A report from THE PEW CHARITABLE TRUSTS | March 2015

Auto Title Loans

Market practices and borrowers' experiences

The Pew Charitable Trusts

Susan K. Urahn, *executive vice president*
Travis Plunkett, *senior director*

Project team

Nick Bourke, *director*
Alex Horowitz, *officer*
Olga Karpekina, *associate*
Gabriel Kravitz, *senior associate*
Tara Roche, *senior associate*

External reviewers

The report benefited from the insights and expertise of the following external reviewers: Mike Mokrzycki, independent survey research expert; Katherine Samolyk, economist (former official with the Federal Deposit Insurance Corp. and the Consumer Financial Protection Bureau); Jeremy Tobacman, assistant professor of business economics and public policy, Wharton School of the University of Pennsylvania; Alan White, professor of law, City University of New York; and Lauren Willis, professor of law and Rains senior research fellow, Loyola Law School, Los Angeles. These experts have found the report's approach and methodology to be sound. Although they have reviewed the report, neither they nor their organizations necessarily endorse its findings or conclusions.

Acknowledgments

The small-dollar loans project thanks Pew staff members Steven Abbott, Dan Benderly, Jennifer V. Doctors, David Merchant, Bernard Ohanian, Lisa Plotkin, Rica Santos, and Mark Wolff for providing valuable feedback on the report, and Sara Flood, Jennifer Peltak, Thad Vinson, and Laura Woods for production and web support. Many thanks also to our other former and current colleagues who made this work possible. Finally, thanks to the auto title loan borrowers who participated in our survey and focus groups and to the many people who helped us assemble those groups.

For further information, please visit:

pewtrusts.org/small-loans

Cover photos:
1. Getty Images **2.** iStock **3.** iStock

Contact: Mark Wolff, communications director **Email:** mwolff@pewtrusts.org **Phone:** 202-540-6390

Contents

Overview

More than 2 million people, approximately 1 percent of American adults, use high-interest automobile title loans annually, borrowing against their cars.[1] A lender, after inspecting a car brought in by a prospective borrower, makes a loan based on a portion of the vehicle's value and keeps the title as collateral while the customer continues using the car.[2] The borrower usually must repay the principal plus a fee in a single balloon payment, typically after one month, and the lender has the right to repossess the car if the loan is not repaid.[3]

Over 8,000 title loan stores operate in the 25 states where this type of loan is available.[4] States have differing limits on loan sizes, fees, and durations, resulting in large cross-state variation in the loans' costs for borrowers.[5] Title loans are less widely used than payday loans and are usually made for larger amounts, but the two products are similar in structure, cost, and business model. The typical customer for both is a low-income worker who is struggling to make ends meet.[6] These parallels are underscored by the fact that about half of title loan branches also offer payday loans.[7]

Most title loans are structured as balloon-payment, also known as lump-sum payment, loans, as described above; some states also allow or require title loans to be repayable in installments.[8] When the loan comes due, borrowers who cannot afford to repay can renew it for a fee. As with payday loans, payments exceed most title loan borrowers' ability to repay—so the large majority of loans in this market are renewals, rather than new extensions of credit.[9]

One key reason title loans are so expensive is that, as in the payday loan market, borrowers do not primarily shop based on price, and so lenders do not lower prices to attract customers.[10] Instead, lenders tend to compete most on location, convenience, and customer service. In states that limit the fees lenders can charge for payday loans, lenders operate fewer stores—with each serving more customers—and credit remains widely available.[11] Similar access to title loans could be maintained at prices substantially lower than those in the market today.[12]

The research base on title loans is far smaller than that on similar subprime small-dollar credit products, such as payday loans.[13] To begin filling this gap, The Pew Charitable Trusts conducted the first nationally representative telephone survey of borrowers, a series of focus groups, and an examination of state regulatory data and company filings to illuminate practices, experiences, and problems in the title loan market. (See Appendix C.) Unless otherwise noted, information about market trends and legal requirements is based on Pew's analysis of lenders' practices, market trends, and applicable laws. The analysis found that:

1. Title loan customers spend approximately $3 billion annually, or about $1,200 each, in fees for loans that average $1,000.[14] The annual interest rates for title loans are typically 300 percent annual percentage rate (APR), but lenders charge less in states that require lower rates.[15]
2. The average lump-sum title loan payment consumes 50 percent of an average borrower's gross monthly income, far more than most borrowers can afford.[16] By comparison, a typical payday loan payment takes 36 percent of the borrower's paycheck.[17]
3. Between 6 and 11 percent of title loan customers have a car repossessed annually. One-third of all title loan borrowers do not have another working vehicle in their households.
4. Only one-quarter of borrowers use title loans for an unexpected expense; half report using them to pay regular bills. More than 9 in 10 title loans are taken out for personal reasons; just 3 percent are for a business the borrower owns or operates.
5. Title loan borrowers overwhelmingly favor regulation mandating that they be allowed to repay the loans in affordable installments.

This report details these findings, and shows that the title loan market has many similarities with the payday loan market as well as several important differences, such as larger loan sizes and the risk to borrowers of losing a vehicle. Overall, the research demonstrates that the title loan market suffers from the same fundamental problems as the payday loan market, including unaffordable balloon payments, unrealistically short repayment periods, and unnecessarily high prices.

Pew urges state and federal policymakers to address these problems. They may elect to prohibit high-cost loans altogether (as some states have done), or issue new, more uniform regulations that would fundamentally reform the market for payday and title loans by:

- Ensuring that the borrower has the ability to repay the loan as structured.
- Spreading costs evenly over the life of the loan.
- Guarding against harmful repayment and collections practices.
- Requiring concise disclosures.
- Setting maximum allowable charges.

In particular, as the federal regulator for the auto title loan market, the Consumer Financial Protection Bureau should act urgently to alleviate the harms identified in this research. Although the bureau lacks the authority to regulate interest rates, it has the power to codify important structural reforms into federal law.

How auto title lending works

Auto title loans are high-interest cash loans for which borrowers post their car title as collateral. Some states set limits on sizes, fees, and durations of title loans or provide consumer protections regarding borrowers' rights in the event of default.[18] Though some credit unions offer title loans, most such loans originate from specially licensed title loan stores. More than 8,000 of these stores operate in 25 states nationwide.[19] Twenty-five states and the District of Columbia do not have title loan stores, because they either explicitly prohibit lending against a car title or cap APRs on these loans no higher than 36 percent, a rate at which auto title lenders generally do not operate.

Loan terms and conditions

To get a title loan, an applicant drives his or her car to a store and provides the lender with the title to the car as collateral.[20] In most cases, potential borrowers must own a car free and clear in order to qualify for a title loan, meaning that they do not owe money under a conventional auto loan.[21] The loan amount offered is a fraction of the value of the car as assessed by the lender. The borrower leaves with the loan proceeds in 15 to 45 minutes (or just a few minutes for renewals) and retains use of the car while the loan is outstanding.[22]

If the loan becomes past due, the lender has a right to repossess the car.[23] The borrower then has a chance to redeem the car by repaying the loan principal, interest, and any additional fees.[24] Otherwise, the lender may sell the car to recover the amount owed. Depending on state law, if more is owed on the loan than the sale yields, the lender may pursue the borrower for additional payments, known as a deficiency balance.[25] Conversely, if the car sale yields more than is owed for the loan, some states require the lender to return the surplus value to the borrower.[26]

Cost

Title loans average $1,000, though they range from less than $100 to more than $10,000 depending on the value of the car and lenders' and borrowers' preferences.[27] State laws also influence loan sizes, either through direct limits or caps on the interest rates that lenders are permitted to charge on loans of different amounts.[28]

Nationally, the most common APR charged on the typical one-month title loan is 300 percent, or 25 percent for each month that the loan is outstanding, but rates vary somewhat on a state-by-state basis, primarily because of differing regulations.[29] The average borrower spends an estimated $1,200 in fees annually for a $1,000 loan.[30] (See Table 1.) Each year, this comes to approximately $3 billion across the more than 2 million American adults who use these loans.[31] (Lenders typically describe interest charges as fees, and they usually do not charge both interest and fees.)

Table 1

On Average, Annual Fees Paid for a Title Loan Are More Than the Principal

Loans typically carry an APR of 300%

Average loan size	**$1,000**
Average fees paid per customer per year	**$1,200**
Typical annual percentage rate charged	**300%**

Sources: TMX Finance, 2011, 2012; Center for Responsible Lending, 2013; and state regulatory data, 2011, 2012, 2013

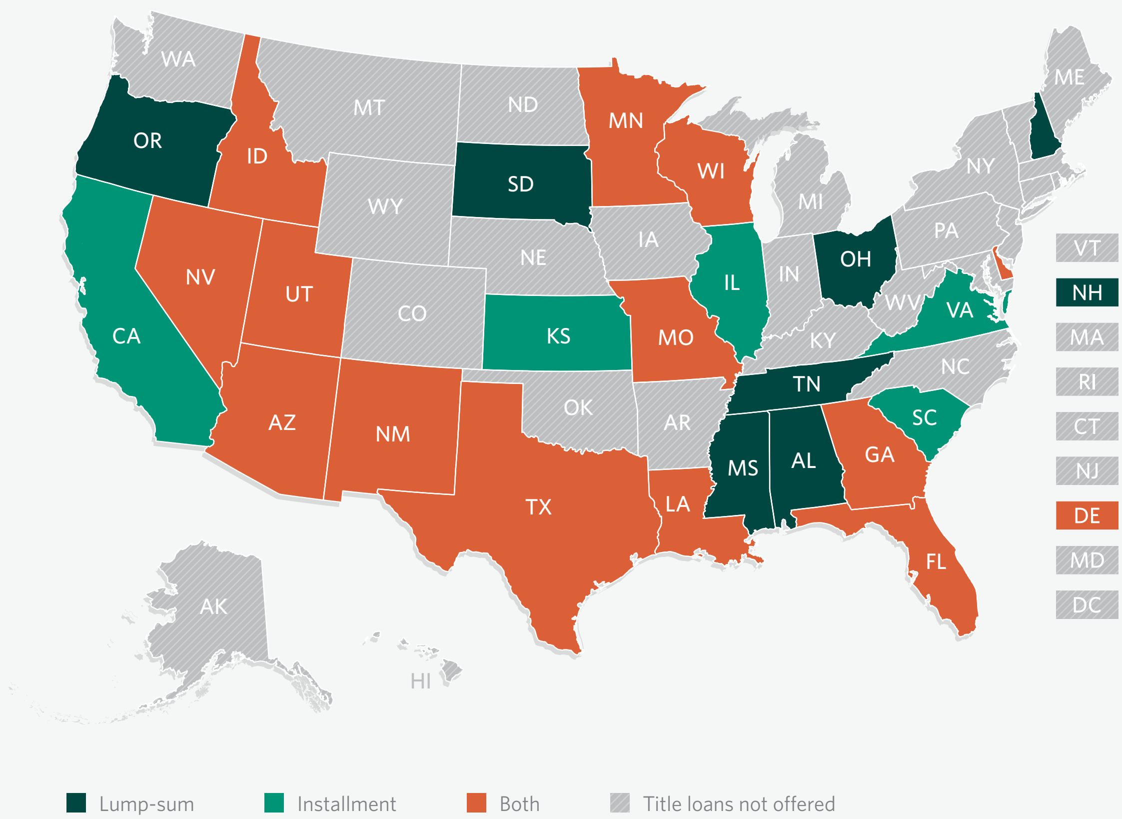
Loan duration

The most common term for a title loan is 30 days. Depending on state law, however, loans can last as little as two weeks or more than a year.[32] In most states that allow title lending (see Map 1), borrowers cannot already owe money on their cars. For this reason, a borrower can obtain only one title loan per vehicle at a time. Because the borrower's car is provided as collateral, many title lenders do not require an applicant to prove income.[33] Loan-to-value ratios vary greatly in the industry but average about one-quarter of the vehicle's retail value.[34]

Map 1

Auto Title Lenders Operate in 25 States

Types of title loans offered, by state



Notes: Lump-sum loans require a balloon payment, typically after one month; installment loans are repaid in smaller payments over time. All title loan states, except for Arizona, Georgia, and New Hampshire, also have payday lending. In some states, not indicated here, consumer installment lenders offer underwritten loans collateralized by a car title.

Sources: Pew's analysis of states' lending statutes and existing lender practices

Comparisons with the payday lending business model

Title lending is often compared with pawn lending, but on close inspection, the title loan business model more closely resembles that of payday lending.[35] Both payday and title lending allow people with damaged credit histories to borrow relatively small amounts of money at high interest rates, primarily from stores that serve a small number of customers at each location and compete primarily on location, speed, and customer service, rather than price. The nation's largest title lender spends about 66 percent of its revenue on overhead and just 18 percent on losses, similar to the largest payday lender.[36] The average store serves only about 300 unique title loan customers a year (about one unique customer each business day); by comparison, the average payday loan store serves about 500 individuals annually.[37] Both businesses cover their considerable overhead by charging high prices to these small numbers of customers. Therefore, like storefront payday lenders, title loans are expensive primarily because of the cost to operate stores, rather than because of the risk of losing the loan principal or because they earn unusually high profits.

> Title lenders spend more than three times as much on overhead as on losses.

Payday loans are far more widely used than title loans: Payday loan stores operate in 36 states, while title loan stores operate in 25. About 5 percent of American adults use payday loans annually, but only about 1 percent—slightly more than 2 million people—borrow from title lenders.[38]

One important difference between these products is that title loans are larger than payday loans on average ($1,000 vs. $375). This is one reason that the estimated $1,200 spent annually by an average title loan borrower on fees is more than twice the $520 spent a year by an average payday loan borrower.[39]

The title loan market is also slightly more concentrated than the payday loan market.[40] The largest firm, TMX Finance, operates more than 1,650 stores, or roughly one-fifth of all locations.[41] Many other lenders offer title loans as a secondary product along with payday or pawn loans.[42]

Other similarities between title and payday loans are the characteristics, financial circumstances, and experiences of their borrowers. These topics are discussed in depth in the following pages, and findings are based on survey and focus group research except where otherwise noted. Like the payday loan market, the title loan market suffers from fundamental problems, including unaffordable payments, unrealistically short repayment periods, and unnecessarily high prices.

