Payday and Car-Title Lenders Drain Nearly $8 Billion in Fees Every Year

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Introduction

Payday and car-title loans typically carry annual percentage rates (APR) of at least 300%. These high-cost loans are marketed as quick solutions to a financial emergency. Research demonstrates, however, that they frequently lead to debt that is nearly impossible to escape. In addition, these loans are related to a cascade of other financial consequences, such as increased overdraft fees, delinquency on other bills, involuntary loss of bank accounts, and even bankruptcy. For car-title loans, the end result is too often the repossession of the borrower's car, a critical asset for many people.

Payday loans and car-title loans are marketed as an infusion of cash to financially struggling people. In reality, these loans often drain hundreds of dollars from a person's bank account in amounts well above the original loan amount. Collectively, these loans drain billions of dollars each year in charges on unaffordable loans to borrowers who have an average annual income of approximately $25,000.[1] This fee drain hampers future asset-building and economic opportunity, with a pronounced effect felt in communities most impacted by these predatory lending practices.

The Debt Trap Drives the Fee Drain

As shown in Table 1 on page 3, payday loans drain more than $4 billion in fees each year from people in the 34 states that allow triple-digit interest rate payday loans. Car-title loans drain more than $3.8 billion in fees annually from people in 22 states. Together, these loans drain nearly $8 billion in fees every year.

75% of all payday loan fees are generated from borrowers stuck in more than 10 loans a year.

Data repeatedly show that payday and car-title lenders' bottom line depends on borrowers being stuck in a cycle of debt. According to the Consumer Financial Protection Bureau (CFPB), the average payday borrower is stuck in 10 loans a year, typically one right after the other.[2] This means that a borrower will pay $458 in fees on a typical $350 two-week loan.[3] Further, 75% of all payday loan fees are generated from borrowers with more than 10 loans a year.[4] In states with ineffective protections, such as Florida, over 80% of loans go to borrowers with seven or more loans a year.[5] While comparable data are not available for car-title lenders, the typical car-title loan is refinanced eight times.[6] As a result, car-title loans extract twice as much in fees as credit extended.[7]

Policy and Market Landscape

This brief provides an update on fees drained by payday and car-title lenders, as reported in the Center for Responsible Lending's *State of Lending* report.[8] Important regulatory and market changes have occurred since that time.

At the state level, South Dakota passed a ballot measure in 2016 capping payday and car-title loans at 36% APR, and Colorado passed a ballot measure in 2018 capping payday loans at 36% APR, making triple-digit interest payday and car-title loans illegal. While on the one hand, payday lenders have successfully blocked legislative efforts to enact meaningful consumer protections aimed at stopping the debt trap, on the other hand, since 2005 no state has legalized payday lending or car title lending where it was previously prohibited. Today, 16 states plus the District of Columbia have rate caps of about 36% or less for payday loans, the most effective protection against the debt trap.

A few states—Maine, Oregon, Virginia, and Washington—have regulatory frameworks that have permitted triple-digit interest rate loans, but with provisions that significantly curb the worst elements of the debt trap. (See Table 3 on page 5.) For example, in 2010, Washington enacted reform establishing a limit of eight loans in a 12-month period, leading to a 75% reduction in fees drained annually.[9]

At the federal level, the U.S. Department of Defense's enhanced rules expanded the reach of the Military Lending Act's 36% rate cap to installment loans.[10] Those rules were published in 2015 and became effective in 2016. In October 2017, the CFPB issued a final rule covering payday and car-title loans. The leadership of the CFPB has changed since that time. The agency has moved both to stop the rule from going into effect and to eliminate the central element of the rule, which is the requirement that payday and car-title lenders ensure loans are affordable to borrowers in light of their income and expenses.[11]

Since 2013, there have been marketplace developments, particularly in states with insufficient consumer protections, as payday and car-title lenders have moved to longer-term loans that stretch for months or even years.[12] The updated numbers in this brief reflect another market development since the 2013 publication of *State of Lending*—national payday lending companies, notably Cash America and EZCorp, have retreated from the payday loan market.[13]

The fee drain estimates in this brief are conservative in two ways. First, as explained in more detail in the Methodology section below, the fees drained do not include the cost of longer-term loans in every state where they are made. We have included fees only for states in which the data are reported to the state regulators. Second, the fees provided here do not include penalty fees (such as late fees or bounced payment fees) that payday lenders, car-title lenders, and banks may impose; these fees also result in significant cost and harm to borrowers.[14]

State and Federal Policy Makers Can Stop the Debt Trap

States can enact and enforce rate caps that lower the rates of these high-cost loans. Sixteen states and the District of Columbia enforce rate caps of about 36% APR, ensuring that their residents are not losing billions of dollars annually servicing the debt of triple-digit interest rate loans.[15] These rate caps provide states with the necessary tools to prevent predatory lending practices, whether online or in a store.[16]

Rate caps of 36% provide states with the necessary tools to prevent predatory lending.

