

Consumer Loans - Know the Rules!



Loans are an everyday fact of most consumers' lives. We use them to purchase vehicles, homes and other goods,

and we use credit cards for many personal expenses. Most consumers understand that they may have to pay interest, but we are often asked how much interest is too much.

State laws specify maximum legal interest rates at which loans can be made. These consumer protection laws are called usury laws. The term refers to the charging of an exorbitant interest rate on a loan. Our state usury laws were enacted to protect consumers from this predatory lending practice.

A commercial loan is a loan made primarily for use in the operation of a business, or for purposes of investment, agriculture or similar ventures. Commercial loans are authorized by Chapter 306 of the Texas Finance Code. They are currently subject to a commercial usury ceiling of 18 percent annual interest, which may float with inflation to 24 percent. Loans exceeding

\$250,000 may charge up to 28 percent interest.

Consumer loans are those made to individuals for personal use and various kinds of purchases. Limits on these loans vary. The law that governs the financing of motor vehicle sales, for example, allows an effective annual interest of up to 27 percent. Pawn shop bans can have maximum interest rates of 240 percent annually.

The Office of Consumer Credit Commissioner (OCCC) is responsible for setting the maximum interest rate for various types of loans, including rates for credit cards, pawn shop transactions and rent-to-own purchases, according to the guidelines set by state law. Rates can vary greatly depending on the type of credit. For more information on current rates, you can contact the OCCC directly at (800) 538-1579.

Overly high interest rates are not the only form of predatory lending. Consumers should be careful when considering loan solicitations. You should be aware that there are bogus credit companies that will collect a fee up front and then simply abscond with your money.

Always beware of companies that claim they can guarantee a loan for a fee paid in advance. The fee

maybe as much as several hundred dollars. It's against the law for them to request or accept payment until you actually get the loan or credit.

In addition, legitimate lenders will never guarantee or strongly imply that you will get a loan or credit card before you apply, especially if you have bad credit, no credit or have ever filed for bankruptcy.

Some credit companies may claim to be able to get your mortgage "released" by the holder for a fee of \$2,000. Needless to say, your mortgage cannot be dismissed for a fee. There are no legitimate businesses that offer a real service making debts "go away."

If you have credit problems, consider a consultation with a non-profit credit counseling service. Remember that there are no easy answers. Rebuilding your credit will take time and good management. Don't allow yourself to be further victimized by credit repair scams.

I understand how important your good credit is to you. If you feel that you have encountered a business that has violated usury laws or defrauded you in any way, do not hesitate to contact my office at (800) 252-8011.

POINTS TO REMEMBER

Consumer Loans

Usury

- Interest rates are set by state law

Advance-fee loans

- Advance-fee loans are illegal
- No legitimate lender guarantees that your application will be approved

Credit repair scams

- No service can make your debts go away for a fee

For additional information on usury laws and other credit issues:

Office of Consumer Credit Commissioner
2601 North Lamar Blvd.
Austin, TX 78705-4207
(800) 538-1579
www.occc.state.tx.us

For assistance with credit problems:
National Foundation for Credit Counseling
(800) 388-2227
www.nfcc.org

To review the State Finance Code:
Texas State Law Library
Post Office Box 12367
Austin, TX 78711
(512) 463-1722
www.sll.state.tx.us

Attorney General Consumer Hotline
(800) 252-8011
www.oag.state.tx.us



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Information on this and other topics is available on the Attorney General's Web site at www.oag.state.tx.us.

