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 often experience other financial harms, including delinquency on other bills, overdraft fees, 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 16 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 referendum to eliminate triple-digit interest rates that in some states were as high as 652%. Voters reduced rates to no higher than 36% in Arizona, Montana, South Dakota, and Colorado.
- In October 2017, the Consumer Financial Protection Bureau finalized common-sense rules requiring lenders to determine borrowers' ability to repay short-term payday and car-title loans. Payday lenders are aggressively pushing to stop the rule from going into effect, in order to preserve their debt trap business model. Vigilant advocacy remains needed to support this rule.

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—$2.3 billion from payday lending, plus another $2.8 billion from car-title lending.

"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

CRL
Center for Responsible Lending

North Carolina
302 West Main Street
Durham, NC 27701
Ph (919) 313-8500
Fax (919) 313-8595

Western Office
1970 Broadway, Suite 350
Oakland, CA 94612
Ph (510) 379-5500
Fax (510) 893-9300

District of Columbia
910 17th Street NW, Suite 500
Washington, DC 20006
Ph (202) 349-1850
Fax (202) 289-9009

@CRLonline
FB.com/centerforresponsiblelending
www.responsiblelending.org