Who are title loan borrowers?

Most title loan borrowers experience persistent financial distress

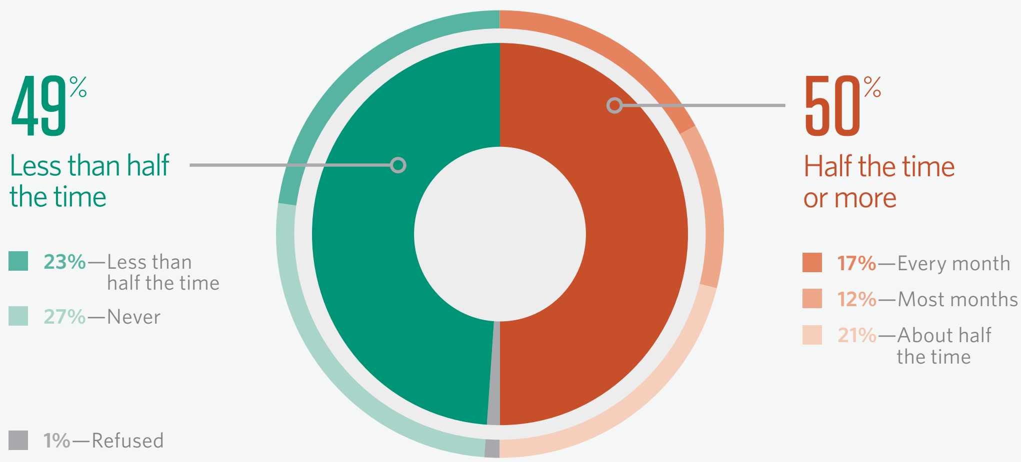
Pew conducted the first nationally representative telephone survey of title loan borrowers about their experiences with the loans. Unless otherwise noted, all findings about borrowers' views and experiences come from this new research. (See Appendix C for details of the methodology.) Pew's survey data and other available research indicate that title loan borrowers are generally demographically similar to payday loan borrowers and have comparable incomes (gross annual median income of just under $30,000, or a little less than $2,500 a month).[43] (See Appendix A for a table of borrowers' demographics.)

People who use auto title and payday loans are also similar in their reasons for doing so and in their borrowing patterns.[44] Approximately half of survey respondents report having trouble paying their bills at least half the time. (See Figure 1.)

Figure 1

50% of Borrowers Have Trouble Meeting Expenses at Least Half of the Time

3 in 10 struggle to make ends meet most months



Note: Respondents were asked, “How often, if ever, do you have trouble meeting your regular monthly bills and expenses?” Results are based on 313 interviews. Data do not add to 100% due to rounding.

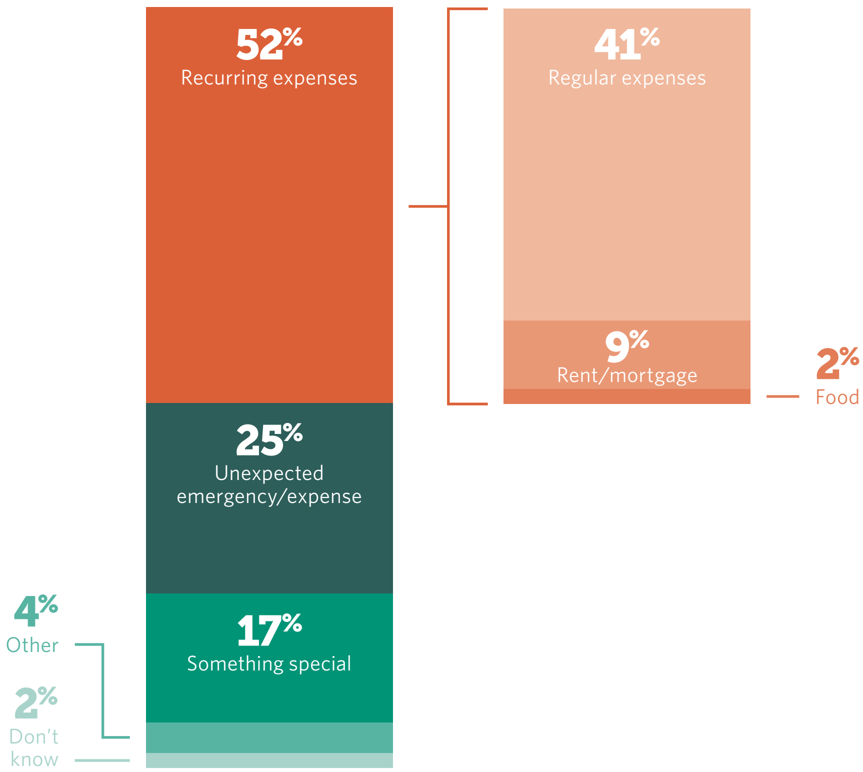
Just over half of borrowers use title loans to cover regular expenses, such as rent or utilities; only about 1 in 4 first used a loan for an unexpected expense.[45] (See Figure 2.) Nearly all borrowers—94 percent—report using the loans exclusively for personal or family expenses, not business expenses. This finding is consistent with a previous survey of title loan customers from three states, which found that very few borrowers used the loans for a business purpose.[46]

Unlike payday borrowers, title loan customers are not required to have a bank account. However, three-quarters report that they do.[47] Although title and payday loans are sometimes advertised as a way to avoid checking account overdrafts, half of title loan borrowers who have checking accounts have overdrawn their accounts in the past year, comparable to the figure for payday loan borrowers.[48] (See Figure 3.)

Figure 2

Half of Borrowers Use Title Loans to Cover Regular Bills

Only 1 in 4 use them for unexpected expenses



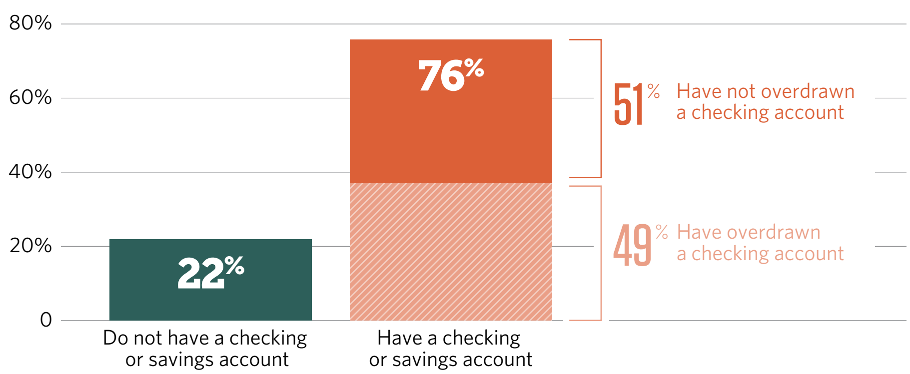
Note: Respondents were asked, "Thinking back now to (that first/the) time you took out an auto title loan, what specifically did you need the money for? To pay rent or a mortgage; to pay for food and groceries; to pay a regular expense, such as utilities, car payment, credit card bill, or prescription drugs; to pay an unexpected expense, such as a car repair or emergency medical expense; to pay for something special, such as a vacation, entertainment, or gifts? (Do not read) Other (specify)." Results are based on 313 interviews.

94% of borrowers report using title loans exclusively for personal or family expenses, not business expenses.

Figure 3

Most Title Loan Borrowers Have Checking Accounts

Half of those have been overdrawn in the past year



Notes: Borrowers were asked, "Have you used ... in the past year?" Results are based on 313 interviews. Of those, 239 had a checking account and were asked "Overdrafting on your checking account." Each item was asked separately. Some data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

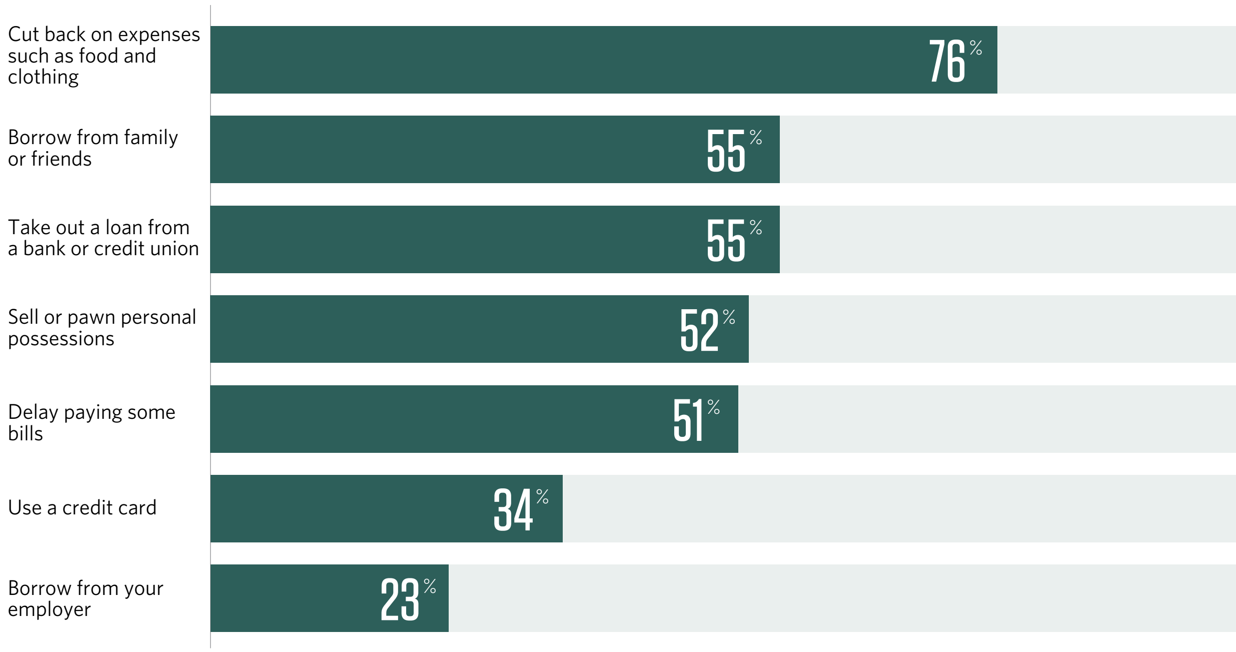
Most borrowers have alternatives to title loans

Like payday borrowers, most people report having other options if title loans were unavailable, including 3 in 4 who say they would cut back on basic expenses. Most also say they could borrow from family and friends, sell or pawn possessions, delay paying some bills, or take a loan from a bank or credit union. (See Figure 4.)

Figure 4

Alternatives to Title Loans

3 in 4 report they would cut back if they could not borrow



Note: Respondents were asked, "For each, tell me whether you would use this option if you were short on cash and short-term loans no longer existed. How about … " Results are based on 313 interviews.

Most borrowers rely on lender information and word of mouth

Seven in 10 title loan borrowers report that they rely on lenders to provide accurate information about the loans. (See Figure 5.) Similarly, they say that they do little independent research and do not compare prices or terms among lenders. Most attribute this to the urgency of getting a loan quickly to pay bills. This is consistent with previous research showing that, when choosing a small loan, subprime borrowers focus on how quickly they can get the funds, how much they can borrow, and whether they are certain to be approved.[49]

Pew's earlier research found that for most small loan customers, price is not the primary consideration.[50] In focus groups, title loan borrowers echoed this sentiment, explaining that they chose their lender based on location, advertisements, and recommendations from friends or family, rather than comparison shopping for cost or negotiating a lower price.[51]

How Borrowers Chose a Title Lender

"I went because that was where my friend had gone."—*St. Louis title loan borrower*

"It was close to home for me."—*St. Louis title loan borrower*

"They advertise on TV, and it was just because that was the one that was there."—*Houston title loan borrower*

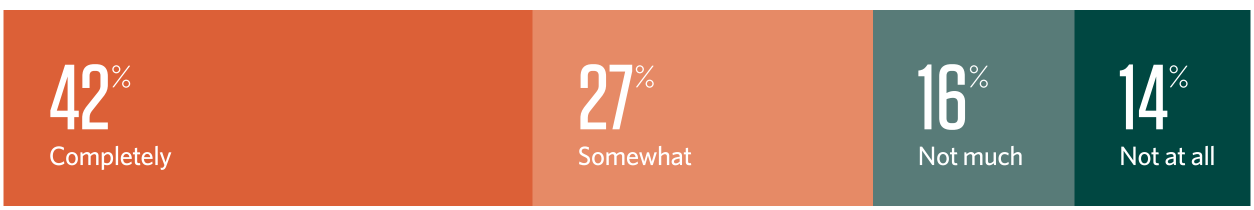
"There's one right there, so let's go because we need this money now. We don't have time to shop, and it's an impulse."—*St. Louis title loan borrower*

Note: All quotes from borrowers in this report come from five focus groups conducted by The Pew Charitable Trusts with title loan borrowers. One group was conducted in Birmingham, Alabama, two were conducted in Houston, and two were conducted in St. Louis.

Figure 5

7 in 10 Borrowers Rely on Lenders for Accurate Information

Few do independent research or comparison shop based on price



Note: Respondents were asked, "How much do you rely on auto title lenders to give you accurate information—completely, somewhat, not much, or not at all?" Results are based on 313 interviews. Data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

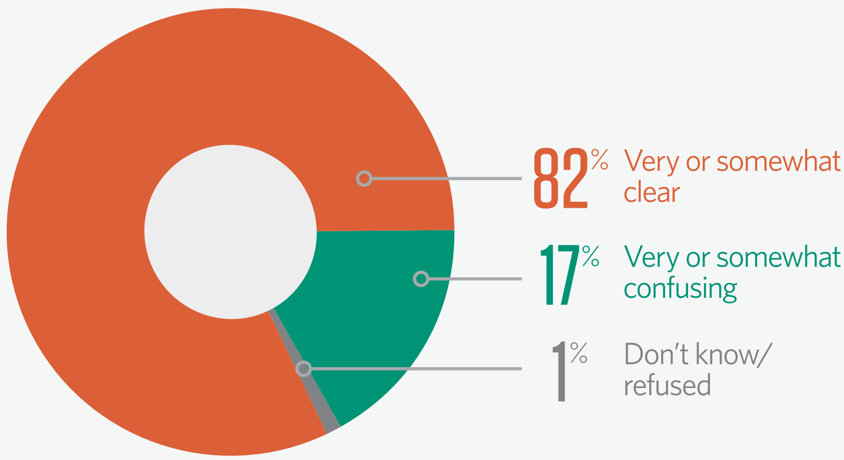
Borrowers say terms are clear

Four in 5 borrowers report that the terms of a title loan are very or somewhat clear, suggesting that most believe they know what is required to repay their debts. (See Figure 6.) As with lump-sum payday loans, the cost to the borrower for the stated term (typically one month) is quite transparent, but the loan's real cost over many months is far higher.[52] This finding raises questions about why people choose unaffordable loans if they think the terms are clear. Twenty-two percent of title loan borrowers report that they have been in such difficult financial situations that they would accept a title loan on any terms offered. (See Appendix C.)

