# CASHING IN ON COVID RELIEF

How high-interest lenders received $35M in potential violation of pandemic program rules


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This report was written by Miriam Li, corporate accountability associate for Public Citizen's Congress Watch division. It was edited by Alan Zibel, research director of Public Citizen's Corporate Presidency Project.

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# TABLE OF CONTENTS

## Summary

A Public Citizen investigation into two predatory lenders has uncovered evidence that suggests a potential violation of COVID-19 emergency lending program rules. Both businesses are owned by Trump donor Rodrick Aycox, the founder of a multi-state auto title loan empire, and each received multi-million-dollar loans through the Federal Reserve's Main Street Lending Program (MSLP).

The MSLP is a Federal Reserve emergency lending program that aimed to support small and mid-sized businesses facing cash flow problems due to the economic downturn caused by the COVID-19 pandemic. Aycox's companies, Wellshire Financial Services and Meadowwood Financial Services, collectively received $35 million in MSLP loans at annual percentage rates (APR) below 3.25 percent, despite charging their customers rates of over 380 percent APR for auto title loans.

Federal Reserve rules restricted the amount of MSLP funds available to affiliated companies applying for loans, yet Wellshire and Meadowwood failed to adhere to these restrictions. Information within both companies' Georgia and Texas state registration documents suggest that Wellshire and Meadowwood qualify as affiliated companies, indicating a potential violation of MSLP rules.

## Auto Title Loans

Like payday loans, title loans have high interest rates, loose application requirements, and can be approved quickly. Auto title loans, in which a vehicle is put up as collateral, are the most common types of title loans.

Auto title loan companies frequently prey on low-income borrowers facing persistent financial shortfalls, as well as borrowers who require immediate funds in emergency situations. They offer loans with expensive fees and high interest rates, often charging more than double the amount of the original loan and trapping customers in cycles of debt.[1] When a borrower is unable to repay an auto title loan, lenders typically repossess and resell the customer's car. This often leaves borrowers without transportation to work and school – barriers that can

[1] AMANDA QUESTER, CENTER FOR RESPONSIBLE LENDING, AND JEAN ANN FOX, CONSUMER FEDERATION OF AMERICA, CAR TITLE LENDING: DRIVING BORROWERS TO FINANCIAL RUIN, p. 2 (April 2005), https://bit.ly/3tsSxvF.

severely worsen their financial situations.[2] Many states have banned title loans or placed strict restrictions on loan rates, including New York, Oregon, and Pennsylvania.[3] Other states place moderate restrictions on the industry, while states like Missouri and Delaware place no cap on title loan costs.[4]

**According to mandatory fee schedule disclosures, a customer who takes out a $600 loan and pays it back in five installments at Aycox's companies will be charged a total of $1,628.82 for the loan.**

The Texas Finance Commission reports that most people who receive auto title loans are not able to pay them off on time, thus incurring additional fees and potentially risking the loss of their vehicle. In Texas, 60 percent of people who take out single-payment auto title loans and 35 percent of people who take out multi-payment auto title loans will renew their loans five times or fail to pay off their loans. [5]

## MSLP Loans to Rod Aycox Title Loan Companies

In September 2020, an auto title loan company that extends auto title loans at a 382.8 percent annual rate received a $25 million loan through the MSLP – a Federal Reserve COVID-19 lending program designed to support employment and operations at struggling businesses during the pandemic.[6] The company, Wellshire Financial Services, is owned by major Trump donor Roderick Aycox and does business under the storefront names LoanStar Title Loans, MoneyMax Title Loans, and Loan Max.[7]

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[2] JOE VALENTI AND ELIZA SCHULTZ, CENTER FOR AMERICAN PROGRESS, HOW PREDATORY DEBT TRAPS THREATEN VULNERABLE FAMILIES, p. 6 (October 2016), https://ampr.gs/3rS9OxT.

[3] CONSUMER FEDERATION OF AMERICA, CAR TITLE LOAN REGULATIONS, p. 1 (Nov. 2016) https://bit.ly/3bQb6Ux.

[4] *Id.* at 3-4.

[5] FINANCE COMMISSION MEETING PACKET, FINANCE COMMISSION OF TEXAS, pp. 220-221 (Oct. 16, 2020) https://bit.ly/3cA0Wqe.

[6] *LoanStar Title Loans Auto Title Loan $600, 5 Payments Cost Disclosure*, LOANSTAR TITLE LOANS, https://bit.ly/3vr9bO5.

