

# Mayor and Council Communication

**DATE:** 12/17/19

**M&C FILE NUMBER:** M&C 19-0404

**LOG NAME:** 12CREDIT ACCESS BUSINESS ORDINANCE

## **SUBJECT**

Adopt an Ordinance Amending Chapter 20, "Licenses and Miscellaneous Business Regulations," to Add Article XIII, "Credit Access Businesses" of the Code of the City of Fort Worth to Establish Credit Access Businesses Regulations (ALL COUNCIL DISTRICTS)

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## **RECOMMENDATION:**

It is recommended that the City Council adopt the attached ordinance amending Chapter 20, "Licenses and Miscellaneous Business Regulations," to add Article XIII, "Credit Access Businesses" to the Code of the City of Fort Worth, to establish regulations for credit access business related to registration of such businesses, restriction on extensions of consumer credit and record keeping provisions.

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## **DISCUSSION:**

In Texas, payday and auto title lenders operate as credit access businesses (CABs), a special designation for a credit service organization that obtains for a consumer or assists a consumer in obtaining an extension of consumer credit in the form of a deferred presentment transaction or a motor vehicle title loan, more commonly referred to as "payday loans" or "title loans."

CABs serve as loan brokers, arranging short-term loans with third-party lenders. While the lender typically charges an interest rate near 10%, CABs may charge unlimited fees to arrange, service and provide a letter of credit or guaranty to the third-party lender who funds the payday and auto title loan. The ability to charge unlimited fees which may be calculated as a percentage of the loan amount, results in interest rates of 200% to 500% of the loan amount. Uncapped fees, coupled with how the loans are structured has resulted in abusive and predatory lending practices pulling vulnerable communities into deeper financial crisis by becoming trapped in a cycle of short term, high interest loans resulting in large debt and huge payments.

The attached ordinance to protect the welfare of the citizens of the City by monitoring credit access businesses in an effort to reduce abusive and predatory lending practices. To this end, this article establishes a registration program for credit access businesses, imposes restrictions on extensions of consumer credit made by credit access businesses, and imposes recordkeeping requirements on credit access businesses. The ordinance is applicable to CABs located within the City's corporate boundaries and would not be enforceable against online lenders.

A Form 1295 is not required because: This M&C does not request approval of a contract with a business entity.

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## **FISCAL INFORMATION / CERTIFICATION:**

The Director of Finance certifies that approval of these recommendations will have no material effect on City funds.

**Submitted for City Manager's Office by:** Dana Burghdoff 8018

**Originating Business Unit Head:** Sarah Fullenwider 7623

**Additional Information Contact:** Melinda Ramos 7631