October 2015

No Right Turn

Illinois' Auto Title Loan Industry and its Impact on Consumers

WOODSTOCK INSTITUTE
Advancing Economic Security and Community Prosperity

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Acknowledgements

We gratefully acknowledge the Ford Foundation, the Woods Fund of Chicago, Grand Victoria Foundation, and the Richard H. Driehaus Foundation, whose generous support made this report possible.

We thank staff at Woodstock Institute, the Illinois Asset Building Group, the Social IMPACT Research Center and Heartland Alliance for their invaluable assistance in the production of this report.

We also thank our partners at Salt & Light Ministries, University of Illinois Champaign Extension, and the Center for Economic Progress for connecting us to borrower stories.

Report Information

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Illinois Asset Building Group (IABG) is a statewide coalition invested in building the stability and strength of Illinois communities through increased asset ownership and asset protection. Through our advocacy efforts, we are committed to addressing the growing racial wealth gap and expanding access to the tools people need to build financially secure futures for themselves and their children. IABG is a project of Heartland Alliance for Human Needs & Human Rights.
Learn More: www.illinoisassetbuilding.org

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Executive Summary

Illinois consumers are increasingly turning to high-cost automobile title loans (title loans) in an attempt to make ends meet, but becoming trapped in debt.

Title loans are one type of high-cost, small-dollar loans available in Illinois. Despite their similarity to payday loans and installment loans, title loans are not subject to the same consumer protections under Illinois state law. Title loan regulations adopted in 2009 created some minimal protections, but they are insufficient to make title loans safe and affordable for consumers. Analysis of auto title lending in Illinois from 2009 to 2013 showed that:

- **The vast majority of title loans in Illinois were taken out by low-income people.** Nearly three quarters of all title loan borrowers in Illinois had incomes of less than $30,000, and over 90 percent had incomes of less than $50,000.
- **The number of title loans issued in Illinois steadily increased between 2009 and 2013.** In 2009, Illinois consumers borrowed an estimated 73,116 title loans. By 2013, that number increased to 100,698 title loans.
- **The annual percentage rate (APR) charged by lenders decreased slightly, but the average term, principal amount, and total fees increased significantly.** While the average APR decreased from 285 percent to 234 percent, title loans in Illinois had an average term of 18.6 months with principal amounts of $1,089 and average fees of over $3,000.
- **Illinois title lenders made loans to consumers in other states where title loans are illegal.** Illinois court records show that Illinois lenders made online title loans to consumers who live out of state, including states where title lending is illegal, and then sued the consumers in Illinois.

These findings illustrate that consumers in Illinois need stronger protections for small-dollar loans, including auto title loans. We recommend that:

- The Consumer Financial Protection Bureau (CFPB) issue strong rules covering high-cost, small-dollar loans, including title loans, to ensure loans are safe and affordable.
- Congress pass legislation instituting a 36-percent cap for all consumer loan products, including title loans.
- The Illinois legislature strengthen the Consumer Installment Loan Act to require stronger ability-to-repay standards, maximum loan terms, and a rate cap of 36-percent APR.
- The Illinois Department of Financial and Professional Regulation (IDFPR) publicly release loan-level data from the state database to allow for a more detailed analysis and monitoring of small-dollar lending in Illinois.
- Financial institutions create and market affordable small-dollar loans with ability-to-repay standards as alternatives to high-cost, predatory products.

90% of auto title loan borrowers in Illinois had incomes of less than $50,000.

The number of title loans in Illinois increased by 37.7% between 2009 and 2013.

In 2010, consumers borrowed 81,895 title loans. By 2013, that number increased to 100,698 title loans.

Illinois title lenders made loans to consumers in other states where title loans are illegal.

The average borrower in Illinois paid about $3,000 in fees for a $1,000 title loan.

Between 2009 and 2013, the average title loan fees increased by 47.9%. In 2013, borrowers paid an average of $25.5 million per month in fees to title lenders.

Meet Paul

Paul lives with his two teenage daughters in the small town of Fairmount, Illinois. He has worked hard in the manufacturing industry for most of his life and is currently working for a small company that builds farm equipment. Paul never thought that he would take out an auto title loan, but his life took a turn for the worse this year.

In December of 2014, his wife of more than 20 years died of a heart attack after a year-long struggle with lung cancer. His life was shaken up.

The $8,000 in funeral costs and medical expenses put Paul into debt and strained his credit, but he kept working hard to stay afloat. After months of financial stress, Paul had a heart attack of his own in March 2015, which forced him to be out of work for four weeks.

