Car Title Lending: Disregard for Borrowers' Ability to Repay

CRL Policy Brief *May 12, 2014*

Car title loans, like payday loans, are marketed as a quick financial fix, but lead to long-term debt and carry 300% annual interest rates. A typical borrower pays twice as much in interest and fees than she receives in credit extended. Nationally, car title lending drains $4.3 billion annually in excessive fees.[1]

Car title lenders systematically disregard a borrower's ability to repay, as demonstrated through at least three modes: lenders' advertising and marketing, industry data and statements, and negative consumer outcomes—namely, repeat loan refinancings and vehicle repossession.

Advertising and Marketing

In February 2014, the Center for Responsible Lending (CRL) examined car title marketing practices via a survey of print media (direct mailers)[2] and "mystery shopping" phone calls.[3] They reflect the lenders' disregard for ability to repay, relying instead on their ability to collect collateral; they emphasize promotional incentives; and they contain incomplete and inaccurate information on the terms of the loan.

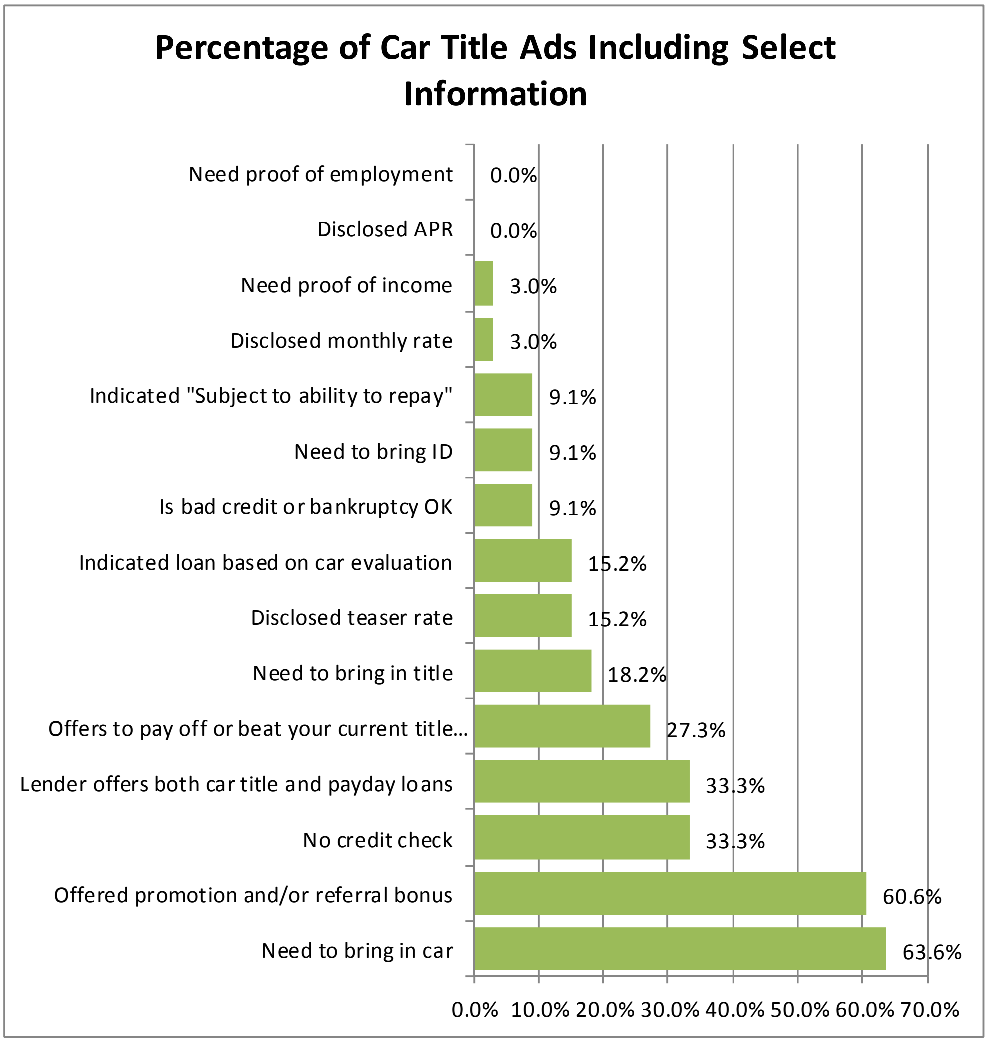
With regard to ability to repay, only 3% of the advertisements mentioned a need for proof of income, whereas 64% stated that the borrower needs to bring in the car. More than one in three mentioned that no credit check is needed. *See Figure 1 for full analysis of the survey of direct mailers.* Over the phone, representatives offered fast approval rates for securing a car title loan with their company. Car title lender employees noted the quick approval process "takes 30 minutes" and emphasized that "bankruptcies are okay, and [that the lenders] don't run credit checks." Employees uniformly emphasized that loan amounts are based on the value of the car.