Figure 6

4 in 5 Borrowers Say Loan Terms Are Clear

Most report knowing the amount of the monthly fee



Note: Respondents were asked, "When you took out (that first/the) auto title loan, would you say the terms and conditions of the loan were very clear, somewhat clear, somewhat confusing, or very confusing?" Results are based on 313 interviews.

Borrowers Rely on Title Lenders for Information

"They tell you you're going to have this paid in a month, and you're thinking, okay." —*Birmingham, Alabama, title loan borrower*

"I rely on their expertise … and depending on the circumstances, I may not know what questions I should ask you."—*Houston title loan borrower*

"You're going to pay exactly what they tell you to do, to pay. If they told me all I had to do was $100, I would give them their $100, and I know I'm done and … I would have to pay that $100 until forever."—*Birmingham, Alabama, title loan borrower*

Borrowers' experiences

Title loans often exceed customers' ability to repay

The average $1,000 title loan with a typical $250 fee requires a lump-sum payment of $1,250 after 30 days, far more than most borrowers can afford. (See Table 2.) This payment represents approximately 50 percent of an average borrower's gross monthly income ($2,500). While payday loan borrowers report that they can afford a median of $100 a month, that figure is $200 for title loan borrowers.[53] As with payday loans, this disparity between what title loan customers can afford and what is required to retire the debt leads them to repeatedly renew their loans.

> An average title loan repayment consumes about half of an average borrower's gross monthly income.

Table 2

2 in 3 Borrowers Cannot Afford Payments of More Than $250 a Month

Few can pay the $1,250 needed to retire a typical lump-sum title loan

Amount	Percentage
$100 or less	36
$101-250	31
$251-500	18
$501 or more	9
Don't know/refused	6

Note: Respondents were asked in an open-ended question, "How much can you afford to pay each month toward an auto title loan and still be able to pay your other bills and expenses?" Results are based on 313 interviews.

Most title loans are renewals

State regulatory data demonstrate the centrality of renewals to the title loan business model. In Tennessee, approximately 84 percent of all title loans are renewals.[54] In Texas, the figure is at least 63 percent.[55] These data are based on a strict definition of renewals—extensions for a fee; they do not include loans that are repaid and then quickly re-borrowed in less than a month.

Testimony from the head of one of the largest title lenders confirms that, under the stated terms, lump-sum title loan payments do not fit in borrowers' budgets: "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. … Many customers will likely be unable to repay the [Customer] Loans within the next 30 days."[56] Further testimony suggests that the title lending business model is based on this expectation of renewals driven by the inability to repay: "[Our] expected return is due to the fact that the Customer Loans are typically renewed at the end of each month and thereby generate significant additional interest payments. … The average thirty (30) day loan is typically renewed approximately eight (8) times."[57]

These findings mirror those from research on the payday loan market. Three independent analyses found that between 76 and 86 percent of payday lenders' revenue comes from renewals or quick re-borrows.[58]

Even for the minority of title loans that use installments rather than lump sums, payments frequently exceed what typical borrowers say they can afford. For example, in Illinois, an average installment title loan has a monthly payment of about $227; in Virginia, the average is $242, and in Texas, $341.[59]

Payments Exceed Borrowers' Ability to Repay

"[S]ome people are in desperate need of money, and there is just nothing else they can do about it. I think that there are a lot of people that giving them this loan that they can't afford is going to put them in a deeper hole because they're just not going to be able to get out of it." *—Houston title loan borrower*

"It's based on an assumption that things are going to get better, and then if they don't then you're stuck."*—Houston title loan borrower*

"The majority of the time, it's not in the budget. … You're just getting it to get that fix, to get what you need paid right then and there. Then I'll come back and worry about that later." *—Houston title loan borrower*

"It was huge payments that just were out of reach, but I ended up having to borrow to make those payments."*—St. Louis title loan borrower*

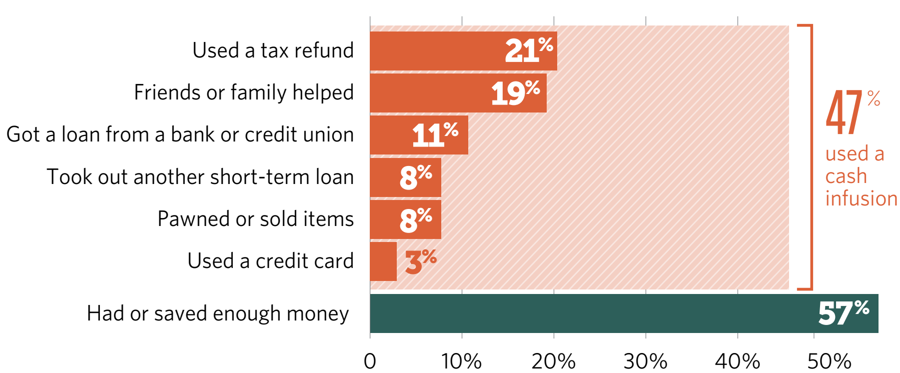
How people repay title loans

To repay a title loan, 47 percent report using a cash infusion, such as a tax refund. (See Figure 7.) Strategies that people employ to repay loans mirror those that some borrowers use to repay payday loans: borrowing from family or friends, getting a longer-term loan from a bank or credit union, or pawning or selling personal belongings. Most borrowers report that they could use at least one of these options instead of taking a title loan, and nearly half eventually resorted to one or more in order to repay a loan.

Figure 7

47% Report Using a Cash Infusion to Repay a Title Loan

Borrowers paid off loans with tax refunds, help from family or friends, or bank loans



Note: Borrowers were asked, "Please tell me whether you have or have not used each of the following methods to pay back an auto title loan. How about …?" Figures add to more than 100 percent because some people have used multiple methods to repay title loans. Each item was asked separately. Results are based on 313 interviews.

How Borrowers Repaid Title Loans

"They wanted to take my car just for one payment, and I thought that was so very, very unfair. So what I had to do, I had to go to my credit union to borrow the money to pay them back." *—Birmingham, Alabama, title loan borrower*

"I borrowed to pay it off because I didn't want to lose my car."*—St. Louis title loan borrower*

"I finally just had to go and borrow money off of a credit card and pay it off."*—St. Louis title loan borrower*

"I went ahead and had to borrow from my parents to cover it."*—St. Louis title loan borrower*

"Sometimes you want to go to [a lender] before you ask family because you have pride. And then realize that you need the family's help anyway, so you have to call them to get you out of the situation."*—Houston title loan borrower*

"All the fees, extra charges, late fees, and then trying to come pick it up and charging me for the demand power of trying to pick it up when it was locked in the garage. It was about roughly $8,000 that my grandmother had to pay."*—St. Louis title loan borrower*

Repossession

One in 9 borrowers reports having a car repossessed by a title lender. (See Appendix B.) This figure is in line with data from state regulators, which indicate that typically 6 to 11 percent of borrowers have a car repossessed in a given year.[60] Some 15 to 25 percent of repossessed vehicles are returned to borrowers who pay their overdue loan balances plus fees,[61] and the rest are sold. So approximately 5 to 9 percent of borrowers, or 120,000 to 220,000 people, lose their cars in a given year.[62]

These are not small failure rates for a consumer credit product. Yet while the data suggest that repossession is a serious issue in the title loan market, it affects only a small minority of borrowers. In focus groups, some reported that fear of repossession motivated them to keep up with payments. Others cited it as the reason they asked family or friends for help, or borrowed from another source, even if they had previously rejected those options in favor of a title loan.

If a borrower's vehicle is repossessed and sold and yields more in a sale than the borrower owes, many states require lenders to return the surplus value to the borrower. Research indicates that such surpluses are rare, which may seem surprising because loan-to-value ratios average only one-quarter of the vehicle's retail value.[63] One reason surplus values are uncommon is that lenders typically charge high repossession and storage fees to borrowers in default that increase the amount owed and consume car sale revenue in excess of the original debt.[64]

Lenders charge repossession-related fees to avoid losses on defaulted loans and to earn additional revenue. But because few loans end in repossession, these fees are not a core part of the title loan business model.[65]

Borrowers Experience Repossession

"I'm paying … interest, and my principal hasn't come down a bit. I lost a car like that. … We paid on it for almost a year. Then it dawned on me, and I finally said, 'You know, this is ridiculous; just take this stupid car.' "—*St. Louis title loan borrower*

"They took my truck … a $2,000 truck, and I borrowed $400. … I tried calling them for a few weeks, and she just kept saying, 'Read your contract.' "—*Houston title loan borrower*

"When I came to tell them that I couldn't pay, he took my keys and put it on the board and told me, 'Miss, the car is ours.' "—*Birmingham, Alabama, title loan borrower*

"Well, I made like two payments, and then I realized that if I didn't pay it off in full that the loan just kept renewing itself every month. … There was no way I was going to pay that much money back. So I just had to cut my losses. … I was like, 'No, y'all can have this car.' "—*St. Louis title loan borrower*

"We paid probably in total about $1,500 when we got done, and they still ended up taking it." —*St. Louis title loan borrower*

"I've been called [as a police officer] by a customer [having a car repossessed] who is not understanding what they were getting themselves into and thinking a police officer could help. I've gotten calls from the company themselves and the customers."—*St. Louis title loan borrower*

The consequences of repossession likely vary depending on each borrower's situation. Thirty-five percent of respondents report having no more than one working vehicle in their household; the rest have two or more.[66] (See Appendix B.) Nearly all report using a car to complete essential tasks such as traveling to work, school, and medical appointments and to buy food and other household goods. (See Appendix B.) Of those who drive to school or work, half said they would get a ride, carpool, or use another car in the household if their car were repossessed. (See Table 3.) Thirty-one percent would take public transit, walk, or bike, and 15 percent said they could not get to school or work.[67] For this last group in particular, the consequences of losing their car could be dire.

Table 3

Most Borrowers Have Other Ways to Commute to Work If a Car Were Repossessed

15% report that they would not be able to get to school or work

Ways to Commute	Percentage
Would get a ride, carpool, or use another car in the household	50
Would take public transit	18
Would walk or bike	13
Could not get to work or school	15

Note: Borrowers were asked, "If your car were repossessed, how would you get to school or work?" Results are based on 313 interviews. Data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

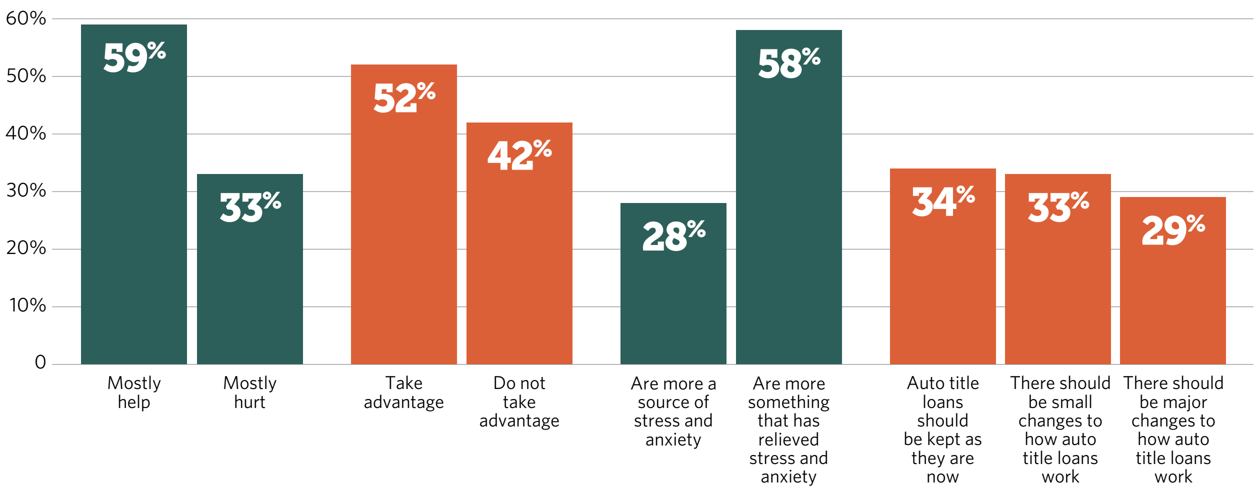
Borrowers' opinions

Borrowers see title loans as providing help and temporary relief at a difficult time, but half feel that the loans take advantage of them. (See Figure 8.) A greater number say the loans help more than they hurt, but an even larger majority favors changes to how title loans work. The conflicted sentiments of title loan borrowers are similar to those expressed by payday loan borrowers.[68] Customers appreciate having credit available to them but feel that the terms are unfair and that the loans do not serve them well. Borrowers are split as to whether they would be likely to take a title loan again if they were in a financial bind. (See Figure 9.)

Figure 8

Borrowers Express Conflicting Feelings About Title Loans

Customers say the loans help and provide relief but take advantage and should be changed

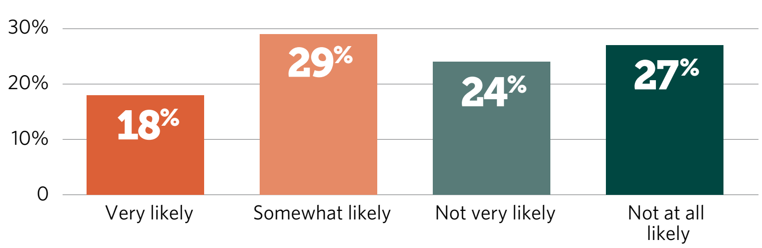


Note: Borrowers were asked: "Overall, do you think that auto title loans mostly help borrowers like you or mostly hurt borrowers like you?" "What do you think, do auto title loans take advantage of borrowers or not?" "Have auto title loans been more a source of stress and anxiety for you and your family or more something that has relieved stress and anxiety?" "Which of the following best describes your view?" Each question was asked separately. Results are based on 313 interviews. Data do not add to 100% because "Don't know," "Refused," and "Both" were omitted from this chart.

