States without Payday and Car-title Lending Save Over $5 Billion in Fees Annually

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Payday and car title loans are small-dollar, high-cost products that thrive on keeping consumers in a cycle of debt. With lenders doing essentially no underwriting, consumers find it easy to obtain these loans, often marketed as a solution to financial emergency. However, the unaffordability of the loan and the lenders extreme leverage over the borrowers – either through direct access to the bank account or threatening repossession of the borrower's car - makes it very difficult to escape a cycle of debt that can last months, if not years.

Debt trap products often lead to other financial harms, including delinquency on other bills, overdraft and NSF bank charges, and involuntary loss of bank accounts. For car title loans specifically, 1 in 5 consumers end up losing their vehicle through repossession.[1]

Research from the Consumer Financial Protection Bureau (CFPB) has found that the average payday consumer takes out 10 loans a year, borrowing one loan immediately after another.[2] Similarly, the Center for Responsible Lending (CRL) found that the typical car title loan consumer will renew their loan 8 times, paying more in fees than they originally borrow.[3] Overall, repeat refinancing is essential to generate fee revenue for both the payday and car title business models. CRL estimates that payday and car title loans cost consumers over $8 billion in fees annually.[4]

Fifteen states and the District of Columbia have adopted rate caps of 36% or less, which have been successful in stopping the debt trap particularly from payday loans. Arizona, Montana, Ohio, and South Dakota, in particular, instituted rate caps through a ballot vote, directly reflecting their citizen's desire to reject the debt trap.[5] Additionally, the U.S. Department of Defense has adopted a 36% rate cap to protect military personnel and their families.

To date, no state deciding to rein in debt trap loans has reauthorized these loans, even with significant lobbying pressure from the payday and car title industries.

Fee Savings from Payday and Car Title Lending

CRL estimates that states without payday and car title have saved over $5 billion a year in fees annually – $2.2 billion from payday lending, plus another $2.8 from car title lending. As shown in Figure 1, many of the top fee savers are states that strictly enforce their consumer lending usury rates, not allowing lenders to exploit loopholes in their state law. This has been effective in providing savings from payday and/or car title lending in those states.

Research has shown that regulating debt trap lending has not resulted in a restriction of access to credit on a state level.[6] In fact, the same research found that the majority of former payday borrowers in North Carolina saw a positive impact on their household after payday was banned in 2006.

Figure 1: Annual Payday and Car-Title Loan Fee Savings by State

Rank	State	Estimated Payday Fee Savings	Estimated Car-Title Fee Savings	Total Fee Savings
31	Alaska	NA	$12,512,960	$12,512,960
10	Arizona	$167,474,987	NA	$167,474,987
11	Arkansas	$77,504,338	$61,538,452	$139,042,790
16	Colorado	NA	$87,029,287	$87,029,287
12	Connecticut	$74,652,221	$59,273,872	$133,926,093
25	District of Columbia	$16,702,603	$13,261,868	$29,964,471
4	Florida	NA	$432,626,163	$432,626,163
6	Georgia	$284,112,449	NA	$284,112,449
28	Hawaii	NA	$22,962,078	$22,962,078
13	Indiana	NA	$122,076,574	$122,076,574
23	Iowa	NA	$48,825,814	$48,825,814
15	Kentucky	NA	$88,936,566	$88,936,566
22	Maine	NA	$23,123,115	$52,245,423
7	Maryland	$141,016,533	$111,967,142	$252,983,675
8	Massachusetts	$138,378,948	$109,872,899	$248,251,847
9	Michigan	NA	$186,139,890	$186,139,890
19	Minnesota	NA	$81,240,630	$81,240,630
24	Montana	$20,750,969	$16,476,272	$37,227,241
26	Nebraska	NA	$28,919,502	$28,919,502
27	New Hampshire	$27,390,363	NA	$27,390,363
5	New Jersey	$193,192,410	$153,394,794	$346,587,204
1	New York	$440,354,114	$349,641,214	$789,995,328
3	North Carolina	$255,144,890	$202,585,070	$457,729,960
32	North Dakota	NA	$11,151,149	$11,151,149
20	Oklahoma	NA	$80,167,618	$80,167,618
21	Oregon	NA	$67,733,990	$67,733,990
2	Pennsylvania	$272,852,734	$216,645,100	$489,497,834
30	Rhode Island	NA	$19,315,966	$19,315,966
18	South Dakota	$34,354,782	$47,365,934	$81,720,716
29	Vermont	$12,255,264	$9,730,681	$21,985,945
14	Washington	NA	$114,073,005	$114,073,005
17	West Virginia	$48,097,090	$38,189,094	$86,286,184
33	Wyoming	NA	$9,390,800	$9,390,800
	U.S. TOTAL	**$2,204,234,695**	**$2,826,167,499**	**$5,059,524,502**

The CFPB is currently considering adopting a rule that would be pivotal in reining in the debt trap. Although the CFPB does not have the authority to set rate caps the way that states do, they can require stronger ability to repay standards that would assess whether a consumer can afford a loan without immediately defaulting or flipping into a new loan.