The CFPB is prohibited from setting a cap on the cost of loans. As referenced above, in October of 2017, the CFPB issued a final rule, aimed at stopping payday and car-title loans from trapping people in debt, with the central element of the rule being the ability-to-repay requirement. In February 2019, the CFPB issued notices of proposed rulemaking to delay the original compliance date by 15 months and to eliminate the ability-to-repay requirement. Instead of gutting the 2017 rule, the CFPB should fully enforce the 2017 rule as written, without delay. Furthermore, in future rulemaking, the CFPB should strengthen the 2017 rule by closing loopholes that invite evasion. These actions are needed to prevent payday loans from trapping borrowers in debt. In addition, Congress can and should enact a federal rate cap of 36% or less, while still allowing states to enact and enforce stronger state laws.

Table 1: Annual payday and car-title loan fee drain

	Total payday fees	Total car-title fees	Total fee drain
States without debt trap protections	$4,000,483,805	$3,583,894,401	$7,584,378,206
States with some debt trap protections	$71,598,193	$262,585,478	$334,183,671
U.S. FEE DRAIN TOTAL	$4,072,081,998	$3,846,479,879	$7,918,561,877

Table 2: Annual payday and car-title loan fee drain in states without debt trap protections

Rank	State	Total payday fees	Total car-title fees	Total fee drain
6	Alabama	$125,216,000	$356,575,005	$481,791,005
35	Alaska	$5,835,235	Fees Saved	$5,835,235
11	Arizona	Fees Saved	$254,924,519	$254,924,519
2	California	$507,873,939	$239,339,250	$747,213,189
28	Delaware	$520,000	$29,803,284	$30,323,284
8	Florida	$311,046,128	Fees Saved	$311,046,128
14	Georgia	Fees Saved	$199,575,563	$199,575,563
36	Hawaii	$3,281,179	Fees Saved	$3,281,179
21	Idaho	$30,807,055	$65,414,558	$96,221,613
4	Illinois	$270,204,194	$233,259,868	$503,464,062
22	Indiana	$70,632,672	Fees Saved	$70,632,672
26	Iowa	$31,703,136	Fees Saved	$31,703,136
18	Kansas	$65,437,680	$45,769,329	$111,207,009
17	Kentucky	$117,790,366	Fees Saved	$117,790,366
13	Louisiana	$145,665,345	$95,796,270	$241,461,615
20	Michigan	$103,827,786	Fees Saved	$103,827,786
31	Minnesota	$10,580,342	Fees Saved	$10,580,342
3	Mississippi	$229,196,714	$297,500,639	$526,697,353
9	Missouri	$109,028,334	$200,107,764	$309,136,098
29	Nebraska	$28,173,908	Fees Saved	$28,173,908
15	Nevada	$77,725,835	$104,843,696	$182,569,531
27	New Hampshire	Fees Saved	$30,523,046	$30,523,046
25	New Mexico	$3,700,000	$29,865,374	$33,565,374
34	North Dakota	$6,863,350	Fees Saved	$6,863,350
5	Ohio[17]	$184,461,756	$318,256,497	$502,718,253
23	Oklahoma	$52,653,967	Fees Saved	$52,653,967
33	Rhode Island	$7,551,275	Fees Saved	$7,551,275
12	South Carolina	$57,773,701	$187,334,928	$245,108,629
7	Tennessee	$176,249,373	$226,638,410	$402,887,783
1	Texas	$1,240,697,188	$432,068,934	$1,672,766,122
16	Utah	$7,880,486	$133,582,577	$141,463,063
19	Wisconsin	$8,439,931	$102,714,890	$111,154,821
32	Wyoming	$9,666,930	Fees Saved	$9,666,930
	FEE DRAIN TOTAL	$4,000,483,805	$3,583,894,401	$7,584,378,206

Table 3: Annual payday and car-title loan fee drain in states with some debt trap protections against the payday loan debt trap

Rank	State	Total payday fees	Total car-title fees	Total fee drain
37	Maine	$573,300	Fees Saved	$573,300
30	Oregon	$6,581,203	$10,106,902	$16,688,105
10	Virginia	$18,729,551	$252,478,576	$271,208,127
24	Washington	$45,714,139	Fees Saved	$45,714,139
	FEE DRAIN TOTAL	$71,598,193	$262,585,478	$334,183,671

Methodology

In reporting the costs of payday and car-title loans, we relied primarily on data the respective state regulator made available. When regulator data were not available, cost estimates for loans are based on the same methodology as our 2013 *State of Lending* reports,[18] using an updated count of storefronts as of the latest date for which the data are available.

Our figures include fee totals for both balloon payment loans and longer-term loans wherever data were available. In states where payday and car-title lenders make both balloon payment and longer-term loans, but data on longer-term loans are not reported, this analysis includes estimates for fees drained only by balloon payment loans. This results in a more conservative estimate.

Overall fee totals may differ from our 2013 *State of Lending* report, as our previous report did not include fees from longer-term installment products. In some states, the amount of fees drained by longer-term payday and car-title loans is directly reported to the state regulator. These states are Illinois and Texas for payday loans. For car-title loans, these states are California, Illinois, New Mexico, Texas, and Virginia.