Figure 9

Just Under Half of Borrowers Say They Are Likely to Use Title Loans Again

51% would not borrow in the future



Note: Borrowers were asked, "If you find yourself in a financial bind again, how likely is it that you would take out an auto title loan?" Results are based on 313 interviews. Data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

Borrowers want policymakers to act

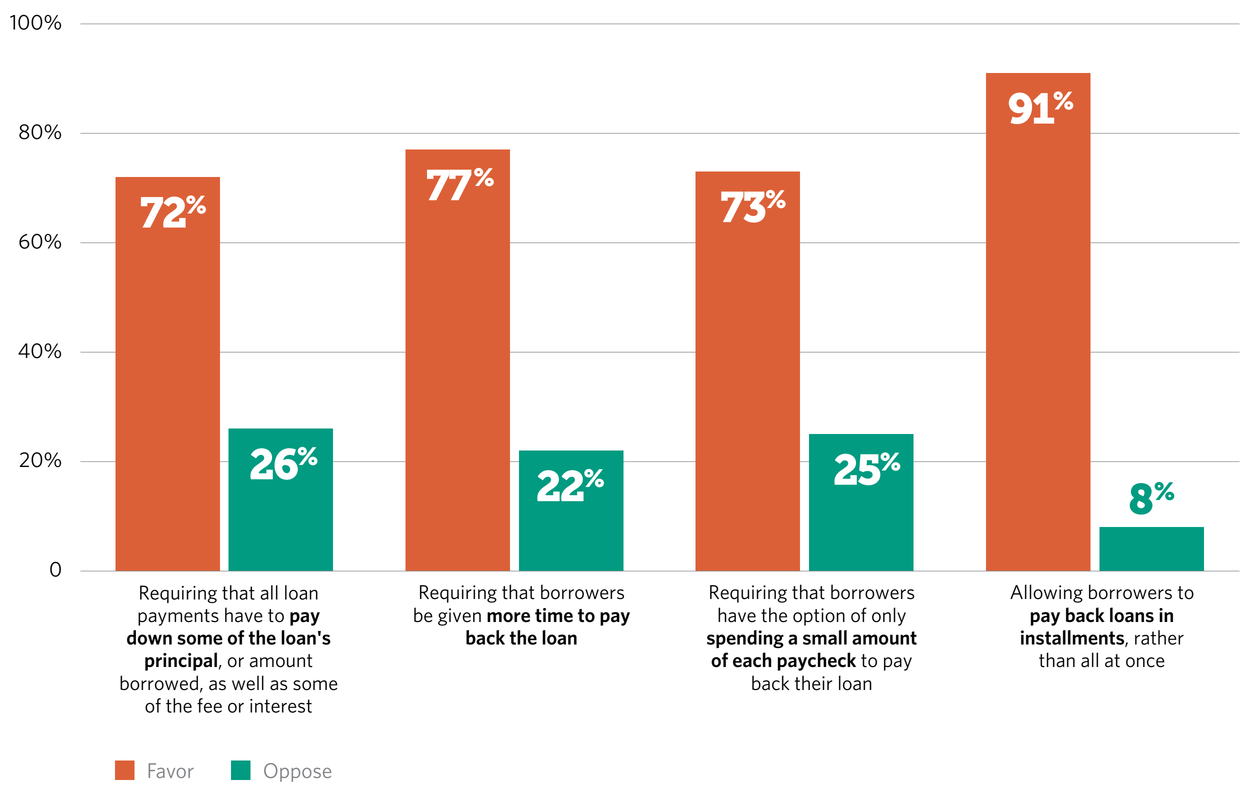
Sixty-six percent of title loan borrowers believe the industry should be more regulated. (See Appendix B.) Specifically, they favor new requirements ensuring that title loans are repayable in affordable, amortizing—or principal-reducing—installments. (See Figure 10.) This structure would allow them to make predictable and realistic payments that reduce their loan balance and provide a clear pathway out of debt. This change is particularly needed in the title loan market because the average loan size ($1,000) is much larger than that of an average payday loan, and the costs associated with nonpayment are higher, because the vehicle can be repossessed.

66% of title loan borrowers believe the industry should be more regulated.

Figure 10

Borrowers Overwhelmingly Support Requiring Affordable Installment Payments

Most title loan customers want more regulation



Note: Borrowers were asked, "Now I'm going to read you some ideas for how title loans could be changed or modified. After I read each idea, tell me whether this sounds like something you would favor or oppose. How about …? Do you favor or oppose this?" Each item was asked separately. Results are based on 313 interviews. Data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

Solutions for the title loan market

Many states do not allow high-interest title lending today. Pew recommends that they continue to prohibit this practice. Studies have found mixed results as to whether greater access to high-interest credit benefits or harms consumers overall.[69] Pew's data show that many people who use these types of loans are coping with long-term financial problems, including persistent difficulty covering regular expenses. More access to credit will not solve these imbalances. In other words, the evidence does not support an expansion of title lending.[70]

Instead, there is strong evidence to support eliminating or reforming high-cost title loans. In states that allow title lending today, regulation is urgently needed to prohibit this harmful form of credit or substantially change it to make the market safer and more transparent. Pew's proposed solutions are neither an endorsement of high-interest credit nor a promotion of credit as a means to cope with persistent cash shortfalls. Rather, they are intended to help policymakers address the harms of title loans where they currently exist, while allowing for the evolution of more beneficial and affordable products.

Because of the collateral required, the title loan market presents unique risks to borrowers, and it is important to provide safeguards that reduce the share of loans that end in vehicle repossession. The consequences of losing a car after defaulting on a title loan can be severe, especially for the 1 in 3 borrowers who do not have another vehicle in their household. However, as in the payday loan market, the more pervasive problems in the title loan market are unaffordable payments, unrealistically short repayment periods, and unnecessarily high prices. Regulators can take concrete steps to address these issues and reduce the resulting harm to borrowers.

Improve affordability

Pew's extensive analysis of payday loan products—as well as other research on the effects of regulatory changes, particularly Colorado's payday loan reform, which replaced balloon payments with more affordable installments—has important implications for the title loan market.[71] Because of the similarities between auto title and payday loans, the options for improving affordability are also comparable.

One key element of improving affordability is identifying what constitutes a reasonable payment for a given borrower. To do this, lenders should be required to assess applicants' ability to repay based on their income and expenses. Pew's previous research identified a benchmark for determining when small-dollar loans are unaffordable for most consumers: the 5 percent affordability threshold.[72]

Data from payday and installment loan markets indicate that monthly payments equal to more than 5 percent of a borrower's monthly gross income would exceed a typical customer's ability to repay.[73] Policymakers should presume that any loans with monthly payments larger than 5 percent of the borrower's gross monthly income are unaffordable, unless thorough underwriting has demonstrated that the borrower can afford them while meeting all other financial obligations and without needing to re-borrow to make ends meet.[74] Pew developed this threshold based primarily on four data sources:

- The share of a borrower's paycheck that is spent on fees to renew or re-borrow a payday loan without reducing the principal.
- The amount that borrowers report they can afford to pay compared with their self-reported income.
- The share of a Colorado borrower's paycheck that is spent on loan payments under the state's successful regulatory reforms.

- The share of a borrower's paycheck that is spent on payments for an underwritten, unsecured loan from a traditional consumer finance company.[75]

This threshold refers only to the size of a borrower's payment, not to the loan price. (See Table 4.) It works for loans of any size and for customers at all income levels. Though originally identified for the payday loan market, this threshold would also improve affordability in the title loan market. Moreover, adopting this policy for title loans would allow policymakers to treat all small-dollar loans consistently, whether secured by a postdated check, electronic debit authorization, car title, or borrower's signature.[76]

Table 4

The 5% Threshold Results in Installment Payments That Are Affordable for Most Borrowers and Profitable for Lenders

Payments are based on borrowers' income

Annual income	Monthly income	Monthly installment payment (at 5% of monthly income)
$18,000	$1,500	$75
$24,000	$2,000	$100
$30,000	$2,500	$125
$36,000	$3,000	$150
$48,000	$4,000	$200
$60,000	$5,000	$250

Establishing Affordability Without Documented Income

Payday lenders require borrowers to have a documented income, but some title lenders do not.[*] Policymakers may wish to preserve the availability of title loan credit for people who are paid in cash or have difficulty documenting income. If applicants do not have paperwork to demonstrate their income but have collateral in the form of a vehicle, states can allow lenders to calculate payments based on a low level of assumed income, such as the state or federal minimum wage for a full-time employee. The payments resulting from this assumption are small enough that in most cases lenders will choose to document income if possible.

* Todd J. Zywicki, "Consumer Use and Government Regulation of Title Pledge Lending," George Mason University School of Law Mercatus Center (2010), 13, accessed Sept. 16, 2014, http://www.law.gmu.edu/assets/files/publications/working_papers/1012ConsumerUseandGovernmentRegulation.pdf; and Consumer Federation of America and Center for Responsible Lending, "Driven to Disaster" (2013), 10, accessed Aug. 22, 2014, http://www.responsiblelending.org/other-consumer-loans/car-title-loans/research-analysis/CRL-Car-Title-Report-FINAL.pdf.

Curtail unnecessarily long loan durations

With effective reforms, including strong ability-to-repay standards, lump-sum loans will be scarce and installment loans with affordable payments will become the norm. But even after this transition occurs, some lenders may attempt to increase revenue by designing loans with unnecessarily long repayment terms.

Already in the online installment payday loan market, some lenders have used excessive durations to increase the amount paid by borrowers. Under this strategy, monthly fees paid over unnecessarily long periods drive up the cost of the loan. For example, a $300 loan that is structured to last eight months at a cost of $1,198.75 in fees requires the borrower to pay a total of $1,498.75.[77] Similarly, one auto title lender offers 16-month loans of $500 that cost $1,111 for total repayment of $1,611 and of $1,500 with a cost of $2,862 and a $4,362 total repayment.[78]

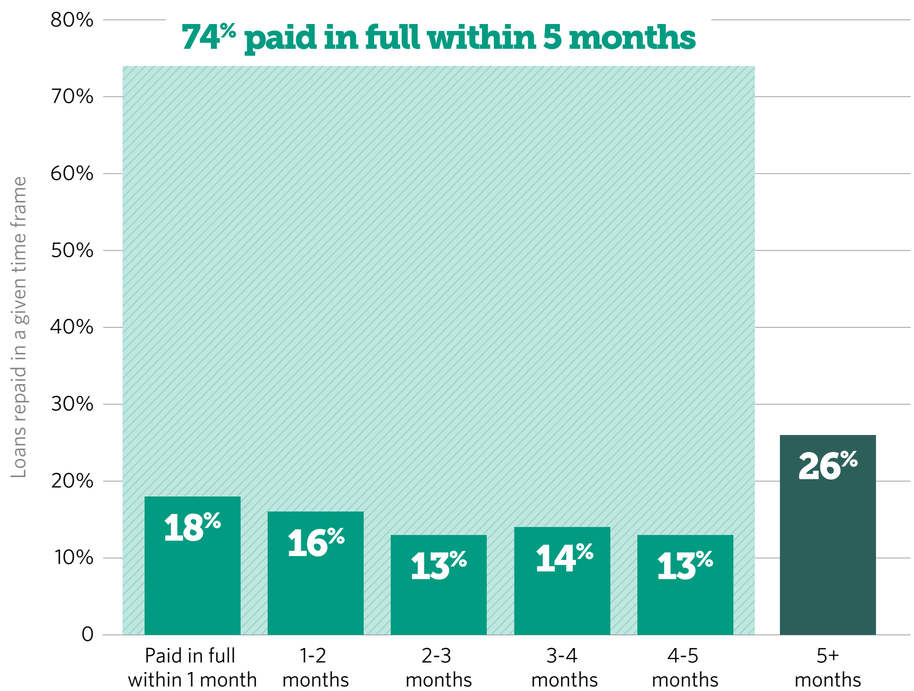
Prepayment

However, evidence also suggests that borrowers pay off high-cost loans early when they can afford to do so.[79] In Colorado, where a 2010 legislative reform required payday loans to be repayable in no less than six months, three-quarters of all loans are repaid by the end of the fifth month. (See Figure 11.) Because the Colorado law prohibits front-loading of fees and interest, borrowers who repay early are not subject to prepayment penalties or other charges related to refinancing.[80]

Figure 11

Most Colorado Payday Installment Loans Are Paid Off Early

Affordability requirement lets borrowers choose when to repay



The average loan is repaid in just over 3 months

Source: Colorado Office of the Attorney General, 2014

If regulators require loans to have affordable payments, some lenders might attempt to impose unnecessarily long repayment terms. It is unclear how substantial the problem would be, given that borrowers could pay loans off early. Nevertheless, policymakers should implement safeguards to reduce this risk.

Most importantly, policymakers should ensure that borrowers can repay loans early without incurring penalties. In addition, borrowers who prepay should receive a pro rata refund of any fees paid to originate the loan. Though origination fees may be reasonable in some circumstances, these fees encourage lenders to steer borrowers to refinance in the subprime, small-dollar lending market, so requiring prorated reimbursement is necessary to protect consumers.[81]

Fixed maximum loan terms

Policymakers may also wish to set maximum allowable loan durations. One approach is to set fixed maximum loan terms. Most states where payday or title lenders operate already have maximum loan terms, which lawmakers could adapt to installment loan markets.[82] As Colorado's installment payday market demonstrates, even at high interest rates, six months is generally long enough for a borrower to repay a $500 loan. In other installment loan markets, one year is usually long enough to repay $1,000.[83]

However, there are drawbacks to imposing fixed maximum loan terms. The feasibility of a given loan term depends on the borrower's financial wherewithal and the principal value of the loan, among other factors, and fixed terms do not account for these variables. For example, using the 5 percent affordability threshold and a six-month term, someone earning $60,000 annually ($5,000 monthly) who borrows $500 would repay $250 a month, or $1,500 total (an unnecessarily high cost of $1,000). This borrower could afford to repay the loan faster, resulting in a much lower cost of borrowing.

