Payday and Car Title Lenders Drain $8 Billion in Fees Every Year

Diane Standaert, Director of State Policy
Delvin Davis, Senior Researcher

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Payday and car title loans typically carry annual percentage rates (APR) of at least 300%. These high-cost loans are marketed as quick solutions to a financial emergency. Research shows, however, that they typically lead to debt which is nearly impossible to escape, and are related to a cascade of other financial consequences, such as increased overdraft fees, delinquency on other bills, involuntary loss of bank accounts, and even bankruptcy. For car title, the end result is too often the repossession of a borrower's car, a critical asset for working families.

Payday loans and car title loans are marketed as an infusion of cash to financially struggling people. In reality, these loans typically drain hundreds of dollars from a person's bank account in amounts well above the original loan amount. Collectively, these loans drain billions of dollars a year in charges on unaffordable loans to borrowers with an average income of approximately $25,000. This fee drain hampers future asset-building and economic opportunity in communities most impacted by these predatory lending practices.

The Debt Trap Drives the Fee Drain

As shown in Table 1, payday loans drain over $4.1 billion in fees a year from people in the 35 states that allow triple-digit interest rate payday loans. Car title loans drain over $3.8 billion in fees annually from people in 22 states. Together, these loans drain nearly $8 billion in fees every year.

Nearly half ($3.95 billion) of the national fee total comes from the top 5 states with the highest fee drain amounts – Texas , California, Mississippi, Illinois, and Ohio – with at least a half billion in fees drained from each state.

Data repeatedly show that payday and car title lenders' bottom line is dependent on borrowers stuck in a cycle of debt. According the Consumer Financial Protection Bureau, the typical payday borrower is stuck in 10 loans a year, typically one right after the other.[1] This means that a borrower will pay $458 in fees on a typical $350 two-week loan.[2] Further, 75% of all payday loan fees are generated from borrowers with more than 10 loans a year.[3] In states such as Florida with ineffective protections, over 80% of loans are to borrowers with 7 or more loans a year.[4] While comparable data is not available for car title lenders, the typical car title loan is refinanced 8 times.[5] As a result, car title loans extract twice as much in fees than credit extended.[6]

Policy and Market Landscape

This brief provides the first update on fees drained by payday and car title lenders since 2013, as reported in the Center for Responsible Lending's State of Lending reports.[7] The regulatory landscape has been relatively static since that time, both at the state and federal level, but there have been some important market changes.

At the state level, between 2013 and 2016, no state has legalized making payday or car title loans in states that have previously not allowed them, while South Dakota passed a ballot measure capping payday and car title loans at 36%. Likewise, payday lenders have successfully blocked numerous efforts to enact meaningful consumer protections aimed at stopping the debt trap. The most effective means to prevent the fee drain and consequent harms of these loans is a rate cap of about 36% or less, just as 15 states plus D.C. enforce for payday loans, saving billions of dollars a year annually.

A few states - Colorado, Maine, Oregon, Virginia, and Washington - have regulatory frameworks that have permit triple-digit interest rate loans, but with provisions that significantly curb the worst elements of the debt trap. See Table 2. For example, in 2010, Colorado reduced the cost of payday loans and established a 6-month loan term with pro-rate refundable fees, leading to a 40% reduction in fees drained annually.[8] Also in 2010, Washington enacted reform establishing a limit of eight loans in a 12-month period, leading to a 75% reduction in fees drained annually.[9]

At the federal level, the U.S. Department of Defense's enhanced rules expanding the reach of the Military Lending Act's 36% rate cap to installment loans.[10] Those rules were published in 2015 and became effective in 2016. Although the Consumer Financial Protection Bureau (CFPB) released its proposals for rules covering payday and car title loans in June 2016, final rules have not yet been enacted.[11]

Since 2013, there have been marketplace developments, particularly in states with loose consumer protections, as payday and car title lenders have moved to longer-term loans that stretch for months or even years.[12] The updated numbers in this brief reflect another market development since the 2013 publication of State of Lending – the retreat of national payday lending companies from the payday loan market, particularly Cash America and EZCorp.[13]

The estimates are conservative in two ways. First, as explained in more detail in the Methodology section below, the fees drained do not include the cost of longer-term loans in every state where they are made, only in states where the data is reported to the state regulators. Second, the fees provided here do not include penalty fees, like late fees or bounced payment fees, imposed by payday lenders, car title lenders, or banks, which also result in significant cost and harm to borrowers. [14]

State and Federal Policy Makers Can Stop the Debt Trap

States can enact and enforce rate caps that lower the rates of these high-cost loans. Importantly, there are 15 states and the District of Columbia that enforce rate caps of about 36%, ensuring that their residents are not losing billions of dollars annually servicing the debt of triple-digit interest rate loans.[15] These rate caps provide the necessary tools for states to prevent and enforce against unsafe lending practices, whether online or in a store.[16]

The Consumer Financial Protection Bureau is in the process of drafting new rules that, if done right, have the potential to stop the debt trap nationally. Unlike the states, the CFPB is prohibited from setting a cap on the cost of loans. However, the consumer financial watchdog can establish rules that require lenders to ensure the loan is affordable – meaning that it can be repaid without causing the borrower to default on other expenses or quickly be flipped into another loan. In order for these rules to effectively prevent the debt trap, the CFPB must prevent loopholes that invite evasion and ensure that it does not undermine existing state rate caps.

