Consumer Federation of America

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Latest Predatory Lenders Drive Borrowers into Debt With High-Cost Loans Secured by Cars

Survey of Car Title Loan Stores and Web Sites Reveals Predatory Loans

Washington, DC – Loans for car titles are the latest form of extremely expensive high-risk credit targeting cash-strapped consumers, according to a new report from Consumer Federation of America. Car title lenders charge consumers 300 percent annual interest for small cash loans secured by the title to cars owned free and clear. Loans are for a fraction of the car's value, but failure to pay in full at the end of the month can lead to late-night repossessions by lenders holding a duplicate set of keys.

"Title loans trap borrowers in perpetual debt through unaffordable balloon payments, high interest costs, and the threat of repossession," said Jean Ann Fox, director of consumer protection for Consumer Federation of America. "Title loans for up to half the value of the consumer's car cost ten times more than it would to get an auto loan to finance the purchase of the same car."

A survey of title lenders in eleven states and online found almost half of the states permit predatory title lending, either through weak authorizing laws or failure to close consumer loan loopholes. In California and South Carolina, lenders only make loans that are large enough not to trigger rate caps. In Virginia, Iowa and Kansas, lenders claim their loans are open-ended to get around state limits for small loans. The industry is pushing for state laws to legalize title loans without rate caps or adequate protections.

CFA's study, **"Driven into Debt: CFA Car Title Loan Store and Online Survey,"** documents that lax state laws result in the most abusive loans. Tennessee and Mississippi permit loans up to $2,500 to be due in thirty days. Georgia permits title lenders to keep all the proceeds earned from selling a repossessed car. Online lenders are entering the title loan market, claiming to use the lax regulatory environment in New Mexico or Delaware to market loans nationwide.

Key findings of the report:

- **Title loans are extremely expensive**. Title loan stores charge a median 25% per month finance charge which translates to 300% annual interest, plus additional fees average $25 per loan.

- **Title lenders will loan an average of 55% of the value of the vehicle and charge 25% per month or 300% per year.** Lenders take on extra fees that average $25 per loan, and usually require consumers to hand over a duplicate set of keys. Loans cost from $62.50 to $181 for a one-month $500 title loan from a store. Online title lenders quote rates up to 651% APR.

- **Consumers have a hard time finding out what loans really cost.** Store personnel frequently quoted interest rates as monthly finance charges and some either refused to quote the cost of borrowing $500 or hazarded guesses that were incorrect. Stores provided little consumer information. Only six sites posted the annual percentage rate for loans. One online lender quoted very low monthly rates, then tacked on high cost insurance costs, resulting in high rates.

- **Default on a title loan is expensive.** Almost half title loan store clerks said failure to repay would result in repossession. Consumers can still owe money, even after their cars are sold to repay the debt. LoanMax and Fast Auto Loans in Virginia include fine print in their contracts that consumers are liable for any deficiency.

"CFA urges states to close loopholes being exploited by title lenders and to reject industry-backed model legislation to legitimize predatory title loans," stated Ms. Fox. "States that fail to protect their consumers from one-sided title loans should repeal or reform their laws, as Kentucky and Florida recently did."

About the study: CFA member groups and volunteers surveyed eighty-one title loan stores in eleven states to collect information on the cost and terms of car title loans. CFA also conducted a scan of Internet title lenders and collected detailed information from seventeen sites. Surveyors did not submit applications or sign contracts for loans. As a result, the survey does not have completed loan documents or information on post-loan experiences.

CFA is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.

The CFA report is available at:
www.consumerfed.org/pdfs/Car_Title_Loan_Report_111705.pdf