



# CAR TITLE LOAN HARM AND RISKS FROM CFPB ANALYSIS

## **Title Loans Are Unaffordable for Borrowers Who Use Them:**

Median single-payment 30-day title loan was \$694 with a median APR of 317 percent in national study of 3.5 million loans in 20 states. (CFPB Rule at 65)

Less than a third of title loan borrowers have individual income above \$2,500 a month. Borrowers are disproportionately African-American or Hispanic and are more likely to live in unmarried female-headed families. (CFPB Rule at 316)

CFPB projects that only a third of title loan borrowers will be able to pass the ability to repay test in its new rule requiring responsible lending. (CFPB Rule at 1368)

## **Borrowers Become Trapped in Repeat Borrowing:**

CFPB study found that 23% of single-payment title loan sequences consisted of 10 or more loans. 56% of sequences were at least four loans.

50% of all single-payment title loans are in sequences of 10 loans or more and over 66% of them are in sequences of at least 7 loans. (CFPB Rule at 329)

83% of single-payment title loans are reborrowed on the same day and 85% are reborrowed within a month. (CFPB Rule at 308)

## **Borrowers Have a High Risk of Default:**

33% of title loan borrowers eventually default on a sequence of single-payment loans. (CFPB Rule at 76)

1 in 5 single-payment vehicle title loan borrowers have their vehicle repossessed by the lender. (CFPB Rule at 76)

Defaulters face court costs and attorneys' fees if sued. In Arizona lenders can both sell a repossessed vehicle and sue to collect any extra amount owed.

### **Balloon-Payment Installment Title Loans are Risky:**

CFPB examination of a large title lender that offers loans with smaller payments followed by a large balloon installment payment found that 60% of balloon-payment installment loans resulted in refinancing, reborrowing or default. (CFPB Rule at 403)

Default rate on balloon-payment vehicle title installment loans is about 3 times higher than the default rate for comparable fully-amortizing vehicle title installment loans offered by the same lender.

CFPB found a large increase in reborrowing around the time the balloon payment was due, with borrowers less likely to take extra cash.

### **Loans Leveraged by Lender Access to the Borrower's Bank Account Particularly Risky:**

Many Arizona title lenders also hold access to borrowers' bank accounts (held checks, electronic access to bank accounts or debit cards) as means to unilaterally collect payments. CFPB did not study title lenders' access to accounts in particular, but data from a study of online payday installment lenders who also hold electronic access to borrower accounts shows risk.

CFPB study found that about 6% of any given online payday loan payment failed on the first attempt to electronically withdraw funds. Over an 18-month observation of online payday installment loans, 50% of borrowers had at least one failed payment attempt or experienced an overdraft. (CFPB Rule at 98)

Failed withdrawal attempts trigger bank insufficient funds fees and may lead to closure of the borrower's bank account. (CFPB Rule at 99)

Text of CFPB rule on payday loans at

[http://files.consumerfinance.gov/f/documents/201710\\_cfpb\\_final-rule\\_payday-loans-rule.pdf](http://files.consumerfinance.gov/f/documents/201710_cfpb_final-rule_payday-loans-rule.pdf)