



TITLE LENDERS AND CONSUMER LENDERS SHOULD PLAY BY THE SAME RULES IN AZ

AZ LEGISLATURE SHOULD KICK TITLE LENDERS OUT OF THE 'SANDBOX'

Recommendation: The Arizona Legislature should require title lenders to comply with the Consumer Lender law at A.R.S. § 6-601 et seq and amend the Regulatory Sandbox law to exclude title loans made under the Secondary Motor Vehicle Finance Transaction law at Title 44, Chapter 2.1.

Arizona's "Sandbox" law (2018 H.B 2434 codified as A.R.S. § 41-5601 to 41-5612) permits financial firms to operate in Arizona without a license, examination or supervision by the Department of Insurance and Financial Institutions (DIFI) to test "innovations" in a program run by the Office of Attorney General.

Title lenders are sales finance companies authorized under Title 44, Chapter 2.1 that charge triple-digit rates up to 204% APR for asset-secured loans. Title loans trap consumers in unaffordable debt who risk repossession if borrowers cannot repay. Both Consumer Lenders and Title Lenders can apply to operate in the "Sandbox."

Title loans are based on the lender's ability to collect, not on the borrower's ability to repay the loan. Consumers are harmed by usurious title loans and no "innovation" will benefit borrowers under this law. See links below.

Loans secured by borrowers' vehicles can be made under the Consumer Lender law, Arizona's usury law that applies to unsecured and secured installment loans for lenders licensed by DIFI or admitted to the "Sandbox." Consumer Lender rates are capped at 36% on loans up to \$3,000 and 24% on larger loans, plus a 5% fee.

The "Sandbox" law sets no limits on the size of title loans. The Arizona Regulatory Sandbox Program (RSP) law limits the size of Consumer Lender loans that can be made in the "Sandbox" at \$15,000 per loan and a total of \$50,000 per borrower. There is no limit on the size or total for car title loans made in the "Sandbox."

Title lenders and Consumer lenders should play by the same rules of the Consumer Lender law to better protect consumers and fair competition.

Comparison

Key Law Terms	Consumer Lenders	Car Title Lenders
Maximum Loan Amount	\$10,000 DIFI / \$15,000 RSP	No limit
Maximum Interest Rate (APR)	36% on first \$3,000 24% on remainder	204% on \$500 180% to \$2,500 156% to \$5,000 120% over \$5,000
Fees	5% origination fee up to \$150 maximum	5% late pay fee
Maximum Loan Term	24 months + 15 days for \$1,000 60 months + 15 days (tiered) for up to \$6,000 Any agreed term for >\$6,000	No term limits
APR Example	2-year \$2,000 loan at 41% APR	1 month \$2,000 loan at 180% APR
Payment Schedule	Equal installments, no balloon payment terms	No protections, balloon payments permitted
Referral Fees	Prohibited	No protections
Prepayment Penalties	Prepayment allowed at any time. Prepaid finance charges prohibited	No protections

As noted by Lauren Saunders at the National Consumer Law Center in a March 2019 [report on fintech products](#):

"A desire to promote innovation must not lead us into waiving consumer protection rules or oversight of untested products."

For more information on the risks of car title loans, see the factsheet titled "[Car Title Loan Harm and Risks from CFPB Analysis](#)" at <https://nomoreloansharksaz.org/> For more information on Arizona's Regulatory Sandbox Program visit the [Sandbox](#) page at <https://nomoreloansharksaz.org/>