Conversely, six months would not be long enough for a low-income borrower to repay the same $500 loan. Someone earning $18,000 annually ($1,500 monthly) could afford to pay only $75 a month. Over six months, that amount would total $450, not even enough to repay the loan principal. This borrower would need a longer term.

Flexible maximum loan durations

Another approach is to establish a flexible loan-term rule. Under this system, the maximum allowable duration scales according to each borrower's income, the size of the installment payment, and the principal amount borrowed. One method for determining maximum loan duration (in months) is to divide the loan's principal by the borrower's average daily income.

The formula shown in Table 5 would prevent the problems associated with excessive loan lengths while avoiding the limitations of fixed maximum terms by structuring each loan according to what the borrower can afford. It adjusts to reflect different circumstances, is easy to calculate, and produces reasonable loan terms that are viable for borrowers and lenders. For loans with monthly installments roughly equal to 5 percent of borrowers' monthly gross income, the formula results in maximum durations of approximately one month for each day of income borrowed.

Table 5

A Formula for Preventing Excessive Durations for Installment Loans

Maximum loan terms should be calculated based on income and principal

$$\text{Maximum loan duration (months)} = \frac{\text{Amount borrowed}}{\text{Borrower's average daily income}} \times \frac{5\%}{p}$$

where p is the loan's payment-to-income ratio (monthly payment due divided by the borrower's gross monthly income). This allows the duration to scale with payment sizes larger or smaller than 5% of gross monthly income (see discussion of 5% affordability threshold above).

Examples: The following examples show formula results for loans with monthly payments equal to 5% of borrowers' gross monthly income.

Borrower income	Monthly payment at 5% of monthly income	Maximum loan duration (in months)		
		$300 loan	$500 loan	$1,000 loan
$18,000 a year $1,500 a month, $49 a day	$75	6.1	10.1	20.3
$30,000 a year $2,500 a month, $82 a day	$125	3.7	6.1	12.2
$48,000 a year $4,000 a month, $132 a day	$200	2.3	3.8	7.6

Notes: Examples shown above assume that other policy safeguards have also been implemented, including ability-to-repay standards that reduce periodic payments to an affordable amount and minimization of prepayment penalties or fees associated with refinancing. The formula includes a modifier (5 percent divided by p) to normalize loan durations while allowing for periodic payments that are larger or smaller than the recommended affordability standard (the 5 percent payment-to-income threshold). This modifier results in longer maximum terms for loans with relatively small periodic payments, and shorter maximum terms for loans with relatively large periodic payments.

Collateral limits

Another strategy for guarding against unnecessarily long loan durations is to limit lenders' ability to collateralize loans. For example, policymakers could prohibit lenders from taking postdated checks, Automated Clearing House electronic payment authorization, or car titles for longer than a specified period of time. This restriction would create a disincentive for lenders to artificially inflate loan durations because doing so would expose them to more risk and potentially higher loss rates. The allowable time could be set according to the same strategies described for maximum loan terms above: fixed at six months per $500 borrowed, or set according to the formula shown in Table 5.

Increase loan-market efficiency by establishing reasonable price limits

In markets for small-dollar credit such as payday and title loans, competitive forces do not drive costs down. Instead, as an industry analyst notes, "Consumers of payday loans are not price sensitive (or sufficiently price sensitive to drive competition) but choose lenders on speed and convenience."[84] To gain customers, lenders compete by adding more locations instead of lowering prices.[85] This practice increases overhead costs and makes the business model highly inefficient with each store serving relatively few customers. Because lenders do not compete primarily on price, consumers pay excessive rates: typically 200 to 300 percent APR for title loans, often reaching the ceilings in states that have them.[86]

Economic theory suggests that when market prices exceed costs, prices should decline because businesses can charge less to attract customers as long as they remain profitable. Economists Katherine Samolyk, Robert Avery, and Mark Flannery have analyzed why this mechanism does not occur in payday loan markets and have identified a solution.[87] In particular, they cite price limits that are high enough for lenders to be profitable but low enough to force consolidation and increase efficiency as a way to potentially reduce interest charges without substantially decreasing consumers' access to credit:

> By setting a binding ceiling equal to the minimum average cost, regulators could induce more payday loans from each surviving firm. If demand is very inelastic, reducing the maximum fee may have little effect on the total number of loans taken. However, social costs are lower because the ceiling reduces the number of store locations and hence the fixed costs of providing payday loans. … A higher rate ceiling means that each store needs to attract fewer customers to cover its fixed operating costs. Reducing the fee ceiling will lower the number of payday stores, but perhaps leave the number of payday loans relatively unaffected.[88]

This prediction has proved accurate in describing the impact of payday loan reforms. Pew's research found that in states with price limitations, loans are available and cost less. (See Table 6.) In these states, payday lenders operate more efficiently, with fewer stores that each serve more customers.[89] For example, following reforms in Colorado and Washington state (which also enacted a payday loan law that resulted in below-average costs), stores now serve an average of more than 1,000 distinct customers annually, far more than before their laws changed.[90] The title loan market would likely see similar results from price limitations,[91] because, like payday loans:

1. Title loans are small loans made through retail stores to people with badly damaged credit histories.
2. The business model is based on serving a small number of repeat customers at each store and attracting new customers by opening more locations rather than lowering prices.
3. Most revenue is used to cover overhead, with less than a fifth spent on covering losses.
4. Serving more customers at each store has relatively little effect on fixed costs.

As noted earlier, title and payday lenders spend more than three times as much on overhead as they do to cover losses. The largest title lender has 4.2 employees per store, compared with 2.5 employees per store at the largest payday lender.[92] Additionally, title loan stores tend to serve fewer customers than payday loan stores.[93]

Table 6

Lower Price Limits Drive Consolidation

Payday loans cost more when states fail to limit interest rates

	Average cost to borrow $300 for 5 months	Median stores per 100,000 residents
Lower-than-average rate cap	$281	3.0
Average rate cap	$435	7.2
Higher-than-average rate cap	$528	14.9
No rate cap	$604	12.9

Note: Among states that provide information on how many borrowers and stores they have, those with below-average prices tend to have more borrowers per store.

Source: The Pew Charitable Trusts, "How State Rate Limits Affect Payday Loan Prices" (2014)

When asked in Pew's focus groups whether they would be willing to have many stores close if it meant lower prices at the remaining locations, title loan borrowers were eager to make that trade-off. Based on what occurred in states that required lower prices for payday loans, this process would involve four steps:

1. Policymakers enact reforms requiring lower but viable prices and affordable payments.
2. Lower prices provide insufficient revenue to support all existing stores, so lenders consolidate operations into fewer locations and in some cases diversify their product offerings to include payday or other small loans as well as title loans.
3. The pool of borrowers utilizes the remaining stores.[94]
4. Each remaining store's revenue net of losses remains roughly unchanged because of its large increase in borrowers served.

No state has yet enacted this policy in the title loan market. To project what a more efficient title loan market would look like in this type of scenario, Pew modeled a typical store's revenue and losses with an increased customer count. To maintain current revenue net of losses, a title loan store that diversified to offer both title loans and payday loans would serve approximately 1,600 customers annually, of whom 800 would be title loan borrowers and 800 payday loan borrowers. (See Table 7.) This figure is somewhat higher than the number of customers served by an average payday loan store in Washington and Colorado today, after their reforms.

Table 7

Fewer Stores and Lower Prices Mean a More Efficient Title Loan Market

Reducing costs for lenders and borrowers protects access to credit and profitability: estimated outcomes following reforms

	Current (title loans only)	Projected—more efficient (diversified to offer additional products, e.g., payday loans)		
	Title loan customers	Title loan customers	Payday loan customers	Totals per store
Borrowers per store	300	800	800	1,600
Revenue per borrower per year	$1,200	$460	$211	$335.50
Revenue per store	$360,000	$368,000	$168,800	$536,800
Losses	$64,800	$172,800	$68,000	$240,800
Revenue net of losses	$295,200	$195,200	$100,800	$296,000

Notes: The estimate above illustrates how lenders may consolidate operations and diversify product offerings if policymakers implement Pew's proposed reforms (including requiring affordable payments, amortization, and reasonable limits on loan duration and pricing). It assumes that title lenders would serve more customers per store and introduce additional products, such as payday loans—as companies have done in some states that require lower title loan fees. Current data are rounded estimates based on available state regulatory and company data. This projection maintains lenders' revenue net of losses by assuming that loan size and loan losses remain the same on a per-borrower basis for title loans. The "more efficient" payday loans use Colorado's aggregate lender-reported 2013 data on loan size ($393), fees paid ($211), and losses per customer ($85); see also The Pew Charitable Trusts, "Trial, Error, and Success in Colorado's Payday Lending Reforms" (2014), available at http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2014/12/trial-error-and-success-in-colorados-payday-lending-reforms. Revenue per store is a sum of losses and revenue net of losses. The store's revenue consists of the fees paid per borrower multiplied by its customer count.

Sources: State regulatory data from Mississippi, Tennessee, Texas, and Virginia, as well as filings from TMX Finance; and Colorado Office of the Attorney General, 2014

Lower Prices Are Possible at Banks and Credit Unions

Title loans could cost less than projected in the analysis for traditional title loan stores if they were offered by providers that cover overhead expenses by selling many products to a large number of customers, such as banks and credit unions. Depository institutions would also benefit as lenders by making loans to existing customers who have other accounts with them. Some credit unions already serve members who have damaged credit by offering installment loans that are secured by car titles and have interest rates below 25 percent APR.* Depository institutions are better positioned to offer lower-cost title loans than are stores that sell only a small variety of financial products to a limited population.†

* Examples include Family Federal Credit Union, Silver State Schools Credit Union, FedChoice Federal Credit Union, Texas Dow Employees Credit Union, St. Louis Community Credit Union, and University Credit Union.

† Depository institutions also benefit from having a lower cost of funds than nonbank providers.

Diversifying revenue

If a store offered only title loans in the example in Table 7, it would need approximately 1,200 customers annually to maintain its revenue net of losses at these lower prices.[95] In states that require lower charges for title loans, some diversification is already happening: Stores are making up for revenue lost due to lower prices by offering a wider range of financial services, such as check-cashing, bill-pay services, prepaid cards, tax preparation, or pawn loans.

Compared with operators that sell multiple products, stores that offer only title loans tend to have more title loan revenue and serve more title loan borrowers at each location, as might be expected, because they must in order to cover all of their operating expenses with just that one product.[96] For example, in Virginia, which has unusually high title loan revenue per store, lenders can be viable while selling only title loans, and just 28 percent of title loan branches offer payday loans.[97] In Oregon, where state law limits the size of title loan fees, all title lenders also offer payday loans.[98]

Similarly, following Colorado's 2010 payday loan reform, large businesses that offered check-cashing as well as payday loans fared far better, closing only a sixth of stores, compared with more than half among those that did not.[99]

Recommendations lead to lower-cost loans with affordable payments

Policymakers seeking to allow title lending, protect consumers from needless costs, and facilitate industry profitability will need a package of reforms that improves market efficiency by requiring affordable payments, competitive costs, and reasonable loan durations. Table 7 demonstrated how a typical store might operate in this market, and Table 8 shows the cost, payment structure, and duration of a $1,000 title loan for an average borrower, based on the recommendations outlined here.

Table 8

Building a More Affordable Title Loan

Payment and duration limitations improve efficiency, protect borrowers

	Current	Projected (more efficient)
Average loan size	$1,000	$1,000
Fees paid per borrower per year	$1,200	$460
Loan payment as share of gross monthly income	50%	5%
Amount due in 1 month	$1,250	$122
Average stated loan duration	30 days	1 year

Notes: Duration is the time needed for an average borrower earning $30,000 a year to repay a $1,000 loan using no more than 5 percent of monthly income for each monthly payment. The APR that would result from this sample loan is 76 percent. Note that this is not a recommended APR standard; rather, it shows the APR that would result from a given sample loan under policies that use cost limitations to replicate a price-competitive market. The monthly payment is the principal plus the fee divided by 12 months ($1,000 + $460 = $1,460/12 = $121.67).

Sources: State regulatory data from Mississippi, Tennessee, Texas, and Virginia, as well as filings from TMX Finance

The loan depicted in Table 8 has an APR of 76 percent,[100] which should not be understood as a recommended price for a title loan. Rather, it is the APR that would result from the projected scenario in which cost limits are used to replicate a price-competitive market, and a maximum loan duration is set according to the formula described in Table 5. These policies would result in relatively lower APRs for larger loans and lower-income borrowers and relatively higher ones for smaller loans and higher-income borrowers. It is possible that efficient nonbank lenders could profitably offer title loans at lower prices to subprime customers.

Pew's policy recommendations for all small-dollar loans

As this analysis has shown, the title loan market shares many similarities with the payday loan market. The typical borrower for both products is a low-income worker who routinely struggles to pay ordinary living expenses and who usually renews or re-borrows the loan to make ends meet. And the same fundamental problems afflict both markets—unaffordable balloon payments, unrealistically short repayment periods, and unnecessarily high prices. Therefore, Pew renews its call to policymakers to enact policies to cover all small-dollar cash loans, including storefront payday loans, online payday loans, title loans, and consumer installment loans from banks and nonbanks.