[7] *Additional Locations for Meadowwood Financial Services, LLC dba Loan Star Title Loans; Money Max Title Loans (20110167),* TEXAS SECRETARY OF STATE RUTH R. HUGHS, (viewed on March 10, 2020) https://bit.ly/30QJeZW; *Additional Locations for Meadowwood Financial Services, LLC dba Loan Star Title Loans; Money Max Title Loans (20110167)*, TEXAS SECRETARY OF STATE RUTH R. HUGHS (viewed on March 10, 2020) https://bit.ly/2Nriigs.

Our investigation found that another Aycox-owned title loan company, Meadowwood Financial Services, received an additional $10 million MSLP loan, applying through a different sub-section of the program than Wellshire applied through. Federal Reserve rules prohibit affiliated companies from applying to different sub-sections of the MSLP, and the details of Wellshire and Meadowwood's ownership structures suggest that they qualify as affiliated business. If this is the case, then the $10 million loan that Meadowwood received would be in direct violation of MSLP rules.

While the companies may have attempted to justify the loans using exceptions to the legal definition of affiliated entities, we did not find any exceptions that applied to Wellshire and Meadowwood.

## Main Street Lending Program

The MSLP is broken up into five different facilities – three of which support loans to for-profit businesses. These include the Main Street New Loan Facility (MSNLF), the Main Street Priority Loan Facility (MSPLF), and the Main Street Expanded Loan Facility (MSELF). In the official MSLP frequently asked questions (FAQ) document, the Federal Reserve explains that "**an affiliated group of companies can participate in only one Main Street facility**."[8] This means that if an Eligible Borrower's affiliate has participated in the MSNLF, then the Eligible Borrower would only be able to participate in the MSNLF and would be prohibited from participating in the MSPLF and the MSELF.

By prohibiting affiliated companies from receiving loans through different MSLP facilities, this rule limits the amount of money that is available to borrowers based on the loan cap for that facility, how much their affiliates have already received through that facility, and the leverage level (i.e., amount of debt) of its affiliates that received loans. The Federal Reserve FAQ document states that:

> **If the Eligible Borrower has an affiliate(s) that has previously borrowed or has an application pending to borrow from a Main Street facility, then the entire affiliated group's debt and EBITDA [**Earnings Before Interest, Taxes, Depreciation, and Amortization] **are relevant to the determining the Eligible Borrower's maximum loan size.**[9]

[8] *Main Street Lending Program Frequently Asked Questions*, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 31 (Dec. 29, 2020) https://bit.ly/30Mk0Mx.
[9] *Id*. at 32.

The loans that Wellshire Financial Services and Meadowwood Financial Services received came from two different facilities – the MSNLF and the MSPLF – likely allowing Meadowood to apply for an MSLP loan without limiting its maximum loan size based on the leverage level of Wellshire.

To determine the affiliation status of Wellshire and Meadowwood, we examined several official company documents, including their annual registration documents with the Georgia Secretary of State and their applications for registration as limited liability companies in Texas. Information available on these documents suggest that there is little separating the businesses from one another:

- Both companies have the same address: 3440 Preston Ridge Road, Suite 500, Alpharetta, GA, 30005, USA.
- Rodrick Aycox is listed as the sole governing person and director for both companies.
- Both companies operate under two of the same storefront names: LoanStar Title Loans and MoneyMax Title Loans.

Based on this information, Meadowwood and Wellshire appear to fall within the MSLP's definition of affiliated entities. According to MSLP guidelines, applicants qualify as affiliated entities if they met the Small Business Administration (SBA) definition of affiliated entities set forth in 3 CFR 121.301(f). The SBA statute sates that **"Concerns and entities are affiliates of each other when one controls or has the power to control the other, or a third party or parties controls or has the power to control both. It does not matter whether control is exercised, so long as the power to control exists."**[10] The rule also sets out tests that outline various circumstances under which two business qualify as affiliated entities. One such test states that affiliation arises when:

> **The CEO or President of the applicant concern (or other officers, managing members, or partners who control the management of the concern) also controls the management of one or more other concerns.**[11]

Since Aycox is listed as the sole governing person and director for both Wellshire and Meadowwood, the companies appear to qualify as affiliated entities. We

[10] 13 CFR §121.301(f) (2019).
[11] *Id*.

reached out to both Wellshire and Meadowwood for comment on their affiliation status in relation to MSLP guidelines, but we received no response after multiple attempts to contact the companies. Ann Baddour, the director of the non-profit Texas Appleseed's Fair Financial Services Project, explained that payday and auto title loan companies in Texas often split up their storefronts under different LLCs, presumably for liability and tax reasons, and that Wellshire and Meadowwood appear to be "essentially the same company."[12]

