

The Spread and Impact of Local Payday Lending Ordinances in Texas

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In response to a lack of strict state-level regulation, Texas municipalities have taken matters into their own hands by enacting local ordinances to control payday lending and Credit Access Businesses (CABs). Starting with Dallas in 2011, this regulatory movement has spread to 49 cities, covering approximately 11 million Texans. These "anti-payday loan" laws aim to protect consumers from predatory lending practices by imposing restrictions on loan sizes, limiting refinancing options, and requiring principal reduction with payments. This document examines the proliferation of these ordinances, their key provisions, the challenges they create for lenders, their impact on the payday lending industry, how businesses have adapted, and recent developments in the ongoing tension between local and state regulation.

Proliferation of Local Ordinances Across Texas

Taking advantage of their broad home-rule authority, Texas cities began enacting local payday loan regulations in 2011 when Dallas passed the first such ordinance. This triggered a rapid spread of similar regulations across the state. By 2017, over 40 cities had ordinances on the books, and that number grew to nearly 50 by 2023. Today, every major metropolitan area in Texas – from the Rio Grande Valley to East Texas – has at least some cities with these consumer protections in place.

The Texas Fair Lending Alliance and Texas Municipal League promoted a unified "model ordinance" that many cities adopted, creating consistency in regulatory approach across different jurisdictions. This coordinated effort helped ensure a united front to pressure the state legislature while providing some degree of standardization for lenders operating across multiple cities. However, from a lender's perspective, it still requires navigating different local requirements in different cities, creating a complex regulatory landscape.

This wave of local regulation emerged in direct response to the Texas legislature's failure to enact comprehensive statewide payday lending reform. Cities stepped into this regulatory vacuum, using their home-rule powers to address what many local officials and consumer advocates viewed as predatory lending practices that trapped vulnerable borrowers in cycles of debt. The proliferation of these ordinances represents one of the most significant grassroots regulatory movements in Texas financial history.



By 2023, nearly 50 Texas cities had enacted payday lending ordinances, covering approximately one-third of the Texas population. Major cities like Dallas, Houston, Austin, and San Antonio led this regulatory movement, creating protected zones for millions of consumers.

Key Provisions of City Ordinances

Registration and Record-Keeping

All payday and auto title lenders operating as Credit Access Businesses must register with the city and report loan data to local authorities. This local registration is in addition to the state licensing required by the Texas Office of Consumer Credit Commissioner (OCCC) under Texas Finance Code Chapter 393.

Loan Size Limits

The amount of a payday loan (including fees) is capped at 20% of the borrower's gross monthly income. For auto title loans, the cap is the lesser of 3% of the borrower's annual income or 70% of the vehicle's value. These limits aim to ensure loans are not so large that borrowers cannot realistically repay them.

Restrictions on Refinancing

A loan can be refinanced (rolled over) at most 3 times for single-payment payday loans, or split into a maximum of 4 installments for installment payday loans. This prevents lenders from stringing borrowers along with unlimited renewals.

Mandatory Principal Reduction

With each refinance or installment payment, at least 25% of the principal must be paid down. This ensures that with every payment cycle, the borrower is reducing their original debt (not just paying fees), so that after a few renewals the loan is fully paid off.

The ordinances also include provisions that close potential loopholes. For example, they define a "renewal" as any new loan taken within 7 days of paying off a previous loan, preventing lenders from evading the rollover limit by having borrowers formally close one loan and open a new one immediately after. Violations typically incur a \$500 fine per occurrence, which can be prosecuted in municipal court.

These local provisions were carefully crafted not to be preempted by state law. Rather than setting interest rate caps (which might conflict with state authority), cities targeted aspects like loan size and refinance frequency, which fall under their consumer protection and business regulation powers. While industry groups initially challenged some ordinances in court, they have largely been unsuccessful – for instance, the Austin ordinance survived a major legal challenge in 2023, when a court upheld that the ordinance was not preempted by state law.

