLC provides resources on issues in several ways: conferences, periodicals, print literature, associational and local church emphases, audio-visual programming, curricula, consulting networks and ministry teams. They are proactive and reactive in communicating to Texas Baptists. They send print resources, conference promotions, and other programming information to churches, and they also respond to inquiries from churches and individuals about critical issues. The CLC also serves Texas Baptists on ethical issues through consultations and partnership networks.

About the Institute for American Values

The Institute for American Values is a non-partisan, private think tank in New York City whose mission is to study and strengthen civil society. Its current work focuses on marriage and families, the ethic of thrift and generosity, engagement with civil society in the Arab and Muslim world, and the re-introduction of seriousness and civility in the American public conversation.

About the NEST AND NEST-EGG INITIATIVE

Sponsored by the Institute for American Values in partnership with others, this five-year program of research and action is based on a big idea: to renew the American middle class, we must establish marriage and thrift as achievable goals for most Americans. The initiative's principal investigator is Dr. Barbara Dafoe Whitehead, who directs the Institute's Templeton Center on Thrift and Generosity, and the initiative encompasses as well the work of the Institute's Center for Marriage and Families, directed by Elizabeth Marquardt. Renewal of the American success story through marriage and thrift: the nest and the nest-egg. Visit www.americanvalues.org

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