Perhaps most tellingly, although the businesses are headquartered in the same suite in the same office in Georgia, the two companies went to different banks in different states to get their loans. Wellshire went to Fieldpoint Private Bank & Trust in Greenwich, Connecticut while Meadowwood went to First State Bank in Spearman, Texas.[13] First State Bank is a small, locally owned bank with three branches and only $152 million in assets.[14] Columbia University Law School professor Kathryn Judge, who is an expert on financial markets and financial regulation, noted that going to different banks in different states despite sharing an owner and a main address was "unusual" and "questionable."[15]

In addition to posting rules for affiliated entities within publicly available MSLP guidelines, MSLP loan documents also require each borrower to self-certify that none of the its affiliates have accessed a different MSLP facility in accordance with MSLP rules on affiliated entities.[16] Given that the companies share a director and are headquartered in the same suite in the safe office building, it seems highly unlikely that Meadowwood loan applicants were unaware of the loan that Wellshire received just months earlier.

## The Aycox Title Loan Empire

Aycox, a former used car salesmen and failed insurance salesman, has built up a title loan empire, generating billions in annual revenue through title loan

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[12] Interview with Ann Badour on Feb. 26, 2021.

[13] *MSNLF Transaction-specific disclosures*, FEDERAL RESERVE BOARD OF GOVERNORS (February 9, 2021) https://bit.ly/3vtYASh [hereinafter *Transaction Specific Disclosures*].

[14] *First State Bank Announces New Leadership*, HIGH PLAINS OBSERVER (Sept. 14, 2020), https://bit.ly/3lr2F5k.

[15] Interview with Kathryn Judge on Feb. 19, 2021.

[16] *Main Street Priority Loan Facility Borrower Certifications and Covenants Instructions and Guidance*, FEDERAL RESERVE BANK OF BOSTON, 11 (June 11, 2020), https://bit.ly/3eMS5Es.

companies located around the country.[17] Aycox's companies do business under several names, including LoanMax, LoanStar Title Loans, and Midwest Title Loans.

Aycox's lending companies have faced several lawsuits and government fines, including a federal class action lawsuit alleging that the companies "[victimize] customers by collecting illegal debts and high interest rates," in violation of Georgia law.[18] Another lawsuit by the DC attorney general accused an Aycox company of charging their customers interest rates of more than 300 percent, which the company eventually settled through refunds to customers.[19] In addition to domestic lawsuits against his lending companies, Aycox's other business ventures have also faced several lawsuits outside of the United States. Most recently, Aycox was sued by the Premier League team Manchester United for defaulting on over $11 million in sponsorship payments.[20]

Notably, Aycox is highly active as a political donor, supporting industry efforts to loosen restrictions on title loan laws and kill regulatory efforts aimed at reining-in excessive interest rates.[21] Over the years, Aycox has donated millions to politicians running for local, state, and national offices. This includes a $1 million donation to Trump's inauguration and $746,000 to Trump's presidential campaign.[22] Aycox's businesses have also pumped money into numerous U.S. Senate and House races through PACs and individual donations, including nearly $700,000 to several state Republican parties in the 2016 election cycle, over $42,000 to David Perdue in Georgia, and over $15,000 to Patrick Morrisey in West Virginia.[23]

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[17] *Sued title pawnshop owner credits 'abilities,' risks for his fortune*, THE ATLANTA CONSTITUTION D5 (February 22, 1998).
[18] *Id.*
[19] *Lawmakers protect title loan firms while borrowers pay sky-high interest rates*, The Center for Public Integrity, (Dec. 9, 2105) https://bit.ly/2Qclpdb.
[20] Eric Mandel, *Soccer giant Manchester United sues metro Atlanta company, founder for $11M*, Atlanta Business Chronicle (Sept. 24, 2019) https://bit.ly/3rXVIec.
[21] *Lawmakers protect title loan firms while borrowers pay sky-high interest rates*, The Center for Public Integrity, (Dec. 9, 2105) https://bit.ly/2Qclpdb.
[22] Todd C. Frankel, *A Trump donor's company got a 3 percent federal pandemic loan. It sells title loans at a 350 percent annual rate.*, WASHINGTON POST (Nov. 23, 2020), https://wapo.st/2NrRgpe.
[23] *Individual contributions*, FEDERAL ELECTION COMMISSION (viewed on March 10, 2021), https://bit.ly/319SKI0; *Select Management Resources*, OPENSECRETS.ORG (viewed on April 25, 2012), https://bit.ly/3tMg5vz; *Select Management Resources*, OPENSECRETS.ORG (viewed on April 25, 2012), https://bit.ly/3lIacwD.