Table 1: Annual Payday and Car Title Loan Fee Drain

	Total Payday Fees	Total Car Title Fees	Total Fee Drain
States Without Debt Trap Protections	$4,003,129,182	$3,583,894,398	$7,587,023,580
States with Some Debt Trap Protections	$128,854,296	$262,585,478	$391,439,774
U.S. FEE DRAIN TOTAL	**$4,131,983,478**	**$3,846,479,876**	**$7,978,463,354**

Table 2: Annual Payday and Car Title Loan Fee Drain in States without Debt Trap Protections

Rank	State	Total Payday Fees	Total Car Title Fees	Total Fee Drain
6	Alabama	$125,216,000	$356,575,005	$481,791,005
35	Alaska	$5,835,235	Fees Saved	$5,835,235
11	Arizona	Fees Saved	$254,924,519	$254,924,519
2	California	$507,873,939	$239,339,250	$747,213,189
30	Delaware	$520,000	$29,803,284	$30,323,284
8	Florida	$311,046,128	Fees Saved	$311,046,128
14	Georgia	Fees Saved	$199,575,563	$199,575,563
37	Hawaii	$3,281,179	Fees Saved	$3,281,179
21	Idaho	$30,807,055	$65,414,558	$96,221,613
4	Illinois	$270,204,194	$233,259,868	$503,464,062
22	Indiana	$70,632,672	Fees Saved	$70,632,672
27	Iowa	$31,703,136	Fees Saved	$31,703,136
19	Kansas	$65,437,680	$45,769,329	$111,207,009
17	Kentucky	$117,790,366	Fees Saved	$117,790,366
13	Louisiana	$145,665,345	$95,796,270	$241,461,615
20	Michigan	$103,827,786	Fees Saved	$103,827,786
36	Minnesota	$10,580,342	Fees Saved	$10,580,342
3	Mississippi	$229,196,714	$297,500,639	$526,697,352
9	Missouri	$109,028,334	$200,107,764	$309,136,098

Rank	State	Total Payday Fees	Total Car Title Fees	Total Fee Drain
28	Nebraska	$30,819,287	Fees Saved	$30,819,287
15	Nevada	$77,725,835	$104,843,696	$182,569,531
29	New Hampshire	Fees Saved	$30,523,046	$30,523,046
26	New Mexico	$3,700,000	$29,865,374	$33,565,374
34	North Dakota	$6,863,350	Fees Saved	$6,863,350
5	Ohio	$184,461,756	$318,256,497	$502,718,253
24	Oklahoma	$52,653,967	Fees Saved	$52,653,967
33	Rhode Island	$7,551,275	Fees Saved	$7,551,275
12	South Carolina	$57,773,701	$187,334,928	$245,108,629
7	Tennessee	$176,249,373	$226,638,410	$402,887,783
1	Texas	$1,240,697,188	$432,068,934	$1,672,766,122
16	Utah	$7,880,486	$133,582,577	$141,463,062
18	Wisconsin	$8,439,931	$102,714,890	$111,154,821
32	Wyoming	$9,666,930	Fees Saved	$9,666,930
28	Nebraska	$30,819,287	Fees Saved	$30,819,287
	FEE DRAIN TOTAL	**$4,003,129,182**	**$3,583,894,398**	**$7,587,023,580**

Table 3: Annual Payday and Car Title Loan Fee Drain in States with Some Debt Trap Protections against the Payday Loan Debt Trap

Rank	State	Total Payday Fees	Total Car Title Fees	Total Fee Drain
23	Colorado	$57,256,103	Fees Saved	$57,256,103
38	Maine	$573,300	Fees Saved	$573,300
31	Oregon	$6,581,203	$10,106,902	$16,688,104
10	Virginia	$18,729,551	$252,478,576	$271,208,127
25	Washington	$45,714,139	Fees Saved	$45,714,139
	FEE DRAIN TOTAL	**$128,854,296**	**$262,585,478**	**$391,439,774**

Methodology

In reporting the costs of payday and car title loans, we primarily relied on data made available by the respective state regulator. When regulator data was not available, cost estimates for balloon payment loans are based on the same methodology as our 2013 State of Lending reports,[17] using an updated count of storefronts as of the latest date for which the data is available.

Our figures include fee totals for both balloon payment loans and longer-term loans wherever data was available. In states where payday and car title lenders make both balloon payment and longer-term loans, but data on longer-term loans is not reported, this analysis includes estimates for fees drained only by balloon payment loans, making for a more conservative estimate.