Car title lenders' advertisements often offered promotional incentives: More than 60% of print direct mailers included some type of promotion or referral bonus.[4] Promotional incentives were also offered over the phone; for example, one representative offered "50% off the interest for the first month."

Similar to payday lenders, while print ads include teasers such as "0% APR" or "first loan free," not a single print ad mentioned the APR for a typical car title loan (which is 300% APR, on average[5]). When cost was mentioned, printed advertisements instead quoted monthly rates, such as "rates as low as 9.5%". Over the phone, representatives offered low-seeming interest rates without disclosing those rates were monthly rates. When the representatives were asked directly about the APR, they gave such responses as, "We don't have an APR because we have monthly percentages which range from 5% to 7.99% up to 14.99%" or "12.99% is the APR." Further, when asked to clarify if the monthly rate is the APR, one representative responded, "Yes, ma'am, that is the monthly interest. We charge on 30-day periods."

When asked about repossession of the vehicle, employees consistently created the impression that consumers can avoid this harm, when in fact the borrower can only avoid repossession through refinancing the loan for another 30 days, only to face the same decision the following month. Every single employee provided a similar response: a brief, rushed acknowledgement that repossessions do in fact occur followed by a gracious reassurance that the lender tries "to do everything in our power to work with you." An employee for one national car title lender stated, "We do everything in our power *not to have to collect cars*." These responses simultaneously indicated repossession was a possibility while giving the caller the impression that safeguards or procedures are in place to protect the consumer.

Figure 1: Analysis of Car Title Lenders' Direct Mail Advertisements



Industry Data and Statements

Car title lenders' disregard for a borrower's ability to repay is evident through official disclosures. TitleMax, in a 2011 SEC filing, stated, "**All underwriting decisions are made based on the appraised wholesale value of a customer's vehicle rather than credit score**."[6] Other TitleMax filings indicate the value of the collateral is determined using the "most conservative wholesale value of the customer's automobile listed in the Black Book, as opposed to the higher retail value listed in the Black Book."[7] The company further notes that the amount of credit available to a customer is "equal to 80% of the store manager's appraisal of the wholesale value of the customer's vehicle."[8]

In addition, the car title industry's own data and statements make clear that it routinely relies on the value of collateral rather than the borrower's ability to repay the loan, and the industry norm of extremely high refinancings bear that out.

During a 2009 bankruptcy proceeding, the President of TitleMax admitted that 83% of TitleMax's outstanding loans have a term of 30 days and that **the typical car title loan is refinanced 8 times**.[9] Further, Mr. Robinson explained the company's reliance on loan renewals as underpinning TitleMax's entire business structure:

> Under normal circumstances the customer will be allowed to make an interest payment and renew the Customer Loan at the expiration of the loan period, extending the Customer Loan for an additional thirty (30) day period. Without the ability to renew the Customer Loans, customers will be required to pay the Customer Loans in full within the next 30 days creating a hardship for the Debtors' 180,000 customers. **Many customers will likely be unable to repay the Consumer Loans within the next 30 days, and approximately 180,000 cars will be subject to repossession within the next thirty (30) days**.[10] (emphasis added)

Mr. Robinson's statement makes clear that car title lenders are issuing loans they fully expect the consumer will have to renew at the end of the loan period.