Compliance Challenges in a Regulatory Patchwork

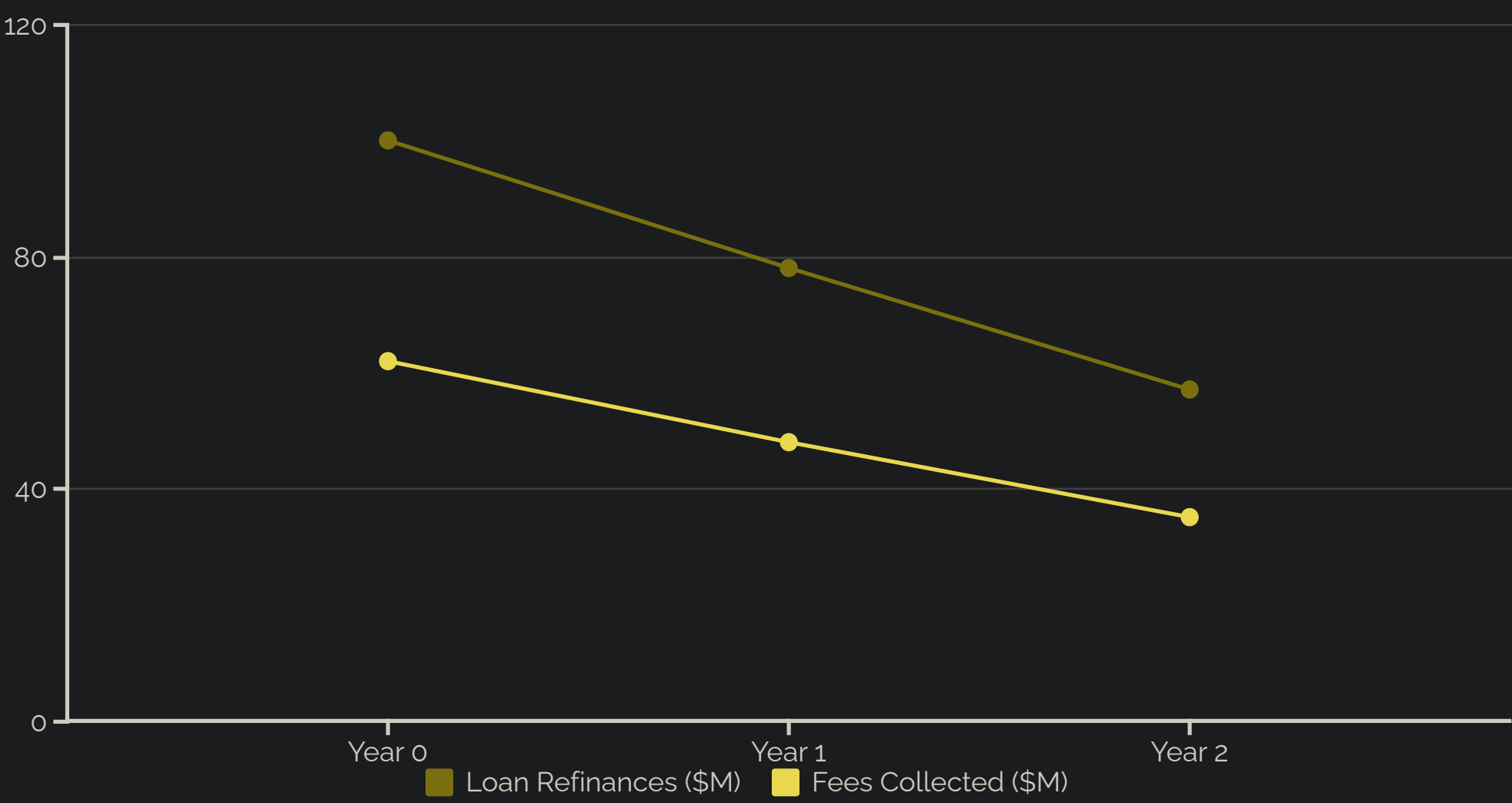
For payday lenders and CAB operators, the proliferation of city ordinances has created a challenging regulatory patchwork described as "every zip code acting like its own country." While the ordinances are fairly uniform in content, compliance must be managed city by city. Lenders operating in multiple Texas cities must register in each ordinance city, adjust their loan terms to each city's limits, and monitor local developments since city councils can amend rules or impose new fees and zoning laws. This undeniably raises operating costs and legal risk.

A Texas state legislator in 2023 warned that small businesses faced a "byzantine array of local regulations that twist and turn every time they cross a city limit sign."

Specific burdens include potential differences in fee structures and allowable loan types across jurisdictions, and the need to train staff on complying with each city's ordinance. For example, a company with stores in Dallas, Fort Worth, and Houston must ensure each location abides by the local cap on loan-to-income ratio and rollover count. Failing to do so could result in fines up to \$500 per violation in each city – a serious exposure if an audit finds dozens of improper loans.

