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Newsroom

Press Release

CFPB Finds One-in-Five Auto Title Loan Borrowers Have Vehicle Seized for Failing to Repay Debt

Majority of Auto Title Loan Business Comes From Borrowers Stuck In Debt for Most of the Year

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WASHINGTON, D.C. — The Consumer Financial Protection Bureau (CFPB) today issued a report finding that one-in-five borrowers who take out a single-payment auto title loan have their car or truck seized by their lender for failing to repay their debt. According to the CFPB's research, more than four-in-five of these loans are renewed the day they are due because borrowers cannot afford to repay them with a single payment. More than two-thirds of auto title loan business comes from borrowers who wind up taking out seven or more consecutive loans and are stuck in debt for most of the year.

"Our study delivers clear evidence of the dangers auto title loans pose for consumers," said CFPB Director Richard Cordray. "Instead of repaying their loan with a single payment when it is due, most borrowers wind up mired in debt for most of the year. The collateral damage can be especially severe for borrowers who have their car or truck seized, costing them ready access to their job or the doctor's office."

Auto title loans, also called vehicle title loans, are high-cost, small-dollar loans borrowers use to cover an emergency or other cash-flow shortage between paychecks or other income. For these loans, borrowers use their vehicle – such as a car, truck, or motorcycle – for collateral and the lender holds their title in exchange for a loan amount. If the loan is repaid, the title is returned to the borrower. The typical loan is about $700 and the typical annual percentage rate is about 300 percent, far higher than most forms of credit. For the auto title loans covered in the CFPB report, a borrower agrees to pay the full amount owed in a lump sum plus interest and fees by a certain day. These single-payment auto title loans are available in 20 states; five other states allow only auto title loans repayable in installments.

Today's report examined nearly 3.5 million anonymized, single-payment auto title loan records from nonbank lenders from 2010 through 2013. It follows previous CFPB studies of payday loans and deposit advance products, which are among the most comprehensive analyses

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ever made of these products. The auto title report analyzes loan use patterns, such as reborrowing and rates of default.

The CFPB study found that these auto title loans often have issues similar to payday loans, including high rates of consumer reborrowing, which can create long-term debt traps. A borrower who cannot repay the initial loan by the due date must re-borrow or risk losing their vehicle. Such reborrowing can trigger high costs in fees and interest and other collateral damage to a consumer's life and finances. Specifically, the study found that:

- **One-in-five borrowers have their vehicle seized by the lender:** Single-payment auto title loans have a high rate of default, and one-in-five borrowers have their car or truck seized or repossessed by the lender for failure to repay. This may occur if they cannot repay the loan in full either in a single payment or after taking out repeated loans. This may compromise the consumer's ability to get to a job or obtain medical care.
- **Four-in-five auto title loans are not repaid in a single payment:** Auto title loans are marketed as single-payment loans, but most borrowers take out more loans to repay their initial debt. More than four-in-five auto title loans are renewed the day they are due because borrowers cannot afford to pay them off with a single payment. In only about 12 percent of cases do borrowers manage to be one-and-done – paying back their loan, fees, and interest with a single payment without quickly reborrowing.
- **More than half of auto title loans become long-term debt burdens:** In more than half of instances, borrowers take out four or more consecutive loans. This repeated reborrowing quickly adds additional fees and interest to the original amount owed. What starts out as a short-term, emergency loan turns into an unaffordable, long-term debt load for an already struggling consumer.
- **Borrowers stuck in debt for seven months or more supply two-thirds of title loan business:** Single-payment title lenders rely on borrowers taking out repeated loans to generate high-fee income. More than two-thirds of title loan business is generated by consumers who reborrow six or more times. In contrast, loans paid in full in a single payment without reborrowing make up less than 20 percent of a lender's overall business.

Today's report sheds light on how the single-payment auto title loan market works and on borrower behavior in this market. It follows a report on online payday loans which found that borrowers get hit with steep bank penalties and risk losing their checking account due to repeated attempts by their lender to debit payments. With auto title loans, consumers risk their car or truck and a resulting loss of mobility, or becoming swamped in a cycle of debt. The CFPB is considering proposals to put an end to payday debt traps by requiring lenders to take steps to determine whether borrowers can repay their loan and still meet other financial obligations.

The CFPB study is available at:
http://files.consumerfinance.gov/f/documents/201605_cfpb_single-payment-vehicle-title-lending.pdf

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.

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