He was struggling to get by and support his daughters. By April, Paul felt like he had run out of options, and so he took out a $2,000 title loan to try to make ends meet and started making the monthly payments of $450.

Paul's Story

Meet Paul! He cares for his two daughters in rural Illinois.

A family tragedy causes him to fall into debt and places a strain on his credit.

The added financial stress results in Paul having a heart attack and facing additional medical bills.

Then in June, Paul was injured in an industrial accident that caused him to lose part of his fingers. When he received the settlement from the accident, he wanted to completely pay off his title loan. He called the loan company, and they explained that he was accumulating about $15 in interest per day. To pay it off in September, Paul paid $2,400. In total, he paid about $4,200 for the $2,000 loan – a much lower amount than he would have paid if he had not paid off the loan earlier.

Paul was aware of the dangers of these types of loans. He knows other people who took out title loans and had their cars repossessed when they defaulted. He stated, "I always swore I would never take out a title loan, but I was in a bind." High-cost title loans take advantage of consumers' vulnerability and tendency to have "tunnel vision" in times of financial stress. Fortunately, Paul is starting fresh. He works with the Money Mentors program at the University of Illinois Extension, he has a budget, and he's debt-free and determined to keep himself that way.

Auto title loans are a type of high-cost, small-dollar loan. They are similar to payday loans, but are secured by the title to the borrower's automobile. Title lenders operate in 25 states across the country, and each year an estimated two million American consumers take out title loans. Consumers who own their vehicles outright can take out a title loan for some fraction of the assessed value of the vehicle with minimal underwriting. Like payday loans, title loans often have triple-digit interest rates and can lead borrowers into long-lasting cycles of debt.[1]

With poor credit and no access to mainstream financial products, Paul takes out an auto title loan.

$2,000 Loan

Paul borrows against his car for $2,000. He makes monthly payments of $450 while accumulating $15 in interest each day.

$4,200 Owed

When Paul finally pays off the loan, he has given the auto title lender about $4,200.

1. Payday Lending in America: Who Borrows, Where They Borrow, and Why. The Pew Charitable Trusts. July 2012.

Financial Insecurity in Illinois

Stories like Paul's are all too common. In Illinois, many households are financially fragile. While some families may be experiencing more financial stability since the Great Recession, many low-income families have stagnated wages, volatile schedules, few savings, and growing debt, a combination that makes it difficult to stay afloat during financial emergencies. Yet, financial emergencies are an unfortunate part of everyday life. Unexpected medical bills, home or vehicle repair costs, a sudden job loss - anyone can be affected by unplanned events or crises. Families need emergency savings and access to safe credit options to cover these costs.

Unfortunately, nearly one in three Illinoisans is living on a low-income or in poverty and, like Paul, has little savings to help weather a crisis:

- 17.2 percent of Illinoisans, or 2,156,000 people, are considered low-income.[2]
- 14.4 percent of Illinoisans, or 1.8 million people, are living in poverty.[3]
- The federal poverty threshold for family of three is $18,552,[4] but research on the cost of living shows that it takes around $70,000 for a family of three to make ends meet without assistance in Illinois.[5]

Many Illinois households are financially fragile

- Nearly one out of every four Illinois households is considered asset poor – meaning they don't have enough savings to live above the federal poverty level for more than three months when faced with a financial emergency. For households of color, the situation is even more critical, with 43 percent of households considered asset poor.[6]
- Over 54 percent of Illinois consumers have subprime credit, limiting their access to affordable loans and credit cards.[7]

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2. U.S. Census Bureau's 2014 American Community Survey 1-year estimates program.
3. U.S. Census Bureau's 2014 American Community Survey 1-year estimates program.
4. U.S. Census Bureau's poverty thresholds for 2013 by size of family and number of related children under 18 years.
5. The Basic Economic Security Tables™ were tabulated in cooperation with the Social IMPACT Research Center, and by the Center for Social Development at Washington University—St. Louis and Wider Opportunities for Women (WOW) as part of the national BEST™ Initiative led by WOW.
6. *2015 Assets & Opportunity Scorecard*. CFED. Available at: http://scorecard.assetsandopportunity.org/
7. *2015 Assets & Opportunity Scorecard*. CFED. Available at: http://scorecard.assetsandopportunity.org/

Turning to Title Loans

With stagnated wages, little savings, and strained credit histories, Illinois families have few options when trying to maintain their financial footing. A poor credit history limits a consumer's access to more traditional and affordable forms of credit such as safer, small-dollar loans and credit cards. Many of these vulnerable families turn to high-cost, small-dollar loans, such as title loans.