State policymakers may choose to eliminate high-cost auto title and payday loans altogether or to fundamentally reform them to be safer and more affordable. The Consumer Financial Protection Bureau does not have the authority to regulate interest rates, but it can and should require small-dollar loans to have manageable installment payments and establish certain important safeguards. Pew's small-dollar loan policy recommendations can reduce the cost of title loans and improve the affordability of payments while maintaining consumer access to credit:[101]

1. **Ensure that the borrower has the ability to repay the loan as structured.** Policymakers should require all small-dollar loans to have payments that borrowers can afford. Lenders should be required to determine applicants' ability to repay based on their income and expenses. However, policymakers wishing to allow for a streamlined underwriting process may choose to treat loans with monthly payments of less than 5 percent of the borrower's monthly gross income as meeting a "proxy" ability to repay test (Pew's research indicates that for most borrowers, monthly payments above 5 percent of their gross monthly income are unaffordable). Without exception, all loans should be required to have affordable payments determined according to an ability-to-repay test or "proxy" ability-to-repay standard. Additionally, regulators should treat frequent refinancing or high default rates as evidence of unaffordability and poor underwriting.
2. **Spread loan costs evenly over the life of the loan.** If loans are required to have affordable installment payments, front-loading of fees and interest creates incentives for lenders to refinance loans and extend overall indebtedness. Any fees should be incurred evenly over the life of the loan. Loans should have substantially equal payments, each of which reduces the principal, amortizing smoothly to a zero balance.
3. **Guard against harmful repayment or collections practices.** Policymakers should ensure that lenders do not use excessively long repayment periods to increase revenue. Generally, six months is long enough to repay a $500 loan, and one year is long enough to repay $1,000. Pew has proposed a flexible formula to scale these typical repayment periods for borrowers with different incomes and for loans of varying sizes. Policymakers should also ensure that vehicle repossession is only a last resort for lenders, rather than a way to earn additional revenue.
4. **Require concise, accurate disclosures of periodic and total costs.**
5. **States should continue to set maximum allowable charges.** Research shows that loan markets serving those with poor credit histories are not price competitive.

Based on this report's findings, the first, third, and fifth policy recommendations are most important for the title loan market. For more details on these policy recommendations and the research base behind them, see The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions* (2013), 44–47, http://www.pewtrusts.org/small-loans.

Conclusion

The auto title loan market is plagued by the same major problems found in the payday loan market: unnecessarily high prices and unaffordable payments that lead to extended indebtedness. But title loan borrowers face the additional risk of losing an asset—a car—which, for some, is their primary form of transportation. On average, the larger loan sizes in the title loan market also lead borrowers to spend more than double the amount payday loan borrowers do annually.

The first nationally representative survey of title loan borrowers found that they hold mixed views of the loans, seeing them as taking advantage but also providing relief. Two-thirds of borrowers favor more regulation of this market, especially a requirement that loans be repayable in affordable installments. Colorado employed this regulatory strategy in the payday loan market with great success while also requiring lower prices. But no state has done so in the title loan market, where stores serve even fewer customers than in the payday loan market.

Title loans carry substantial risk for those who use them, so those states that do not have high-interest title lending should continue to prohibit it. In the states where title loans currently exist, lawmakers can ensure safer, less costly, and readily available subprime credit by making title and other small-dollar loans repayable in affordable installments, with reasonable limits on cost and duration. Such reform can drive industry consolidation, leading to more efficient title loan stores that would serve larger numbers of customers at each and could viably charge lower prices. The Consumer Financial Protection Bureau and state policymakers can achieve these outcomes by implementing Pew's policy recommendations.

Appendix A: Borrowers' demographics

Table A.1

Borrowers' Demographics

Demographic group	Percentage of title loan borrowers
Homeowners	50
Renters	50
Single	37
Married	46
Separated or divorced	14
Widowed	2
Income less than $15,000	20
$15,000 to $24,999	22
$25,000 to $29,999	12
$30,000 to $39,999	11
$40,000 to $49,999	7
$50,000 to $74,999	13
$75,000 to $99,999	8
$100,000 or more	4
African-American	14
Hispanic	12
White	65
Other race or ethnicity	7
Female	43
Male	57
Ages 18-34	34
Ages 35-49	34
Ages 50-64	21
Ages 65 or older	10
Employed	63
Self-employed	13
Employed by others	50
Student	6
Homemaker	4
Retired	9
Unemployed	11
Disabled	8
Less than high school	20
High school	36
Some college	27
College or more	16

Note: Results are based on 313 interviews. Some data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

Appendix B: Additional findings from Pew's survey

Tables B.1–B.7
Additional Findings

"I'm going to read you several things that some people have told us happened to them. For each one I read, please tell me whether it has happened to you. How about … Has this happened to you or not?"	Has happened (%)	Has not happened (%)
Had a car repossessed by an auto title lender	11	89
Had an auto title lender threaten to repossess your car	19	80
Had someone threaten to contact your employer about your auto title loan	10	89
Had someone threaten to contact your friends or family about your auto title loan	12	87

Note: Each item was asked separately. Results are based on 313 interviews. Some data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

"Do you use your car to…?"	
Travel to school or work	80 (%)
Travel to medical appointments	95
Travel to buy food and other household goods	98

Note: Each item was asked separately. Results are based on 313 interviews.

(Among those who are currently employed) "Are you self-employed or a small business owner, or not?"	
Yes, self-employed	20 (%)
No, not self-employed	77
Both, self-employed and work for someone else	3

Note: Results are based on 196 employed respondents.

"Thinking back now to (that first/the) time you took out an auto title loan, what specifically did you need the money for?" "And was that primarily a personal or family expense, or was that primarily for a business that you own or operate?"	
Personal or family expense	94 (%)
For a business I own or operate	3
Both (not read aloud)	2

Note: Results are based on 313 interviews. Data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

"Have you used a … in the past year?"	Yes	No
Credit card	45 (%)	53 (%)
Prepaid card	35	64

Note: Each item was asked separately. Results are based on 313 interviews. Data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

"Thinking of all the members of your household who are currently living at home, if you added up how many working cars or trucks all of them own or lease, how many would that be?"	
No car	3 (%)
1	32
2	39
3	16
4 or more	10

Note: Results are based on 313 interviews.

"Which of these statements comes closer to your point of view?"	
Auto title loans should be more regulated	66 (%)
Auto title loans should not be more regulated	31

Note: Results are based on 313 interviews. Data do not add to 100% because "Don't know" and "Refused" were omitted from this chart.

Appendix C: Methodology

Opinion research

Findings in this report are based in part on a survey conducted among 313 title loan borrowers. The sample for this survey was compiled over the course of eight months of screening on a nationally representative weekly survey. Borrowers' quotations in this report come from a series of focus groups with title loan borrowers.

Survey methodology

Social Science Research Solutions omnibus survey

The Pew small-dollar loans project contracted with Social Science Research Solutions (SSRS) to conduct the first nationally representative, in-depth telephone survey with title loan borrowers about their loan usage. To identify and survey a low-incidence population such as these borrowers, SSRS screened 1,000 to 2,000 adults a week on its regular omnibus survey, using random-digit dialing methodology, from August 2011 to April 2012. The term "omnibus" refers to a survey that includes questions on a variety of topics. This omnibus survey probably minimized title loan borrowers' denial of their usage of this product, because the survey included mostly nonfinancial questions purchased by other clients, and the title loan questions were asked after other, less sensitive questions, giving interviewers a chance to establish a rapport with respondents.

The omnibus survey asked respondents whether they had used a title loan. If, during the months of August through mid-December, respondents answered that they had used a title loan, they were placed in a file to be re-contacted later. In order to maximize participation once the full-length survey was ready to field, people who had used a title loan were then given the full-length survey and paid an incentive of $20 for participating, as were those who had been identified initially. Respondents were told about the compensation only after having indicated that they had used a title loan.

Sample and interviews

Pew purchased time on SSRS' omnibus survey, EXCEL, that covers the continental United States. A total of 49,684 people were screened and asked about title loan usage.

A total of 313 adults completed the full-length title loan survey. Sampling error for the full-length survey of title loan borrowers is plus or minus 6.4 percentage points, including the design effect.

EXCEL is a national weekly, dual-frame bilingual telephone survey. Each EXCEL survey consists of a minimum of 1,000 interviews, of which 300 were completed with respondents on their cellphones and at least 30 were conducted in Spanish, ensuring unprecedented representation on an omnibus platform. Completes are representative of the continental U.S. population of adults 18 and older. EXCEL uses a fully replicated, stratified, single-stage, random-digit dialing sample of landline telephone households, and randomly generated cellphones. Sample telephone numbers are computer-generated and loaded into online sample files accessed directly by the Computer-Assisted Telephone Interviewing system. Within each sample household, a single respondent is randomly selected. The sampling and overall methodologies for the title loan and payday loan surveys were the same. Details about EXCEL and its weighting are available at http://www.pewtrusts.org/~/media/Assets/2012/07/19/Pew_Payday_Lending_Methodology.pdf.

Question wording: Omnibus survey

Wording for omnibus survey questions is available at http://www.pewtrusts.org/~/media/Assets/2012/07/19/Pew_Payday_Lending_Methodology.pdf.

Screening phase (measuring incidence and compiling sample for callbacks):

- In the past five years, have you taken out an auto title loan, where you borrow money against your car title to be repaid in a short period of time?

Re-contact phase (calling back respondents who answered affirmatively, and identifying additional borrowers to take the full-length survey immediately):

- I'm going to read a few things that some people have used in the past five years. Please tell me (have you/have you or has anyone in your family) used any of them:

An auto title loan, where you borrow money against your car title to be repaid in a short period of time?

Question wording: Full-length survey of title loan borrowers

Full wording for questions from the nationally representative, full-length survey of 313 title loan borrowers was included in the main report. Wording follows for the question whose full wording was not contained in the text of the main report. Pew designed questions with assistance from SSRS and Hart Research Associates, except those for demographics, which are based on standard questions asked by SSRS. The sample for this telephone survey was derived from the random-digit dialing omnibus survey. All questions also included "Don't know" and "Refused" options that were not read aloud.

Have you ever felt you were in such a difficult situation that you would take an auto title loan on pretty much any terms offered or have you never felt that way?

1. Yes, have felt that way.
2. No, have not felt that way.

Focus group methodology

Hart Research Associates and Public Opinion Strategies conducted a focus group that was exclusively composed of title loan borrowers in Birmingham, Alabama, in September 2011. In May 2014, Pew also conducted four focus groups composed exclusively of title loan borrowers: two in St. Louis and two in Houston. All participants were recruited by employees of the focus group facilities. All groups were conducted in person, lasted two hours, and included eight to 11 participants. Several other focus groups of small-loan borrowers included one or more title loan borrowers as well.

Endnotes

1 The estimate of 1 percent of American adults using title loans each year is calculated three ways, drawing on data available from state regulatory reports and industry filings:

- The share of adults who use title loans in states that allow them (an average of 1.6 percent, based on the three states that report the number of individual borrowers: Illinois, Texas, and Virginia, which represent approximately 40 percent of the national market by store count) multiplied by the adult population of those states (148 million), yielding 2.4 million.
- The number of title loan stores (8,138, see endnote 4) multiplied by the number of borrowers per store (300, based on industry filings and state regulatory data) (estimate of 2.4 million).
- TMX Finance's customer count (470,000), divided by its share of stores (13.4 percent at the end of 2012), divided by the ratio of its borrowers per store (454) to the average number of borrowers per store (300), yields a similar 2.3 million borrowers.

Federal Deposit Insurance Corporation, *2013 FDIC National Survey of Unbanked and Underbanked Households* (2014), 47, accessed Oct. 29, 2014, https://www.fdic.gov/householdsurvey/2013report.pdf; and U.S. Census Bureau, "Annual Estimates of the Resident Population for Selected Age Groups by Sex for the United States, States, Counties, and Puerto Rico Commonwealth and Municipios: April 1, 2010, to July 1, 2013," 2013 Population Estimates, accessed Jan. 12, 2015, http://factfinder.census.gov. There are approximately 243 million adults in the United States, according to the U.S. Census Bureau's 2013 estimate.

2 ACE Cash Express, "Frequently Asked Questions," 2014, accessed Aug. 29, 2014, https://www.acecashexpress.com/title-loans/faq; and Todd J. Zywicki, "Consumer Use and Government Regulation of Title Pledge Lending," George Mason University School of Law Mercatus Center (2010), 13, accessed Sept. 16, 2014, http://www.law.gmu.edu/assets/files/publications/working_papers/1012ConsumerUseandGovernmentRegulation.pdf. Motorcycles can also be used to secure a title loan in many states.

3 Zywicki, "Consumer Use"; and Jim Hawkins, "Credit on Wheels: The Law and Business of Auto-Title Lending," *Washington and Lee Law Review* 69, no. 2 (2012), accessed Aug. 25, 2014, http://scholarlycommons.law.wlu.edu/cgi/viewcontent.cgi?article=4272&context=wlulr.

4 Center for Responsible Lending, *Car-Title Lending* (2013), 16, accessed Aug. 25, 2014, http://www.responsiblelending.org/state-of-lending/reports/7-Car-Title-Loans.pdf. The Center for Responsible Lending's report focused on the 21 states that have a significant presence of high-interest title lending. Additionally, Florida, Minnesota, Ohio, and Oregon have a limited presence of high-interest title lending.

5 Ibid.

6 Pew has published an extensive collection of research about payday lending. See http://www.pewtrusts.org/small-loans.

7 Virginia Bureau of Financial Institutions, *Motor Vehicle Title Lenders* (2014), accessed Aug. 27, 2014, https://www.scc.virginia.gov/bfi/reg_inst/title.pdf; Virginia Bureau of Financial Institutions, *Payday Lender Licensees* (2014), accessed Aug. 27, 2014, https://www.scc.virginia.gov/bfi/reg_inst/pay.pdf; and Commisioner of Financial Institutions, "Report of the Commissioner of Financial Institutions, State of Utah" accessed Sept. 8, 2014, http://www.dfi.utah.gov/PDFiles/Annual.PDF. In Virginia, 29 firms make title loans across 470 branches. Seven of those firms are also registered as payday lenders, and 130 of the branches also offer payday loans (28 percent). By comparison, 22 firms make payday loans at 228 branches. In Utah, 47 percent of firms offering title loans also offer payday loans. Texas has 2,254 single-payment title loan locations, accounting for one-quarter of the national market by store count. State regulatory data indicate that about half of these locations report making payday loans as well. Licensee lists from Oregon show that all 43 stores offering title loans in Oregon also offer payday loans.