Payday and car title lenders are adept at circumventing regulation in order to preserve their fee revenue. For example, after Ohio voters rejected the debt trap in 2008, both payday and car title lenders have exploited loopholes in their state law to still drain $502 million in fees per year.[7] Similarly, payday lenders sought work-arounds from the original protections under the Military Lending Act, thus leading the Department of Defense to broaden and enhance its 36% rate cap for these loans to active duty families. Therefore, it is essential that a CFPB rule be written without loopholes that lenders would exploit.

Methodology

The method we use to estimate payday and car title fees is based on what the estimated number of storefronts would be in non-authorization states if those lenders were active there.

Using data from the 2014 U.S. Census, we determine the number of adults per state (age 18 and over). We then use data from the Federal Reserve Bank of New York to determine adults with a subprime score (with an Equifax score below 660) as of 4Q 2014, allowing us to estimate the subprime population of each state. Using updated payday and car title storefront counts as of 2016, we estimate the number of stores per 100,000 subprime consumers for states that allow payday and car title lending.[8] Subprime populations are used for each state to help normalize the fact that states in the South have a higher proportion of subprime consumers compared to other regions.[9]

Previous CRL research estimates that payday and car title drain nearly $8 billion in fees annually - $4.1 billion from payday, and $3.8 billion from car title lending.[10] From this, we can estimate the amount of fees per storefront for states that have store count data. If we assume the same level of storefront activity per 100,000 subprime consumers in non-authorization states as authorizing states, we can then multiply that state's estimated store count by the estimated fees per store.

Note that these estimates are solely based on our previous fee drain estimates from national storefronts. Thus, our fee savings estimate would not include online lending, nor all installment lending activity, making the estimates more conservative.

[1] Consumer Financial Protection Bureau, *Single-Payment Vehicle Title Lending*, May 2016. http://files.consumerfinance.gov/f/documents/201605_cfpb_single-payment-vehicle-title-lending.pdf

[2] Consumer Financial Protection Bureau, *Payday loans and deposit advance products: A white paper of initial data findings*, 2013. http://1.usa.gov/1aX9ley

[3] Montezemolo, Susanna, *The State of Lending in America & its Impact on U.S. Households: Car-Title Lending*, Center for Responsible Lending, July 2013. http://www.responsiblelending.org/state-of-lending/reports/7-Car-Title-Loans.pdf

[4] Standaert, Diane, and Delvin Davis, *Payday and Car Title Lenders Drain $8 Billion in Fees Every Year*, Center for Responsible Lending, May 2016. http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_statebystate_fee_drain_may2016_0.pdf

[5] Since Ohio voted for a 28% rate cap in 2008, both payday and car title lenders have exploited loopholes in state law to continue lending, draining fees of $502 million annually.

[6] UNC Center for Community Capital, prepared for the NC Commissioner of Banks, *North Carolina Consumers after Payday Lending: Attitudes and Experiences with Credit Options*, Nov 2007.

[7] Standaert, Diane, and Delvin Davis, *The Buckeye Burden: An Analysis of Payday and Car Title Lending in Ohio*, Center for Responsible Lending, Nov 2015.

[8] Note that Illinois, Oregon, and Wisconsin were not included in this calculation, as store count numbers were not available for these three states.

[9] Federal Reserve Bank of New York/Equifax 4Q 2014 data show that Southern states have from 40% to 50% of their respective adult population in the subprime credit tier. Nationally, 34.2% of American adults had subprime credit. https://www.newyorkfed.org/data-and-statistics/data-visualization/community-credit-profiles/index.html#inclusion/credit_quality/pct_ce_prime

[10] Standaert, Diane, and Delvin Davis, *Payday and Car Title Lenders Drain $8 Billion in Fees Every Year*, Center for Responsible Lending, May 2016. http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_statebystate_fee_drain_may2016_0.pdf