Our figures also include states not covered in our *State of Lending* report on payday loans. For example, Delaware and Ohio enacted legislation to stop the debt trap, yet since then lenders have circumvented state law to continue to drain millions in fees from consumers. Although Delaware enacted a limit of five payday loans in a 12-month period, payday lenders have largely evaded the provision by moving into longer-term payday loans. The amount reflected in this report is for fees drained by lenders operating under the provision of five payday loans in a 12-month period. In Ohio, even though the voters affirmed a 28% rate cap for payday loans in 2008, payday and car-title lenders persistently evaded it. This paper shows the fee drain caused by that evasion. A new law is set to go into effect in Ohio in April 2019, and additional monitoring will be needed to determine how this impacts the market. This brief is the first time we are reporting state-by-state estimates for car-title fees.

Endnotes

1 Consumer Financial Protection Bureau (CFPB). (2013). Payday loans and deposit advance products: A white paper of initial data findings. http://1.usa.gov/1aX9ley

2 Ibid.

3 Ibid.

4 Ibid.

5 Coleman, B., and Davis, D. (2016), *Perfect Storm*. Center for Responsible Lending. http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_perfect_storm_florida_mar2016.pdf

6 Fox, J.A., Feltner, T., Davis, D., and King, U. (2013). *Driven to disaster: Car-title lending and its impact on consumers.* Center for Responsible Lending and Consumer Federation of America. http://bit.ly/17GAEeu

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8 Montezomolo, S. (2013). *State of Lending: Payday Lending Abuses and Predatory Practices,* Center for Responsible Lending, http://responsiblelending.org/sites/default/files/uploads/10-payday-loans.pdf and, Montezomolo, S. (2013). *State of Lending: Car-title Lending.* Center for Responsible Lending. http://www.responsiblelending.org/state-of-lending/reports/7-Car-Title-Loans.pdf

9 In 2009, payday lenders in Washington drained $183,437,279 in fees. In 2014, according to the Washington Department of Financial Institutions, payday lenders drained $45,714,139 in fees.

10 Limitations on Terms of Consumer Credit Extended to Service Members and Dependents, 80 FR 43559 (July 22, 2015) (to be codified at 32 C.F.R. pt. 232). https://www.federalregister.gov/documents/2015/07/22/2015-17480/limitations-on-terms-of-consumer-credit-extended-to-service-members-and-dependents

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13 Hammond, E. (2016). *First Cash to Buy Cash America in $994 Million Pawn Deal.* Bloomberg (noting "Cash America and First Cash both have retreated from payday lending to focus on pawnbroking."). http://www.bloomberg.com/news/articles/2016-04-28/first-cash-to-buy-cash-america-for-994-million-in-pawn-deal and EZCORP. (2015). *EZCORP Announces New Strategy, Structure and Business Focus.* https://globenewswire.com/news-release/2015/07/29/756133/0/en/EZCORP-Announces-New-Strategy-Structure-and-Business-Focus.html

14 Consumer Financial Protection Bureau (CFPB). (2016). *Online Payday Loan Payments* http://files.consumerfinance.gov/f/201604_cfpb_online-payday-loan-payments.pdf. See also, Montezomolo, S. and Wolff, S. (2015). *Payday Mayday: Visible and Invisible Payday Lending Defaults.* Center for Responsible Lending. http://www.responsiblelending.org/payday-lending/research-analysis/finalpaydaymayday_defaults.pdf

15 Arizona, Arkansas, Colorado, Connecticut, District of Columbia, Georgia, Montana, New Hampshire, New York, New Jersey, North Carolina, Maryland, Pennsylvania, South Dakota, Vermont, and West Virginia.

16 Coleman, B. and Standaert, D. (2015). *Ending the Cycle of Evasion: Effective State and Federal Payday Lending Enforcement,* Center for Responsible Lending. http://www.responsiblelending.org/payday-lending/research-analysis/crl_payday_enforcement_brief_nov2015.pdf

17 At the end of April 2019, a new payday law will go into effect in Ohio. While we anticipate that the law is likely to reduce the fee drain, payday lenders will still be able to trap Ohioans in triple-digit APR debt traps. For more information, view Standaert, D. (2018) *Policy Brief: What Happened with Payday Loans in Ohio?* http://bit.ly/2MQzWW5

18 Montezomolo, S. (2013). *State of Lending: Payday Lending Abuses and Predatory Practices,* Center for Responsible Lending, http://responsiblelending.org/sites/default/files/uploads/10-payday-loans.pdf and, Montezomolo, S. (2013). *State of Lending: Car-Title Lending.* Center for Responsible Lending. http://www.responsiblelending.org/state-of-lending/reports/7-Car-Title-Loans.pdf

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The Center for Responsible Lending (CRL) is working to ensure a fair, inclusive financial marketplace that creates opportunities for all responsible borrowers, regardless of their income, because too many hard-working people are deceived by dishonest and harmful lending practices.

CRL is a nonprofit, non-partisan organization that works to protect homeownership and family wealth by fighting predatory lending practices. Our focus is on consumer lending: primarily mortgages, payday loans, credit cards, bank overdrafts, and auto loans.

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