After public outcry over the first $25 million MSLP loan to Wellshire, lawmakers questioned former Treasury Secretary Steve Mnuchin about Wellshire's participation in the MSLP during a congressional hearing on Dec. 2. Although Mnuchin conceded in the hearing that the loan to Wellshire "violates the spirit and the intent of the law," Meadowwood still applied for a loan under the program just eight days later, on Dec. 10. [24]

## Not in the Spirit of MSLP

In addition to loan restrictions on affiliated entities, the Federal Reserve also attempted to bar lending companies from the MSLP, implementing rules that prohibited financial companies primarily in the businesses of lending from receiving MSLP loans. By barring lenders from receiving MSLP loans, these restrictions would prevent companies from receiving low-interest taxpayer backed loans only to sell them off at higher rates their customers.

That said, Meadowwood and Wellshire both received loans through the program, appearing to pull off exactly what MSLP rules seemed designed to prevent. The two companies received loans of $25 million and $10 million at 3.15 percent interest and 3.22 percent interest, respectively, yet the companies offer loans to customers at annual percentage rates of up to 382.8 percent.[25] According to LoanStar Title Loans mandatory fee schedule disclosures, a customer who takes out a $600 loan and pays it back in five installments will be charged a total of $1,628.82 for the loan.[26]

Wellshire and Meadowwood likely circumvented rules barring lenders from the MSLP using their status as credit service organizations (CSOs) in Texas rather than lenders.[27] Through this registration status, auto title loan companies avoid certain restrictions on interest rates in Texas, and may have qualified for MSLP loans by classifying themselves as CSOs instead of lenders.[28]

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[24] Hearing on Coronavirus Pandemic and Economic Recovery before House Financial Services Committee, 116th Cong. (2020).
[25] *Transaction Specific Disclosures.*
[26] *LoanStar Title Loans Auto Title Loan $600, 5 Payments Cost Disclosure*, LOANSTAR TITLE LOANS, https://bit.ly/3vr9bO5.
[27] Hearing on Coronavirus Pandemic and Economic Recovery before House Financial Services Committee, 116th Cong. (2020).
[28] Nicole F. Munro and Shawnielle D. Predeoux, *Texas Legislation Restricts Title and Payday Lending by Regulating Loan Brokers*, COUSELORLIBRARY (Sept. 2011), https://bit.ly/3cEad0z.

To qualify as CSOs, Wellshire and Meadowwood charge interest rates below 10%. That said, the loans still come at a high cost to customers – rather than profiting off of interest payments, the companies attach exorbitant fees to their loans. Although these fees are technically distinct from loan interest payments, Meadowwood and Wellshire's fees are the most burdensome part of loan repayments, often adding up to more than twice or three times the cost of the loan itself depending on how quickly the loan is repaid.[29]

Moreover, although Meadowwood and Wellshire may have justified the loans by arguing that they technically are not lenders, the companies are still required to disclose loan fees as part of each loan's cost of credit under the Truth-in-Lending Act, and the cost of fees must be added to interest payments in order to calculate the loan's APR.[30] The difference between fees and interest rates in this case seems to be splitting hairs, calling into question whether Wellshire's fee structure should have exempted the company from MSLP restrictions on lenders.

## Recommendations

Lawmakers and regulators should open an investigation into the Wellshire and Meadowwood loans to determine whether the loans were acquired in accordance with Federal Reserve regulations. Additionally, the Federal Reserve should release more detailed information on MSLP loans, including borrowers' industry classifications and full loan addresses.

Lawmakers should also broaden their definition of lenders for the purpose of government emergency stimulus programs to ensure that companies like Wellshire and Meadowwood are excluded from government loans. These regulations should define lenders based on business practices and required legal disclosures, including disclosures under the Truth-in-Lending Act.

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[29] *LoanStar Title Loans Auto Title Loan $600, 5 Payments Cost Disclosure*, LOANSTAR TITLE LOANS, https://bit.ly/3vr9bO5.

[30] *Lawmakers protect title loan firms while borrowers pay sky-high interest rates*, The Center for Public Integrity, (Dec. 9, 2105) https://bit.ly/2Qclpdb.

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