The lack of alternative, safe banking options in communities across Illinois exacerbates the problem. According to the Federal Deposit Insurance Corporation (FDIC), 22 percent of Illinoisans lack adequate banking services, meaning they have no traditional banking relationship or have a bank account but also use alternative financial services and products, such as payday loans, from non-bank entities. African American and Latino consumers are disproportionately unbanked or underbanked, with 46 percent of African Americans and Latinos having either no or little access to banks.[8] For credit-strapped individuals with limited banking access, a title loan may seem like the only option to meet an immediate financial need.

The consequences of taking out a title loan can be even more severe than the consequences of taking out a high-cost payday loan. In addition to accumulating excessive debt, title loan borrowers risk losing their vehicles. Repossession of a vehicle can have ripple effects on borrowers' employment stability, health care access, and other parts of their lives. For example, in 76 of Illinois' 102 counties, 90 percent or more of workers rely on a car to get to work.[9] In only five of Illinois' 102 counties does five percent or more of the workforce use public transit to get to work.[10] For families who are dependent on a vehicle to commute to work, transport children, run errands, and travel to health appointments, the loss of a vehicle can be devastating.

Consumers in Illinois are much more likely to default on a title loan than on any of the other small consumer loans. In 2013, the default rate for small consumer loans, payday loans, and payday installment loans was below 10 percent, while the estimated default rate for title loans was roughly 27 percent.[11]

For already financially vulnerable Illinoisans, title loans can make their lives even more precarious.

> Illinoisans are much more likely to default on a title loan, and thus lose their car, than to default on any other small consumer loans.

8. https://www.economicinclusion.gov/
9. Social IMPACT Research Center's analysis of the 2009-2013 American Community Survey's 5-year estimate program.
10. Social IMPACT Research Center's analysis of the 2009-2013 American Community Survey's 5-year estimate program.
11. Illinois Trends Report: All Consumer Loan Products through December 2013. Veritec Solutions, LLC. May, 2015.

Lack of Consumer Protections in Illinois

Current Illinois law does little to protect consumers from abusive auto title lending. The Consumer Installment Loan Act (CILA) defines title loans as a loan with an annual percentage rate (APR) exceeding 36 percent for which, at commencement of the loan, the borrower provides the lender physical possession of the motor vehicle title. The loan cannot exceed $4,000.

Title loans are one of four high-cost, small-dollar loan products regulated by the State. The Illinois General Assembly passed legislation in 2010 to create consumer protections for payday loans, payday installment loans, and small consumer installment loans, but title loans were not included in that process.

While the legislature has not taken action to specifically address auto title loans, the Illinois Department of Financial and Professional Regulations (IDFPR), which oversees title lenders, instituted new administrative rules in 2009. These rules do the following:

- Require all title loans to be fully amortizing and repayable in equal installments (effectively eliminating balloon payments).
- Limit the loan principal amount to $4,000 or less.
- Ensure that no monthly payment (including principal and interest) exceeds 50 percent of a borrower's gross monthly income, and require verification of income.
- Allow for a refinance only if the principal amount has been reduced by at least 20 percent.
- Institute a 15-day cooling off period between loans, unless refinancing.
- Require lenders to report loans in real time to a central database, and use the database to determine a borrower's eligibility for a loan or refinance.

Despite these rules, the lack of strong consumer protection means car title lenders can prey on financially insecure Illinoisans. Illinois is one of 25 states that does not prohibit title lending or impose a 36-percent APR cap.

Lack of Publicly Available Data

Any lender licensed under CILA can offer title loans. According to the IDFPR website, there are 1,232 CILA lenders operating throughout Illinois. It is unclear whether all or just some of those lenders sell title loans, as IDFPR no longer keeps a separate list of title lenders. IDFPR began collecting loan-level data through the database in April of 2009 and has released two general reports with annualized data for public use.

Illinois requires title lenders to input borrower information into a database owned by IDFPR and managed by Veritec Solutions, LLC. Lenders must use this database to verify that a borrower is eligible for a loan and to input information within 24 hours after issuing a loan, refinancing a loan, receiving full payment, returning the security, closing the loan after sale of the vehicle, or writing off a loan. At a minimum, lenders must include a borrower's social security number, principal amount of the loan, total amount of the loan, term of the loan, and maturity date. While IDFPR has issued two general reports on lending trends through December 2013, it has refused to provide access to any specific data, making it impossible for organizations to take a more detailed look at the lending industry and loan terms and conditions. Without access to that information, or some option for a more detailed report from Veritec, consumer advocates cannot fully assess the state of title lending in Illinois.