8 New Mexico Regulation and Licensing Department, Financial Institutions Division, *Annual Report Regarding Installment Loan Products With APR Greater Than 175%* (2013), accessed Aug. 11, 2014, http://www.rld.state.nm.us/uploads/files/FID%202013%20HB337%20Reports.pdf; Texas Office of Consumer Credit Commissioner, *Credit Access Business (CAB) Annual Reporting* (2013), accessed Aug. 22, 2014, http://www.occc.state.tx.us/pages/publications/consolidated_reports/CAB/2013%20CAB%20Annual%20CAB%20Report%20by%20MSA%204-30-2014.pdf; and John Robinson, president of TitleMax Holdings LLC, "Affidavit of John Robinson, President of the Debtors, in Support of First Day Motions and Applications," 11, April 21, 2009, U.S. Bankruptcy Court for the Southern District of Georgia, Savannah Division, http://s3.documentcloud.org/documents/1227212/tmx-exec-delcaration-in-bk-case.pdf. This affidavit noted that 83 percent of TMX Finance's portfolio was lump-sum loans. As shown in Map 1, most states do not require loans to be repayable in installments. Even in states such as Texas and New Mexico, which allow both types of loans, 85 percent and 87 percent of loans made are due in a lump sum, respectively.

9 For ability to repay, see The Pew Charitable Trusts, *Payday Lending in America: How Borrowers Choose and Repay Payday Loans* (2013), accessed Aug. 25, 2014, http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2013/PewChoosingBorrowingPaydayFeb2013pdf.pdf. For market renewals, see Robinson, "Affidavit of John Robinson," 7; Tennessee Department of Financial Institutions, "2012 Report on the Title Pledge Industry," accessed Sept. 16, 2014, http://www.tennessee.gov/tdfi/compliance/tpl/TDFI%202012%20Report%20Title%20Pledge%20Industry.pdf; and Tennessee Department of Financial Institutions,

2014 Report on the Title Pledge Industry (2014), accessed Jan. 14, 2015, http://www.tennessee.gov/tdfi/compliance/tpl/Title%20Pledge%20Report%202014.pdf. Robinson's affidavit noted eight renewals on average.

10 The Pew Charitable Trusts, "The Post Office and Financial Services" (paper presented at the Financial Services and the Post Office Conference, Washingon, D.C., 2014). Veritec Solutions LLC, *Competition Commission Payday Lending Market Investigation* (2013), 10–11, accessed Sept. 10, 2014, https://assets.digital.cabinet-office.gov.uk/media/5329df75e5274a2268000357/130310_veritec_solutions_response_to_is.pdf. "On a sector level, prices are broadly similar because customers are not price sensitive." "[I]mpediments to shopping around occur because consumers are likely to go ahead with the first lender that approves the individual for a loan rather than seek approval from several firms before choosing the best offer. This behaviour is caused by consumers' limited ability to access cheaper mainstream finance, and their desire to have the sums delivered to them swiftly."

11 The Pew Charitable Trusts, *How State Rate Limits Affect Payday Loan Prices* (2014), accessed Jan. 28, 2015, http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs/content-level_pages/fact_sheets/StateRateLimitsFactSheetpdf.pdf.

12 Robert B. Avery and Katherine A. Samolyk, "Payday Loans Versus Pawn Shops: The Effects of Loan Fee Limits on Household Use" (2011), accessed Sept. 3, 2014, http://web.law.columbia.edu/sites/default/files/microsites/transactional-studies/files/10PDL_averysamolykpayday.20110909_0.pdf. The Avery and Samolyk paper explains this process: In states which allow higher prices, lenders compete away excess profits by opening more stores, probably because they do not expect to gain more customers by lowering prices. The high prices seen in the title loan market, combined with relatively low loss rates and little evidence of supernormal profits, indicate that the same phenomenon is occurring.

13 Consumer Federation of America and Center for Responsible Lending, "Driven to Disaster" (2013), accessed Aug. 22, 2014, http://www.responsiblelending.org/other-consumer-loans/car-title-loans/research-analysis/CRL-Car-Title-Report-FINAL.pdf; Hawkins, "Credit on Wheels"; Kathryn Fritzdixon, Jim Hawkins, and Paige Marta Skiba, "Dude, Where's My Car Title?: The Law, Behavior, and Economics of Title Lending Markets" (2013), accessed Aug. 25, 2014, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2224247; Nathalie Martin and Ozymandias Adams, "Grand Theft Auto Loans: Repossession and Demographic Realities in Title Lending," *Missouri Law Review* 77 (2012), accessed http://law.missouri.edu/lawreview/files/2013/01/Martin.pdf; and Zywicki, "Consumer Use."

14 Hawkins, "Credit on Wheels"; and TMX Finance, Form 10-K, fiscal year ending Dec. 31, 2012, http://www.secinfo.com/d11MXs.xXad.htm#1stPage. This $1,000 loan size is Pew's estimate based on state regulatory data where available (California, Idaho, Illinois, New Mexico, Oregon, Tennessee, Texas, and Virginia), industry filings by TMX Finance and EZ Corp., and an average loan size of $1,000 reported by TJD Financial Services to Jim Hawkins in "Credit on Wheels." Pew's estimate of $1,200 in fees paid annually is based on revenue and number of customers using data from TMX Finance ($656,755,000 in revenue in 2012 and 470,000 customers, or $1,400 each) and state regulatory data from Texas ($866 per customer using lump-sum title loans and $1,196 per customer using installment title loans). Fees paid annually are probably much higher in a state such as California that has larger title loans, and probably much lower in a state such as Oregon that has smaller title loans. The distribution of loan sizes and amounts spent vary far more in the title loan market than in the payday loan market, owing to wide variation in state laws and the fact that title lenders are generally willing to lend more because the loans are collateralized by vehicles. The amount spent per customer on a given title loan may exceed this figure because title loans are often kept out over more than one calendar year, including renewals. It is not possible from the available data to calculate an average number of months of the year that the median borrower has a title loan outstanding, but the loans' sizes, costs, and amounts spent per borrower imply that it is about five to six months of the year.

15 Average annual percentage rates in states that publish data are: Idaho, 310 percent; Illinois, 212 percent; New Mexico, 270 percent for lump-sum, 314 percent for installment; Oregon, 149 percent; Tennessee, approximately 264 percent; Texas, 306 percent for lump-sum, 223 percent for installment; Virginia, 216 percent. Annual percentage rate is the cost of borrowing for one year. Therefore a loan with an APR of 300 percent (25 percent a month), will carry the same APR regardless of how long it is outstanding, though a borrower's costs increase proportionately with each month that it remains unpaid. Interest on title loans, like payday loans, does not compound. An average is unavailable in Tennessee, but a majority of loans are made at the legal maximum rate of 22 percent a month, or 264 percent APR.

16 This calculation is based on a typical title loan of $1,000 plus a typical fee of $250, divided by the average gross monthly income of a title loan borrower, which is about $2,500.

17 The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions* (2013), 18, accessed Aug. 25, 2014, http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2013/PewPaydayPolicySolutionsOct2013pdf.pdf.

18 Center for Responsible Lending, *Car-Title Lending*.

19 Ibid., 16. The Center for Responsible Lending's report focused on states that have a significant presence of high-interest title lending. Additionally, Florida, Minnesota, Ohio, and Oregon have at least a limited presence of high-interest title lending.

20 Many lenders require a spare key as well.

21 Martin and Adams, "Grand Theft Auto Loans."

22 Robinson, "Affidavit of John Robinson," 3; and LoanMax Title Loans, "How Does a Title Loan Work?" 2015, accessed Jan. 8, 2015, https://www.loanmaxtitleloans.net/HowItWorks. "And within 20 minutes of your arrival, you'll be leaving with your vehicle AND the cash you need!"

23 Zywicki, "Consumer Use"; and Martin and Adams, "Grand Theft Auto Loans."

24 Ibid.

25 Hawkins, "Credit on Wheels," 552 and 586.

26 Ibid., 586 and 595–98.

27 Ibid.

28 California Department of Business Oversight, *Annual Report, Operation of Finance Companies Licensed Under the California Finance Lenders Law* (2013), accessed Sept. 12, 2014, http://www.dbo.ca.gov/Licensees/Finance_Lenders/pdf/CFL2012ARC.pdf; and Oregon Department of Consumer and Business Services, *Oregon Licensed Consumer Finance Companies: 2013 Payday and Title Loans* (2014), accessed Nov. 10, 2014, http://www.cbs.state.or.us/dfcs/cf/annual_reports/2013.pdf. For example, because Oregon and California exempt loans of certain sizes from their standard interest rate limits, almost all title loans in Oregon are made for $300 or less, but in California most are for $2,500 or more. Average size title loans for states that release data are: California, $3,659; Idaho, $892; Illinois, $893, New Mexico, $1,020 (lump-sum) and $831 (installment); Oregon, $241; Tennessee, $868; Texas, $1,240 (lump-sum) and $1,142 (installment); and Virginia, $1,160.

29 For example, *Tenn. Code Ann. § 45-15-111; Va. Code Ann. § 6.2-2216.* Average annual percentage rates in states that publish data are: Idaho, 310 percent; Illinois, 212 percent; New Mexico, 270 percent for lump-sum, 314 percent for installment; Oregon, 149 percent; Tennessee, approximately 264 percent; Texas, 306 percent for lump-sum, 223 percent for installment; Virginia, 216 percent. Annual percentage rate is the cost of borrowing for one year. Therefore, a loan with an APR of 300 percent (25 percent a month), will carry the same APR regardless of how long it is outstanding, though a borrower's costs increase proportionately with each month that it remains unpaid. Interest on title loans, like payday loans, does not compound.

30 Robinson, "Affidavit of John Robinson," 13. This figure is an average, based on the number of title loan customers in the market and the revenue reported by lenders to state regulators and in company filings. Robinson testified that an average title loan at his company is renewed eight times, for a total indebtedness of nine months per loan, although in most cases these loans will cover parts of two calendar years, which explains why borrowers' annual spending on a title loan is likely lower than their overall spending.

31 Consumer Federation of America and Center for Responsible Lending, "Driven to Disaster." This paper estimates that title loan borrowers spend $3.6 billion annually. Pew calculates this figure differently, based on the number of stores and revenue per store but arrives at a similar conclusion as to the overall amount spent annually on title loans.

32 Veritec Solutions LLC, *Illinois Trends Report: All Consumer Loan Products Through September 2012* (2013), 25, accessed Sept. 16, 2014, http://www.idfpr.com/News/DFI/IL_Trends_Report%20since%20Inception%20through%209-30-12%20final.pdf. Title loans can have stated durations of just a few weeks, while in Illinois, the average stated term is longer than a year because state law requires longer repayment periods.

33 Consumer Federation of America and Center for Responsible Lending, "Driven to Disaster."

34 Ibid.; and Hawkins, "Credit on Wheels."

35 Some states regulate title loans with their pawn loan statutes, but title loans and pawn loans have little in common. Pawn loans average $80, less than a 10th the size of the average title loan. Pawned items remain with the lender while the loan is outstanding, and many are forfeited. Neither is the case in the title loan market. For more on pawn loans, see Susan Carter, Marieke Bos, and Paige Marta Skiba, *The Pawn Industry and Its Customers: The United States and Europe* (2012), accessed Oct. 21, 2014, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2149575.

36 TMX Finance, Form 10-K, fiscal year ending Dec. 31, 2011, http://www.secinfo.com/d11MXs.xXad.htm, 21; TMX Finance, Form 10-K, fiscal year ending Dec. 31, 2012, 19–20; and Advance America, Form 10-K, fiscal year ending 2011, http://www.advanceamerica.net.

37 The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions*, 18. This estimate of title loan borrowers per store is based on state regulatory data from Mississippi, Tennessee, Texas, and Virginia, as well as filings from TMX Finance.

38 See endnote 1.

39 The Pew Charitable Trusts, *Payday Lending in America: Who Borrows, Where They Borrow, and Why* (2012), 9, accessed Aug. 25, 2014, http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2012/PewPaydayLendingReportpdf.pdf.

40 Tennessee Department of Financial Institutions, *2014 Report on the Title Pledge Industry*, 6. This Tennessee report notes that the 10 largest operators in the state account for 63 percent of all stores and 77 percent of all loans. Nationally, the largest lender operates about 20 percent of all title loan stores (using the figure in the subsequent endnote and dividing it by the estimated total number of stores in the

market). Two other large title loan operators are LoanMax and Community Loans of America. In the payday loan market, according to Stephens Inc., the largest company, Advance America, operated approximately 13 percent of payday loan stores at the end of 2012.

41 TMX Finance, "Store Locations," accessed Jan. 20, 2015, http://www.tmxcareers.com/store-locations. Noting that TMX Finance operates more than 1,650 stores across three brands.

42 For example, https://www.acecashexpress.com/locations/texas/fort-worth/1355 or http://www.speedycash.com/store-services/find-a-store/alabama/birmingham/palisades-and-green-springs-highway.

43 See also Martin and Adams, "Grand Theft Auto Loans," 76; Gregory Elliehausen, "An Assessment of Consumers' Use of High-Rate Credit Products" (2011), accessed Sept. 16, 2014, http://web.law.columbia.edu/sites/default/files/microsites/transactional-studies/files/12PDL_Elliehausen.High_rate_credit_products_2011-07.pdf; and Veritec Solutions, *Illinois Trends Report*, 25. Pew's survey data indicate the median annual income falls at the high end of the $25,000 to $30,000 range. For calculation purposes in this report, median annual income of $30,000 is used.

44 The Pew Charitable Trusts, *Payday Lending in America: Who Borrows, Where They Borrow, and Why*; and The Pew Charitable Trusts, *Payday Lending in America: How Borrowers Choose and Repay Payday Loans*. More than half of payday loan borrowers report having trouble paying regular bills at least half the time, and one-quarter report having difficulty paying bills every month. Seven in 10 report using their loans to cover regular living expenses such as rent, mortgage, credit card bills, or utilities.

45 The Pew Charitable Trusts, *Payday Lending in America: Who Borrows, Where They Borrow, and Why*, 14. These figures are somewhat different than the 69 percent of payday loan borrowers who reported first using a loan for a regular expense, and the 16 percent who reported first using a loan for an unexpected one.

46 Fritzdixon et al., "Dude, Where's My Car Title?" 1,036.

47 Ibid., 1,035. On this question there is a substantial difference from the survey results obtained by Fritzdixon et al. They found that 57 percent had used a checking account in the past year.

