

The Debt Trap of Triple-Digit Interest Rate Loans:

Payday, Car-Title, and High-Cost Installment Loans

Although marketed as quick cash for financial emergencies, payday and car-title loans typically become long-term debt that drains hundreds of dollars—if not thousands—from consumers. These small dollar loans carry average annual percentage rates of 391% that make it very difficult to escape a cycle of debt that can last months or years.

Either through direct access to borrower bank accounts or threats to repossess a borrower's car, lenders gain extreme leverage over borrowers who come to later understand how unaffordable the loans really are. Besides owing more money for fees than for the loan itself, borrowers also experience other financial harms including delinquency on other bills, overdraft, NSF charges, and involuntary loss of bank accounts.

In recent years, payday and car-title lenders have been pushing longer-term loans that can be as large as \$10,000. For these loans, the packaging is different, but the end result is the same: a triple-digit interest rate, long-term loan that is structured to give payday lenders access to borrowers' bank accounts and keep them stuck in a cycle of unaffordable debt.

Reforms to End Debt Trap Loans

Meaningful and lasting reform will require both states and the federal government to take an active role. Through legislation, regulation, and enforcement, consumers and the financial marketplace will be protected from high-cost lenders that exploit rather than serve consumers:

- States that do not currently have a rate cap on small dollar loans can follow the examples of 15 states and the District of Columbia that now curb these predatory loans with interest capped at 36% or less.
- In some states where legislatures did not act, voters overwhelmingly passed ballot referenda to affirm reducing the rates from 400% to 36%: Arizona, Montana, Ohio, and South Dakota.
- In June 2016 the Consumer Financial Protection Bureau (CFPB) proposed rules covering payday, car-title, and high-cost installment loans. With payday lenders aggressively pushing to preserve the debt trap, the future of this pending rule as well as the future of the entire Bureau will require broad and vigilant advocacy.



Fast Facts

Each year, payday and car-title loans drain **\$8 BILLION IN FEES** from consumers in the states where they are legal.

ONE OUT OF EVERY FIVE car-title borrowers loses their vehicle to repossession.

The typical payday loan borrower is trapped in **10 LOANS PER YEAR**; car-title borrowers typically refinance the same loan a total of eight times.

In states that cap annual interest for these loans at **36% OR LESS**, consumers **SAVE OVER \$5 BILLION** in fees every year—\$2.2 billion from payday lending, plus another \$2.8 billion from car-title lending.



CRL says: "Payday loans are a debt trap by design, keeping people trapped in a cycle of unaffordable debt that leads to a cascade of consequences for borrowers." - Diane Standaert, CRL executive vice president & director of state policy



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