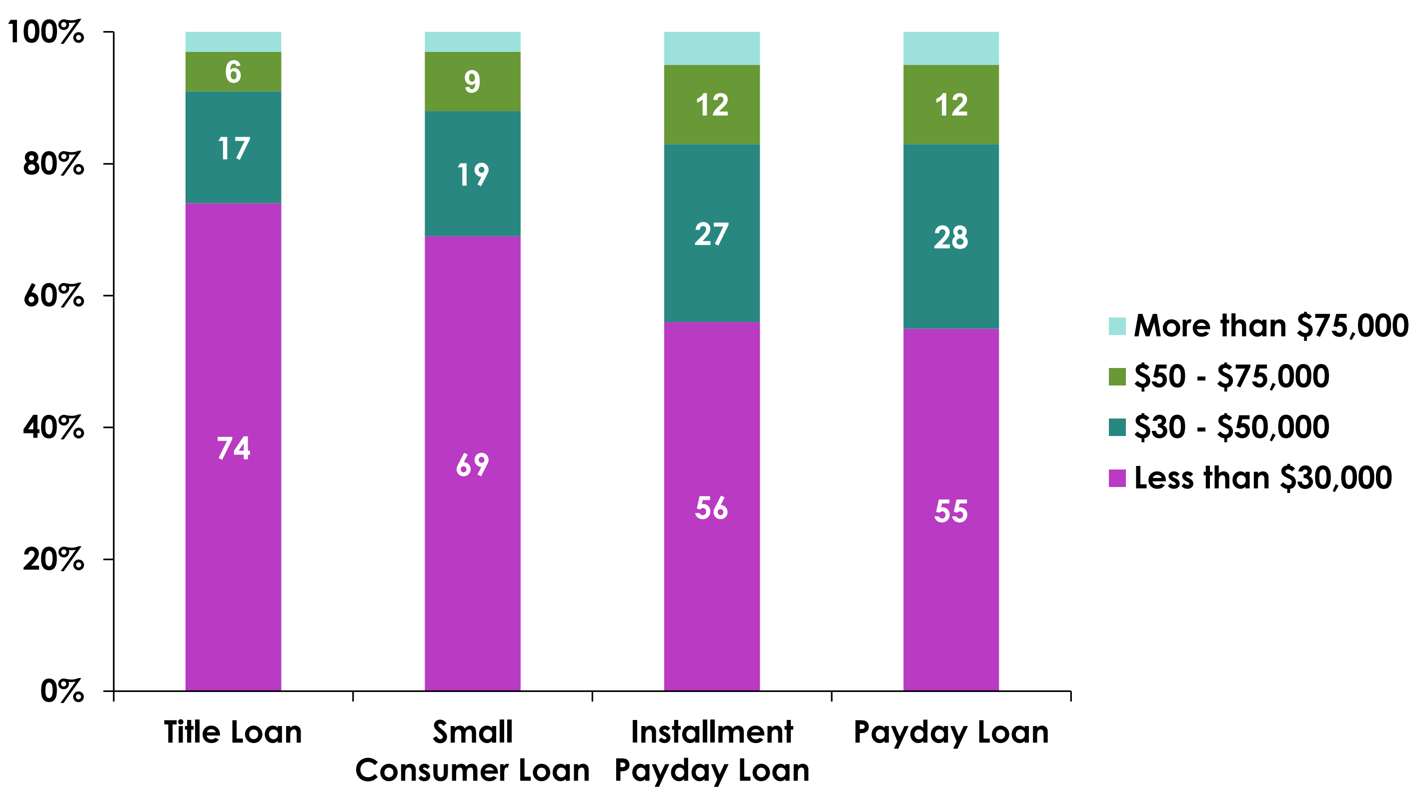
Methodology

The findings in this report are based on analysis of data from two sources. The statewide data comes from the two reports released by IDFPR, prepared by Veritec Solutions, LLC. The loan-level data comes from records of auto title loan collection cases filed in the Circuit Court of Cook County. While the statewide reports contain only annualized data, we looked at the difference between the loan data in each report to determine how auto title lending has changed during the 15-month period between the end date of the first report in September of 2012 and the end date of the second report in December 2013. The data from the 58 court filings provide a snapshot of loan terms including loan amount, finance charges and fees, and the borrower's address.

Who Are Title Loan Borrowers?