State data support the existence of a cycle of debt as well. For example, in 2010—the latest year reported—over 90% of loans in Tennessee were renewed, and only 12% of loans taken out that year were paid in full as of the end of the year.[11]

Repeat Refinancings and Repossessions

A loan made without ability to repay and secured by a borrower's car results in a two-tiered negative outcome system for car title borrowers. First, borrowers unable to repay the debt in 30 days and meet their other financial obligations are caught in a debt trap in order to avoid repossession. This results in significant monetary harm for the borrower. CRL research found that, on average, borrowers end up paying twice as much in interest ($2,349) than the original amount of credit extended ($1,042).[12] In other words, car title lenders convert borrowers' limited equity in their vehicle into a fee-generating mechanism for the lender without any countervailing benefit to the borrower.

Second, when borrowers eventually default, the lender has the ability to repossess the borrower's vehicle. According to TitleMax's 2011 SEC Filings, net charge-offs as a percent of originations were 15.7% for the three months ending March 31, 2013 (14.7% for first quarter of 2012).[13] For the same three-month period, 15.6% of the total loan volume was past due. In 2012, TitleMax reported charging off 15.1% of originations, while repossessing $6.35 million in assets.[14] (The company charges off an account when the customer is 61 days contractually past due.)

Beyond those borrowers in default, there is some information available showing that thousands of car title borrowers do, in fact, face the loss of their cars, further illustrating the unsuitability of the original loan terms. State regulator data from four different states reflect that approximately 8% to 10% of loans result in repossession.[15] In addition to repossessing borrowers' cars, car title lenders charge additional repossession fees, thereby reducing any recovery the borrower may have had. An analysis by CRL and the Consumer Federation of America of 500 car title loan borrowers found that one out of every six borrowers was charged repossession fees. Typically, these fees ranged from $350–$400, which averaged half of the borrower's outstanding balance.[16]

Car title lenders have begun making car title loans structured as multi-payment rather than single-payment loans.[17] Available data suggest lenders continue to disregard the borrower's ability to repay. For example:

- In Texas, where car title lenders make multi-payment car title loans largely to evade city ordinances, data from the Texas regulator show that in the third quarter of 2013 more than 20% of borrowers refinanced the loan in the same quarter the loan was made.
- In Virginia, there is a minimum loan term of 120 days with loans repayable in installments. In 2012, the average loan term for car title loans was 339 days, and the average APR of 229%. In that year, 20% of borrowers failed to make a monthly payment on a car title loan for at least 60 days and 9.8% of borrowers had their car repossessed (13,007 cars repossessed out of 132,691 borrowers).

Policy Recommendations

Car-title loans carry inherently unsuitable terms that cause already vulnerable borrowers to pay more in fees than they receive in credit while putting one of their most important assets at risk. It is clear from their marketing practices, their own statements and data, and ultimate outcomes for borrowers that car title lenders systematically make loans without regard to a borrower's ability to repay, instead relying on the value of the car and the threat of repossession to collect fees upon fees every month.

Any loan secured by an important asset – such as a borrower's means of transportation to and from work – must come with significant safeguards:

- Congress and the States should act to limit rates on car-title loans, such as the 36% annual interest rate cap enacted for car title loans to active duty military members.

- State and federal policymakers, including the Consumer Financial Protection Bureau, can enact protections to ensure a borrower's ability to repay the loan – that is, considering the borrower's income and expenses rather than value of the collateral

- Borrowers should have adequate protections in the event of a default, such as notice prior to repossession or sale of the vehicle, a right to redeem the vehicle, and a ban on deficiency balances.