Furthermore, some cities added zoning and density restrictions on top of lending rules. Dallas and nearby cities enacted zoning laws limiting how close payday loan stores could be to each other or to residential areas. Such measures, combined with the lending ordinances, compound the challenges for lenders looking to expand storefront operations. In many cities, new CAB entrants face both strict business regulations and land-use hurdles. The cumulative effect has been described by industry as "death by a thousand cuts" – not one law banning payday loans outright, but many small constraints that together greatly reduce profitability.

Impact on Payday Lending Businesses



Local ordinances have had a significant impact on the payday lending industry in Texas. From an entrepreneur or investor's standpoint, these regulations mean the classic high-fee, high-repetition payday loan model is harder to sustain in ordinance cities. Several measurable effects illustrate this impact:

43%	\$27M	361	309
Drop in Refinances	Reduction in Fees	Pre-Ordinance Lenders	Post-Ordinance Lenders
Data from Austin's metro area showed a 43% drop in the dollar amount of loan refinances from 2014 to 2016 after the ordinances took effect.	During the same period, borrowers in that region paid \$27 million less in fees to payday and title lenders than they would have without the ordinance.	Houston had 361 licensed lenders in city limits just before its ordinance was implemented.	By the day Houston's ordinance took effect, only 309 had registered under the new rules, indicating others closed or relocated.

The Consumer Service Alliance of Texas (a trade group) noted that some companies decided to close certain locations or pull out of cities entirely, rather than operate under reduced revenue expectations. "We'll see stores close, we'll see people laid off," said the Alliance's spokesman when Houston's law took effect. This pattern was echoed in other cities like Dallas, Austin, San Antonio, and El Paso, where local observers reported a contraction in the number of payday lending shops.

In ordinance cities, lenders that remained open had to alter their products. Many shifted from traditional single-payment payday loans to longer-term installment loans (still offered under the CAB model) to give borrowers "affordable" payments. From the business perspective, these ordinances function as "business killers" for the old payday loan model. The high-APR, high-turnover lending strategy has been effectively outlawed in the cities that adopted the ordinance, significantly reducing profit per customer.

The Resilient CAB/CSO Model in Texas

Despite the local crackdowns, Texas remains one of the few states where payday and auto-title lending is not only legal but flourishing, thanks to the state's unique CAB/CSO dual-entity model. In Texas, payday lenders register as Credit Services Organizations (CSOs) who act as brokers arranging loans, rather than as direct lenders. Under this model, a payday company (the CAB) pairs the borrower with a separate third-party lender – often an affiliate – that actually provides the cash loan. The CAB then charges a service fee for facilitating the loan and potentially for guaranteeing it.

This creative structure exploits a "legislative loophole": by not being the lender of record, the CAB isn't subject to Texas usury caps or rate limits on small loans. In fact, there are no state caps on the fees a CAB can charge for its services. The result is that effective APRs on payday loans in Texas routinely exceed 500% or even 600% – among the highest in the nation – all while technically complying with Texas law.



Customer Applies

Borrower applies for loan at CAB storefront or website



CAB Arranges Loan

CAB acts as broker, not direct lender



Third Party Funds

Separate lender provides actual funds



CAB Collects Fees

Fees not subject to usury limits

This dual-entity model has been "battle-tested" in the legal and legislative arena. Texas lawmakers have considered reforms to directly cap payday loan rates or otherwise rein in CABs, but strong industry lobbying has kept the model intact. For instance, attempts in the Texas Legislature to impose statewide limits (or conversely, to preempt and nullify the city ordinances) repeatedly failed over the last decade.

Courts have also largely upheld the CAB structure; a notable case in 2014 confirmed that CABs, as credit service organizations, could charge fees beyond interest limits, because technically the interest cap applies to the separate lender, not the CAB's fee. Thus, when done "correctly" (following the required paperwork and disclosures of Chapter 393 of the Finance Code), the CAB/CSO approach has proven legally robust. As one Federal Reserve Bank analysis put it, the CSO provisions allow payday lenders to "bypass state usury laws" and charge essentially uncapped fees. No court or state agency has successfully dismantled this model to date.