During the period studied, auto title loan borrowers were more likely to be low-income than borrowers of the three other types of regulated small-dollar loans in Illinois. As Chart 1 indicates, nearly three quarters of all auto title loan borrowers had incomes of less than $30,000, and over 90 percent had incomes of less than $50,000. Only borrowers using Small Consumer Loans had close to the same income profile as title loan borrowers. Borrowers using payday loans products, by comparison, generally had higher incomes.

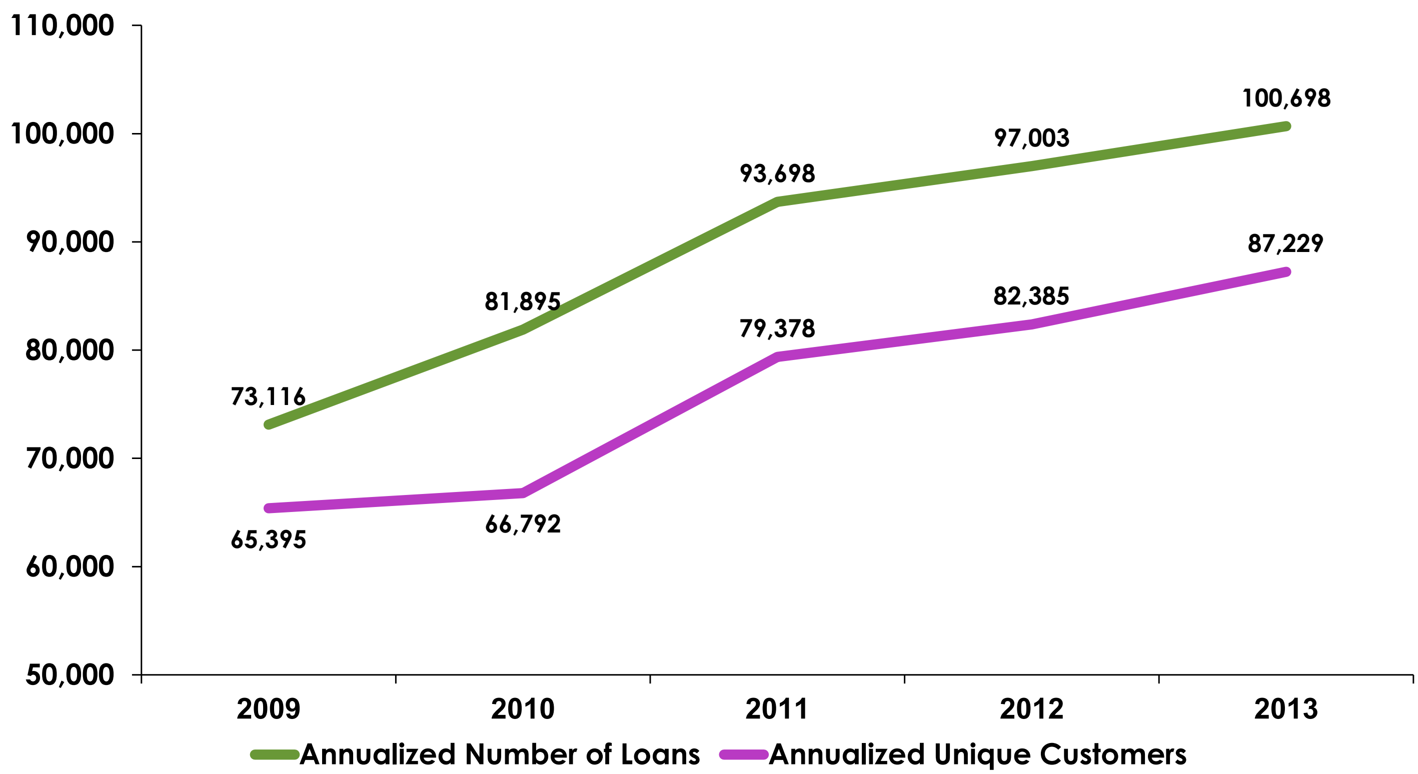
Chart 1: Borrower Income Range by Loan Product, 2009 – 2013



Source: Illinois Trends Report All Consumer Loan Products Through December 2013.

More borrowers took out auto title loans than ever before, and many were repeat borrowers. The use of title loans among Illinois residents grew rapidly in recent years. The number of title loans increased by 37.7 percent between 2009 and 2013, while the number of unique borrowers who took out title loans in a single year increased by 33.4 percent[12] (Chart 2). This means that many borrowers took out more than one title loan in any given year, an average of between 1.12 and 1.23 loans per borrower.