[1] Susanna Montezemolo, Center for Responsible Lending, *Car Title Lending* (2013), http://rspnsb.li/1nDfUuH

[2] Data based on direct mail (and one email) advertisements acquired from Mintel Comperemedia dating from 2007 to 2014. From the 47 ads we collected, 33 were non-duplicates. CRL coded each of the 33 unique ads for select information about the loan and its origination process.

[3] In February 2014, CRL called 15 national and regional car title lender storefronts in 11 different states seeking information about the terms of car title loans offered (Alabama, Arizona, Georgia, Idaho, Louisiana, Missouri, Mississippi, Texas, Tennessee, Utah, Virginia).

[4] Promotion or referral incentives appear to focus on drawing in new or first-time customers, including things like the following statements in ads from national car title lenders: "$50 bonus cash to new customers" or "refer a new customer and receive $25" ("a new customer is someone who completes a transaction and has not previously had an account with us").

[5] Susanna Montezemolo, Center for Responsible Lending, *Car Title Lending* (2013), http://rspnsb.li/1nDfUuH

[6] TitleMax Prospectus, filed with the SEC on April 19, 2011, page 50.

[7] According to TitleMax SEC filings, "[F]or the year ended December 31, 2010, the "rough" wholesale value amount was on average 64% less than the retail value amount…[A]t origination, our receivables had an approximately 69% weighted average loan to appraised wholesale value and an approximately 25% weighted average loan to Black Book retail value..." TitleMax Prospectus, filed with the SEC on April 19, 2011, page 50. Similarly, analysis by CRL and CFA of 500 car title loans found an average loan-to-value ratio of 26%. Jean Ann Fox, Tom Feltner, Delvin Davis, and Uriah King, Driven to Disaster: *Car-title Lending and its Impacts on Consumers* (2013), http://rspnsb.li/1nDfUuH

[8] TitleMax Prospectus, filed with the SEC on April 19, 2011, page 50.

[9] Affidavit of John Robinson, President of Titlemax Holdings LLC, U.S. Bankruptcy Court for the Southern District of Georgia, Savannah Division (April 20, 2009).

[10] *Id.* at 11–12.

[11] Tennessee Dep't of Financial Institutions, 2012 Report On The Title Pledge Industry.

[12] Susanna Montezemolo, Center for Responsible Lending, *Car Title Lending* (2013), http://rspnsb.li/1nDfUuH

[13] TitleMax, Form 10Q for period ending March 31, 2013, page 57.

[14] TitleMax Form 10K for year ending December 31, 2012. We believe, but are not positive, that the default and charge-off rates reported in the public filings are per loan and not per borrower rates. If they are indeed per loan rates, because of the high volume of refinanced car title loans, these rates likely significantly underestimate the number of borrowers struggling to pay their loans.

[15] CRL analysis of data from state regulator reports in Idaho (9.8%), Tennessee (8.6%), Virginia (8.1%), Texas (8.1%). More clarification is needed to refine exactly what each state considers a repossession, i.e. whether the car was repossessed or whether a repossession fee was charged. In Virginia, out of the 13,007 cars repossessed in 2012, 80.4% were sold at auction. In Tennessee, repos sold at auction generated only $63 in surplus refund per consumer, even though most loans are highly collateralized. However, in TitleMax's April 2011 prospectus indicates that not all repossessed cars will be sold at auction: "A repossessed vehicle may only be sold to a licensed used car dealer after a minimum of three bids or at an auto auction."

[16] Jean Ann Fox, Tom Feltner, Delvin Davis, and Uriah King, *Driven to Disaster: Car-title Lending and its Impacts on Consumers* (2013), http://rspnsb.li/RGax3K

[17] Of the states authorizing car title loans, seven states authorize 30-maximum loan terms, while ten authorize loan terms or 90 days or more (with five of those having no maximum loan term). Source: Consumer Federation of America, Car Title Loan Regulation, December 2012, available at http://www.consumerfed.org/pdfs/Resources.CTL.StateLawTermChart12.2.12.pdf.