Overall fee totals may differ from our 2013 State of Lending report as our previous report did not include fees from longer-term installment products. In a few states, the amount of fees drained by longer-term payday and car title loans are directly reported to the state regulator. For payday loans, these are Colorado, Illinois, and Texas. For car title loans, these are California, Illinois, New Mexico, Texas, and Virginia.

Our figures also include states not included in our State of Lending on payday loans, like Delaware and Ohio that enacted legislation to stop the debt trap, yet since then have had lenders circumvent their state laws to still drain millions in fees. For example, although Delaware enacted a limit of five payday loans in a 12-month period, payday lenders have largely evaded the provision by moving into longer-term payday loans. The amount reflected here is for the amount of fees drained by lenders operating under the provision of five payday loans in a 12-month period. As such, this presents a more comprehensive look at the cost of fees drained by payday loans, where they are permitted, regardless of the state's regulatory structure. This brief is the first time we are reporting state-by-state estimates for car title fees.

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

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

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

[4] Coleman, B., and Davis, D (2016), "Perfect Storm." Center for Responsible Lending. http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl_perfect_storm_florida_mar2016.pdf

[5] Fox, J.A., Feltner, T., Davis, D., and King, U. (2013). "Driven to disaster: Car-title lending and its impact on consumers." Center for Responsible Lending and Consumer Federation of America. http://bit.ly/17GAEeu.

[6] Fox, J.A., Feltner, T., Davis, D., and King, U. (2013). "Driven to disaster: Car-title lending and its impact on consumers." Center for Responsible Lending and Consumer Federation of America. http://bit.ly/17GAEeu.

[7] Montezomolo, S. (2013). "State of Lending: Payday Lending Abuses and Predatory Practices," Center for Responsible Lending, http://responsiblelending.org/sites/default/files/uploads/10-payday-loans.pdf and, Montezomolo, S. (2013). "State of Lending: Car Title Lending." Center for Responsible Lending. http://www.responsiblelending.org/state-of-lending/reports/7-Car-Title-Loans.pdf

[8] In 2009, payday lenders in Colorado drained $95,087,316 payday loan fees a year. In 2014, according to the most recent reports by the Colorado Attorney General, payday lenders drained $57,256,103 payday loan fees a year.

[9] In 2009, payday lenders in Washington drained $183,437,279 fees a year. In 2014, according to the most recent reports by the Washington Department of Financial Institutions, $45,714,139 payday loan fees a year.

[10] Limitations on Terms of Consumer Credit Extended to Service Members and Dependents, 80 FR 43559 (July 22, 2015) (to be codified at 32 C.F.R. pt. 232). https://federalregister.gov/a/2015-1780

[11] Consumer Financial Protection Bureau (CFPB). (Jun 2016). "Consumer Financial Protection Bureau Proposes Rule to End Payday Debt Traps." http://files.consumerfinance.gov/f/documents/CFPB_Proposes_Rule_End_Payday_Debt_Traps.pdf

[12] Carter, C. et al. (2015). "Installment Loans: Will State Laws Protect Against the Next Wave of Predatory Loans?" National Consumer Law Center. http://www.nclc.org/images/pdf/pr-reports/reportinstallment-loans.pdf. See also, Smith, P. and Standaert, D. (2015) "Payday and Car Title Lenders Move into Unsafe Installment Loans." Center for Responsible Lending. http://www.responsiblelending.org/other-consumer-loans/car-title-loans/research-analysis/crl_brief_cartitle_lenders_migrate_to_installmentloans.pdf

[13] Hammond, E. (2016). "First Cash to Buy Cash America in $994 Million Pawn Deal." Bloomberg (noting "Cash America and First Cash both have retreated from payday lending to focus on pawnbroking."). http://www.bloomberg.com/news/articles/2016-04-28/first-cash-to-buy-cash-america-for-994-million-in-pawn-deal and EZCORP. (2015). "EZCORP Announces New Strategy, Structure and Business Focus." https://globenewswire.com/news-release/2015/07/29/756133/0/en/EZCORP-Announces-New-Strategy-Structure-and-Business-Focus.html

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[15] Arizona, Arkansas, Connecticut, District of Columbia, Georgia, Montana, New Hampshire, New York, New Jersey, North Carolina, Maryland, Pennsylvania, Vermont, West Virginia.

[16] Coleman, B. and Standaert, D. (2015). "Ending the Cycle of Evasion: Effective State and Federal Payday Lending Enforcement," Center for Responsible Lending. http://www.responsiblelending.org/payday-lending/research-analysis/crl_payday_enforcement_brief_nov2015.pdf

[17] Montezomolo, S. (2013). "State of Lending: Payday Lending Abuses and Predatory Practices," Center for Responsible Lending, http://responsiblelending.org/sites/default/files/uploads/10-payday-loans.pdf and, Montezomolo, S. (2013). "State of Lending: Car Title Lending." Center for Responsible Lending. http://www.responsiblelending.org/state-of-lending/reports/7-Car-Title-Loans.pdf