However, the local ordinances operate around the CAB model, without directly outlawing it. Cities can't change the fact that a CAB can charge high fees, but they can restrict how loans are structured. This means the CAB model remains in use statewide, but its profitability is curtailed in ordinance cities. Outside of those cities, a CAB can still do business as usual – offering a loan that might be flipped every two weeks for months on end. Inside an ordinance city, the CAB must comply with the paydown and rollover limits, but it's still the same dual-entity concept.

Industry Adaptation Strategies



Relocating Outside City Limits

When a city ordinance makes operating inside the city less profitable, lenders often open new stores in nearby suburbs or just beyond the city boundary. Customers can be directed or choose to drive a few miles to these locations in order to get larger or more easily refinanced loans. This geographic workaround allows CABs to keep offering the kinds of loans the ordinances forbade, effectively bypassing the city law while still serving essentially the same customer base.



Expanding Online Lending

Many large firms launched or expanded their online platforms in Texas. By offering loans online or via mobile apps, lenders can reach Texas consumers without a physical storefront in each city, thus arguably sidestepping city ordinances that apply to brick-and-mortar establishments within city jurisdiction. Local ordinances have limited reach against such scenarios, making digital lending a booming segment for the industry.



Focusing on Unregulated Areas

Another strategy has been targeting growth in parts of Texas without restrictive ordinances. By 2022, about 50 cities had ordinances – but Texas has over 1,200 cities, plus vast unincorporated areas. Many medium and small towns remain "business-friendly" for payday lenders, either due to deliberate courting of those businesses or simply not prioritizing regulation.



Optimizing the CAB Model

Even within ordinance cities, lenders have found ways to maintain profitability by streamlining operations and offering slightly different products. For instance, some moved toward offering larger installment loans with longer terms. Additionally, companies have bolstered revenue with related products like check-cashing, prepaid cards, or other fee services at their stores to offset lost loan fee income.

The largest players in the industry have sophisticated compliance systems to operate within the ordinance rules (e.g., automatically cutting off a loan after three rollovers, as required). By executing the model smartly and at scale, they can survive in regulated cities where smaller competitors might not. In fact, many smaller independent payday operators were driven out of the ordinance cities, leaving the market to the big chains that could absorb the compliance costs and adjust their models.

These adaptation strategies demonstrate how the payday lending industry has responded to regulatory pressure by evolving its business model rather than disappearing. The major companies are "juggernauts with legal teams" that quickly developed online CAB licenses and compliance frameworks to maintain their presence in the Texas market. While local ordinances have made traditional storefront operations more challenging, they have also accelerated innovation in digital lending and geographic targeting strategies.

State Preemption Efforts and Future Outlook

The dynamic of local vs. state regulation came to a head in recent years. Payday lenders and their allies have made multiple attempts in the Legislature to override or preempt local ordinances and replace them with a uniform statewide rule (generally a much weaker one). For example, in 2017, bills were introduced to wipe out all city payday laws, effectively returning to a single statewide standard. Those efforts did not succeed, largely due to opposition from consumer advocates and city officials who credit the ordinances with protecting residents.

In 2023, however, Texas passed a broad law (House Bill 2127, the "Texas Regulatory Consistency Act") aimed at limiting all sorts of local regulations. This law prevents cities from exceeding state law in several domains – including business, commerce, and finance. Initially, observers feared it would automatically nullify existing payday lending ordinances. However, in the legislative process, HB 2127 was amended to explicitly allow existing payday ordinances to continue.

The bill's supporters clarified that it "does not block existing regulations on payday lending" and even authorizes cities to maintain them. In other words, the new law stops cities from enacting new ordinances in the area of consumer lending, but it grandfathered the dozens already in place. As of mid-2025, those local laws are still enforceable, though there is ongoing litigation and uncertainty about HB 2127's scope (several cities have challenged the law as an unconstitutional infringement on local powers).

For entrepreneurs and investors in the payday lending space, this regulatory landscape presents both challenges and opportunities. The "window" for launching a payday/CAB operation in a previously unregulated city without local restrictions might not close due to new city laws (since the state has frozen that regulatory avenue). However, existing ordinances in major markets will persist unless courts or the legislature explicitly remove them. The opportunity, therefore, may lie in areas of Texas outside the ordinance coverage, or in online lending – because within regulated cities, the "lockdown" on high-risk lending practices is already reality. As the Texas experience demonstrates, successful operators in this industry must be adept at navigating complex regulatory environments and developing adaptable business models that can thrive despite increasing restrictions.

