



3-20-13

Policy analyst: Stephen Stetson
(334) 832-9060

Auto Title Loans Harm Alabama Workers

Alabama lets auto title lenders charge an annualized percentage rate (APR) of up to 300 percent. Compared to other types of consumer loans, 300 percent APR is predatory and often insurmountable.

Other Southern states have banned this practice. Arkansas, North Carolina and Florida have declared auto title lending at triple-digit interest to be an illegal exploitation of their residents.

Auto title loans violate the ethical codes of most religions, as well as the U.S. military. The Bible and most other scriptures forbid usury, or unfair lending. The military successfully asked Congress to recognize the destructive effects of consumer debt. The Military Lending Act of 2007 caps interest rates to service members (and their dependents) at 36 percent.

Predatory lending practices leave people stranded. When borrowers use their vehicles as collateral, those failing to repay on time are often faced with repossession, which leaves them without a way to get to work, further jeopardizing their personal finances.

Title loans strip wealth from communities. Because title loans can range up to thousands of dollars, depending on the value of the vehicle, hundreds of dollars of interest can accumulate each month. Borrowers often are unable to repay within the 30-day loan period, and must renew their loan every month in order to avoid repossession of their cars. Most are stuck in these loans for months or *years* before they are able to pay off the principal. Reasonable loan rates would allow people to pay their bills, settle their debts and invest productively.

Taking a borrower's vehicle can be a windfall for the lender. Unlike traditional loans using a vehicle as collateral, a title loan allows the lender to sell the car after repossessing it. Even if the vehicle's value greatly exceeds the amount of the loan, the lender is entitled to keep the profits from the sale.

Borrowers will get credit elsewhere if title lenders leave. In states capping interest rates, people once intent on pawning their auto titles find other, better sources of credit. Lending alternatives (whether traditional banks and credit unions or simply borrowing from family and friends) already exist but are crowded out by auto title lenders in low-income communities.

Everyone deserves credit. People should be allowed to use their property as collateral in a loan, but the current rules on title pawns leave borrowers facing damaged credit and increased risk of bankruptcy, along with loss of their vehicles. Capping interest rates on small-dollar loans helps people enter the financial mainstream and build assets, so that they are less vulnerable to unpredictable expenses. Alabama's workforce should not be stranded and isolated by predatory lending.



3-20-13

Prepared by: Shay Farley, legal director
(334) 263-0086

A Plan for Auto Title Lending Reform

A legal carve-out allows Alabama's auto title lenders to charge usurious interest rates.

The allowable annual percentage rate (APR) on 30-day auto title loans is 300 percent, far exceeding the 36 percent APR cap set by Congress for military personnel and their families. With promises of a painless quick fix, title loans trap borrowers in financial quicksand, strip wealth from financially vulnerable families and leave borrowers with fewer resources to devote to asset development and boosting the local economy. Without regard for ability to repay the loan, auto title lenders cynically claim they care about their customers. Worse, they endanger borrowers who are risking repossession of their vehicles, often a household's lifeline to a job and medical care. Other pro-business Southeastern states – Arkansas, North Carolina and Florida – have set double-digit interest rates to protect consumers.

Necessary changes to Alabama's lending laws:

Title loans are currently governed by the Alabama Pawnshop Act. A separate statute could adequately define and regulate these loans by including the following provisions:

- Cap the interest rate at 36 percent APR.
- Lenders, in person or online, must be licensed. Loans by unlicensed lenders are void and unenforceable.
- Loan contracts must include certain disclosures, including total service charge, penalties for late or non-payment, and the amount and due date of the payment.
- If a borrower is delinquent for five or more days, a lender may charge a late fee not to exceed the greater of \$18 or 5 percent of the payment in default. After 30 days of non-payment, the lender is entitled to repossess the vehicle. The borrower may recover the vehicle within 15 days of repossession by paying the entire amount of the loan, including principal, interest, late fees, and the actual costs of repossession.
- Lenders must provide notice to a delinquent borrower of overdue payment, with interest owed, to avoid repossession. Also, within five days of repossession, the lender must inform the borrower of his/her right to redeem the automobile.
- Lenders must return the surplus if the repossessed automobile is sold (the amount received in the sale minus the loan balance and reasonable actual costs of repossession and sale) and provide an accounting to the borrower.
- All lenders must submit an annual report to the state banking department, with information regarding loan terms and repayment (including lawsuits initiated in pursuit of repayment). The agency's annual report aggregate data on title loan transactions.

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- **SB 331** by Sen. Marc Keahey is a strong reform bill improving AL's auto title lending laws.
 - **HB 462** is offered by Rep. Rod Scott. Both bills have bipartisan support.