TexasBankersAssociation
One Industry. One Vision. One Voice.

Op-Ed: What the property tax lending industry is doing to consumers

By Eric Sandberg, President & CEO, Texas Bankers Association

Imagine, it's tax time and a family is faced with losing their home because they can't pay their property taxes.

They receive what they think is a godsend from a property tax lender — a letter with a promise: "We will quickly get your taxes paid so you'll no longer incur the large penalties, interest and attorney collection fees charged by your county. It's simple. We pay the taxes. You pay us back over time."

Unfortunately, for many families across the state, the process is anything but simple. One such victim is Pastor Josue Lopez of Pharr. Desperate to pay his delinquent taxes, he obtained a $19,000 loan from a property tax lender. The interest rate: 18 percent. At the end of the 10-year note, Lopez will owe a total of $45,000. Of that amount, $25,000 is interest. Lopez told state lawmakers he was shocked to learn he would be paying that much and had no idea what he'd gotten himself into.

Lopez is not alone. In testimony before the House Business and Industry Committee last year, Texas Consumer Credit Commissioner Leslie Pettijohn reported the number of property tax loans steadily increased from 12,078 in 2008 to 15,738 in 2013.

There were $201 million in property tax loans written in Texas in 2013, up from $119 million in 2008. More than 8,100 loans totaling nearly $81.5 million were at least 90 days delinquent.

The reason for the almost 70 percent increase in property tax loans written is a no-brainer. The property tax lien lenders have nothing to lose—and quite a lot to gain. The property tax lender has lien priority, so if the property goes into foreclosure, the property tax lender is paid first, regardless of whether there is an existing mortgage on the house.

Pastor Lopez told his story at a February press conference held by Rep. Rene Oliveira (D-Brownsville) when he introduced HB 1936, which would require property owners to notify their mortgage lender 10 days before entering into a property tax loan. The bill has now passed the House and was referred to the Senate Business & Commerce Committee last week.

The bill would go a long way toward curbing the abuses of the property tax lending industry by requiring homeowners to notify their mortgage lender 10 days before entering into a property tax loan. This “cooling off” period helps the property owner in a couple of ways:

- First, it gives property owners time to fully consider their options. Entities, such as county tax assessors and banks, can offer to lend the money needed to pay the delinquent taxes at much lower interest rates and minus the exorbitant fees. Currently, lenders do not have the ability to pay off a property tax lender until the property tax note is delinquent for 120 days or the borrower is 90 days delinquent on the underlying mortgage loan.

- Second, the notice alerts lenders to possible violations of the mortgage agreement. Property owners may not realize they are breaching their agreements with their lenders when they take out property tax loans using the financed property as collateral.

The bill doesn’t prevent property owners from getting the needed funds from the property tax lenders—even at the higher interest rates and tacked on fees—if they still want to move forward. What it does do, however, is give property owners the opportunity to investigate better and less costly alternatives.

The concept is similar to that of home equity loans, which in Texas require a 12-day cooling-off period after an application is made. During that time, the borrower can research other alternatives and either move forward with the loan or pull out.

Does HB 1936 go far enough to curb the abuses of these predatory lenders? Probably not, but it at least gives property owners an opportunity to look at options. For Pastor Lopez, that cooling off period could have steered him away from a product he calls "deceptive and predatory."

The Texas Bankers Association is the oldest and largest state bankers association in the nation, serving 85 percent of the banks in Texas.