48 The Pew Charitable Trusts, *Payday Lending in America: How Borrowers Choose and Repay Payday Loans*, 32–33.

49 Center for Financial Services Innovation, *A Complex Portrait: An Examination of Small-Dollar Credit Consumers* (2012).

50 The Pew Charitable Trusts, "The Post Office and Financial Services" (paper presented at the Financial Services and the Post Office Conference, Washingon, D.C., 2014).

51 See also Sendhil Mullainathan and Eldar Shafir, *Scarcity: Why Having Too Little Means So Much* (New York: Henry Holt, 2013). This phenomenon, in which low-income borrowers struggling to manage finances do not focus on loan prices—and instead focus on speed, certainty, and customer service—is a form of "tunneling," coined by Mullainathan and Shafir.

52 Marianne Bertrand and Adair Morse, "Information Disclosure, Cognitive Biases, and Payday Borrowing" (2009), accessed Sept. 26, 2014, http://bfi.uchicago.edu/RePEc/bfi/wpaper/BFI_2009-007.pdf; and Texas Office of Consumer Credit Commissioner, "Disclosure: Auto Title Loan - Single Payment" (2012), accessed Sept. 26, 2014, http://www.occc.state.tx.us/pages/industry/CAB/Fillable%20Auto%20Title%20Single%20Pay%20Disclsoure%20(Dec%2012).pdf. Efforts to "de-bias" customers by telling them that they are likely to re-borrow loans many times have been largely unsuccessful in reducing loan usage. The disclosures tested in the Bertrand and Morse paper are required in Texas.

53 This research does not delve into why that is the case, but one possible reason is that title loan borrowers typically own their vehicles free and clear, meaning they do not have a monthly car payment.

54 Tennessee Department of Financial Institutions, "2014 Report on the Title Pledge Industry," 6–7. The Tennessee report breaks out the number of times that each loan is renewed. This report indicates that 233,424 new title loans were made in the year studied, and Pew's renewal analysis calculates that there were 1,184,071 renewals (a loan that was renewed five times is counted as one new loan and five renewals).

55 Texas Office of Consumer Credit Commissioner, *Credit Access Business (CAB) Annual Reporting*. This report states that there were 795,686 title loan refinances (renewals) in 2013, compared with 472,944 new loans. Loans that were repaid and quickly re-borrowed are counted as new loans in this report.

56 Robinson, "Affidavit of John Robinson, " 11.

57 Ibid., 13.

58 Consumer Financial Protection Bureau, *CFPB Data Point: Payday Lending* (2014), accessed Sept. 16, 2014, http://files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf.; Center for Responsible Lending, *Phantom Demand: Short-Term Due Date Generates Need for Repeat Payday Loans, Accounting for 76% of Total Volume* (2009), accessed Sept. 16, 2014, http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-final.pdf; and Alex Kaufman, *Payday Lending Regulation* (2013), accessed Sept. 16, 2014, http://www.federalreserve.gov/pubs/feds/2013/201362/201362pap.pdf. The *CFPB Data Point* report found that 80 percent of payday

loans are taken out within two weeks of a previous loan's due date, similar to the 76 percent found by the Center for Responsible Lending (based on Oklahoma's data) and the 86 percent within 30 days found by Kaufman.

59 These figures are calculated from state regulatory data, based on average loan size, fees paid, and duration of installment title loans in each state. The average APRs are 212 percent in Illinois, 223 percent in Texas, and 216 percent in Virginia.

60 This estimate is based on state regulatory data from 2011 to 2014 from Idaho, Tennessee, Texas, and Virginia. Data from previous years from Illinois and Montana are also in line with these figures. Hawkins, "Credit on Wheels." Overall, these figures are slightly higher than those reported by Hawkins because they use data from different states, according to what was available at the time of the analysis. These figures exclude the unusual title loan markets of California and Oregon; both states' repossession rates are outliers. In California, there were 13,089 repossessions in 2013 and 91,505 loans, constituting a repossession rate of 14.3 percent. Oregon typically has very few repossessions; it had five in 2013 and none in 2012.

61 Virginia State Corporation Commission, *The 2013 Annual Report of the Bureau of Financial Instiutions* (2013), accessed Sept. 16, 2014, https://www.scc.virginia.gov/bfi/annual/ar04-13.pdf; and Idaho Department of Finance, *2013 Annual Report* (2014), accessed Sept. 16, 2014.

62 These calculations are based on an estimate of 2.4 million title loan borrowers, 5 to 9 percent of whom have their vehicles repossessed and sold.

63 Consumer Federation of America and Center for Responsible Lending, "Driven to Disaster," 10; and Hawkins, "Credit on Wheels," 551.

64 Hawkins, "Credit on Wheels," 551; and California Department of Business Oversight, *Annual Report*. Of the 7,371 collateral sales in California in 2013, only 920 resulted in a surplus balance. Hawkins also notes that in Tennessee in 2008, lenders returned just $251,047 in surpluses to borrowers.

65 Tennessee Department of Financial Institutions, "2012 Report on the Title Pledge Industry," 9; and Hawkins, "Credit on Wheels," 551–52. "The notion that lenders repossess vehicles to generate significant profits is almost certainly wrong. Repossessing, storing, and selling vehicles are expensive relative to the value of most pledged vehicles. One operator estimated the costs at around $500 for his company—$250 to pay a company to repossess the vehicle and $250 to pay for the sale; another confirmed that "[r]epossessions, at best, are a breakeven process and most often simply mitigate our loss." In Tennessee, lenders report spending 3.5 percent of revenue on repossession expenses.

66 Because these questions ask about a borrower's current situation, these survey results may not represent people's situations at the times they most recently used title loans. It is likely that the 3 percent of borrowers who had no vehicle at the time of the survey had one at the time they last used a title loan.

67 Fritzdixon et al., "Dude, Where's My Car Title?" 1,038. The Fritzdixon et al. survey also found that 15 percent of title loan borrowers reported they could not find another way to school or work.

68 The Pew Charitable Trusts, *Payday Lending in America: How Borrowers Choose and Repay Payday Loans*, 39–46.

69 John Caskey, *Payday Lending: New Research and the Big Question* (2010), accessed Sept. 15, 2014, https://www.philadelphiafed.org/research-and-data/publications/working-papers/2010/wp10-32.pdf.

70 Alan M. White, "Credit and Human Welfare: Lessons From Microcredit in Developing Nations," *Washington and Lee Law Review* 69, no. 2 (2012), accessed Sept. 16, 2014, http://scholarlycommons.law.wlu.edu/cgi/viewcontent.cgi?article=4283&context=wlulr. White has framed this very fundamental question about borrowers' welfare as the key one to answer in evaluating what public policy toward high-interest, small-dollar credit should be. This question is difficult to address for this market, as well as the payday lending market, but is much easier to resolve if the scope is limited to what features of small-dollar loans lead to better or worse outcomes.

71 The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions*, 7–21.

72 Ibid., 29–32.

73 Ibid.

74 Ibid.

75 Ibid.

76 Policymakers could use this threshold in tandem with loan costs or durations as a tool for identifying potentially harmful loans or to establish standards for quickly determining a borrower's ability to repay.

77 "Castle Payday Rates," Castle Payday, accessed March 19, 2014, https://castlepayday.com/loan-rates.

78 Speedy Cash, "Arizona Online Installment Title Loans Rates & Terms," accessed Sept. 3, 2014, http://www.speedycash.com/rates-and-terms/arizona. Other examples of high-cost title installment loans include Texas Title Loans' six-month, $500 loan with a finance charge of $795.51, http://txtitleloans.net/licensing-and-fees, and a 24-month loan from TitleMax of Missouri for $713.50 with a finance charge of $1,950.48 (contract on file at Pew).

79 Marianne Bertrand and Adair Morse, "What Do High-Interest Borrowers Do with Their Tax Rebate?" (2009), accessed Nov. 21, 2014, http://faculty.haas.berkeley.edu/morse/research/papers/bertrandMorse_Stimulus.pdf.

80 The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions*, 33–35. For example, Colorado law requires lenders to refund origination fees on a pro rata basis in the event of early repayment, which minimizes incentives for lenders to engage in high-frequency refinancing, or "loan flipping."

81 Ibid.

82 Ibid., 41.

83 Ibid., 42.

84 Veritec Solutions LLC, *Competition Commission Payday Lending Market Investigation* (2013), 10–11, accessed Sept. 10, 2014, https://assets.digital.cabinet-office.gov.uk/media/5329df75e5274a2268000357/130310_veritec_solutions_response_to_is.pdf. "On a sector level, prices are broadly similar because customers are not price sensitive." "[I]mpediments to shopping around occur because consumers are likely to go ahead with the first lender that approves the individual for a loan rather than seek approval from several firms before choosing the best offer. This behaviour is caused by consumers' limited ability to access cheaper mainstream finance, and their desire to have the sums delivered to them swiftly."

85 Even if a small number of customers seek out lower prices, a collective action problem exists in that lenders would have to expect that many prospective borrowers would do this in order to justify lowering prices.

86 In states that publish data, average annual percentage rates are: Idaho, 310 percent; Illinois, 212 percent; New Mexico, 270 percent for lump-sum, 314 percent for installment; Oregon, 146 percent; Tennessee, approximately 264 percent; Texas, 306 percent for lump-sum, 223 percent for installment; Virginia, 216 percent. Illinois, Oregon, Tennessee, and Virginia limit maximum allowable charges, and the interest rates listed here are close to the price ceilings for average-sized loans in those states.

87 Robert B. Avery and Katherine A. Samolyk, "Payday Loans Versus Pawn Shops"; and Mark J. Flannery and Katherine A. Samolyk, "Scale Economies at Payday Loan Stores" (2007), accessed Sept. 4, 2014, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2360233.

88 Flannery and Samolyk, "Scale Economies at Payday Loan Stores," 23.

89 The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions*; and The Pew Charitable Trusts, *How State Rate Limits Affect Payday Loan Prices.*

90 The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions*, 17–18 and endnote 63. Like Colorado, Washington state also has below-average APRs for payday loans because of state law. In 2013, Washington averaged 1,333 unique payday loan borrowers per store. Neither state actually required lower dollar charges per loan, but instead added provisions requiring that borrowers be allowed more time to repay without commensurately higher charges.

91 Several efficiency gains not discussed in detail in this paper are also likely to result from a transition from lump-sum payments to installment payments. Small-loan stores are rarely busy, but they can experience "peak-load" problems—high volume during some hours on days when customers are paid, such as Fridays, or the 15th or last of the month. Installment payments made electronically can reduce the need for staff to receive payments from customers coming into the store every 30 days to renew or repay loans. To the extent that defaults decline with more affordable payments and lower prices, as they have in Colorado's payday loan market, lenders' losses and collections expenditures may drop as well.

92 Advance America LLC, Form 10-K, 2011; and TMX Finance, Form 10-K, Dec. 31, 2012. As of each of their most recent Annual (10-K) Report filings, Advance America had 2,541 stores and 6,465 employees at the end of 2011, and TMX Finance had 1,035 stores and 4,335 employees at the end of 2012.

93 This estimate is based on state regulatory data from Mississippi, Tennessee, Texas, and Virginia, as well as filings from TMX Finance. The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions,* 18. Pew's report details the estimate of 500 payday borrowers per store.

94 Ibid., 17–18 and endnote 63.

95 For a lender to be similarly efficient and charge similar prices without expanding its customer base to include payday loan borrowers, it would need approximately 1,200 title loan customers. It could also probably serve fewer title loan customers if it offered other alternative financial services, such as check-cashing, bill payments, prepaid cards, or pawn loans.

	Current	More efficient
Borrowers per store	300	1,200
Fees paid per borrower per year	$1,200	$462
Revenue per store	$360,000	$554,400
Losses	$64,800	$259,200
Revenue net of losses	$295,200	$295,200

96 TMX Finance, Form 10-K, Dec. 31, 2012; and ProPublica, "Projected Financial Summary, Fiscal Year Ending 2013," http://www.propublica.org/documents/item/1236355-tmx-ratings-agency-presentation-2013.html. TMX Finance's 2012 10-K Annual Report notes that it served 470,000 customers at 1,035 stores, or 454 borrowers per store. State regulatory data from Mississippi, Tennessee, Texas, and Virginia indicate that average title loan stores serve far fewer customers per store. Although TMX Finance's store count represents about one-fifth of the market, it likely has a larger share of the market by customer count and revenue. Its projected revenue for 2014 was $1.05 billion, approximately one-third of the overall revenue in the market.

97 Virginia Bureau of Financial Institutions, *Motor Vehicle Title Lenders*; Virginia Bureau of Financial Institutions, *Payday Lender Licensees*; and Commisioner of Financial Institutions, "Report of the Commissioner of Financial Institutions, State of Utah." In Virginia, 29 firms make title loans across 470 branches (as of Sept. 8, 2014). Seven of those firms are also registered as payday lenders, and 130 of the branches also offer payday loans (28 percent). By comparison, 22 firms make payday loans at 228 branches. In Utah, 47 percent of firms offering title loans also offer payday loans. Texas has 2,254 single-payment title loan locations, accounting for one-quarter of the national market by store count. State regulatory data indicate that about half of these locations report making payday loans as well. Licensee lists from Oregon show that all 43 stores offering title loans in Oregon also offer payday loans.

98 Licensee lists from Oregon on file at The Pew Charitable Trusts. State data indicate that 43 stores offer title loans in Oregon and that in 2012, they made loans with a total nominal value of $11.5 million and an average finance charge of $13 per $100 borrowed (the maximum allowed).

99 The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions*, 19.

100 Other examples of a $1,000 loan under Pew's policy recommendations: For a borrower earning $18,000 a year, the maximum monthly payment a lender could charge would be $75. This loan would have a 52 percent APR and a loan duration of just over 20 months. For a borrower earning $42,000, the maximum monthly payment would be $175. This loan would have a 116 percent APR and a loan duration of just under nine months.

101 The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions*. Pew's research has demonstrated, through a case study of Colorado's 2010 payday loan reforms, that these types of policies can lead to better outcomes for consumers while preserving widespread access to credit.

pewtrusts.org

Philadelphia Washington

THE PEW CHARITABLE TRUSTS