Chart 2: Annualized Number of Title Loans and Unique Borrowers, 2009-2013



Source: Illinois Trends Report All Consumer Loan Products Through December 2013, Authors' calculations.

While Chart 2 indicates the number of repeat title loan borrowers during a single year, the data also show that many borrowers took more than one loan over the course of a number of years. IDFPR's 2013 report indicated that 29.6 percent of borrowers between 2009 and 2013 were repeat borrowers, taking out title loans in more than one year.

12. The calculations are based on using the data for 2009, covering nine months, and multiplying those figures by 12/9s to estimate the figures for a full calendar year. That method of generating an annual figure will tend to underestimate the growth because the actual months omitted from the 2009 data, January through March, are historically months during which the number of auto title loans taken out are lower than the monthly average for the period from April through December. The estimate, therefore, will result in an estimate for the base year that is higher than it probably would have been if the data for 2009 had been available for a full year, and so the estimated growth will be lower.

Meet Mark

Mark has lived and worked in Chicago his entire life. For more than 42 years, he supported his family by working for the U.S. Postal Service. Since retiring, he spends time with his four children and 11 grandchildren and serves as an Ordained Senior Elder at his church.

Now that Mark is retired, he lives on a fixed income. A couple of years ago, Mark had a financial emergency. Rather than miss a rent payment for the first time in his life, he turned to an auto title loan to try to make ends meet. His $1,095 loan had an annual interest rate of 304.17 percent. Given the high interest rate, Mark worked to pay off the loan as quickly as possible.

Wanting to avoid relying on such a costly loan in the future, Mark began working hard to build up his savings. Unfortunately, before he could meet his savings goal, his car broke down. To try to stay afloat, he took out a second auto title loan for $1,500. When he finishes paying off this loan, he will have paid $381.90 per month for 24 months – an astounding total of $9,165.60 – on an original loan of just $1,500.

Mark's total price tag for taking out $2,500 in title loans to cover common financial emergencies will exceed $15,000. Instead of making ends meet, Mark is caught in a cycle of debt.

Mark's Loan Terms

First Title Loan

Loan Amount: $1,095

APR: 304.17%

Fees: $5,595.96

Loan Term: 24 months

Total Owed: $6,690.96

Second Title Loan

Loan Amount: $1,500

APR: 304.17%

Fees: $7,665.60

Loan Term: 24 months

Total Owed: $9,165.60

Total Borrowed
$2,595

Total Owed
$15,856.56

What do the Loans Look Like?

Title loans term lengths, principal amounts, and total costs had increased significantly.[13] Since 2009, we found significant changes in the characteristics of auto title loans in Illinois:

- **Increase in title loan amount (Chart 3):** The average loan amount increased by 21.9 percent, from $893 between April 2009 and September 2012 (first time period), to $1,089 between October 2012 and December 2013 (second time period).
- **Increase in total fees:** The average total fees increased by 47.9 percent, from $2,030 per title loan for the first time period to an average of $3,003 during the second time period. In total, borrowers paid just over $14.6 million a month in fees during the first time period and an average of $25.5 million per month during the second time period.
- **Increase in ratio of loan amount to fees:** The average amount of fee per dollar of loan amount increased from $2.27 in the first period to $2.67 in the second period, meaning that borrowers paid nearly three times as much in fees as they received in loans.
- **Increase in loan term (Table 1):** The loan terms for title loans had consistently increased. In 2009, only 8.1 percent of loans had terms longer than 720 days. In 2013, the number rose to 58.8 percent. The average loan term during the first period of time was about 392 days, or 12.9 months. The term increased 44.1 percent to 565 days, or 18.6 months. The large increase in fees paid is mostly attributable to the increase in average loan term, which more than offset the decrease in average interest rate for the loans.
- **Decrease in the Average Interest Rate (APR):** The average APR was 285 percent during the first period and decreased by 21.8 percent to 234 percent for the second period. However, as mentioned above, the increases in the loan amount, fees, and term length significantly outweigh any savings from a slight decrease in the APR.
- **Lower monthly payments:** The combination of longer terms and lower interest rates resulted in slightly lower average monthly payments for title loans, down from $226.91 during the first period to $220.49 during the second period. Considering that the average monthly income of title loan borrowers was about $2,213 for the period between October 2012, and December 2013, the average monthly payment represents about 10 percent of the borrower's monthly gross income, every month for a period of nearly 19 months.

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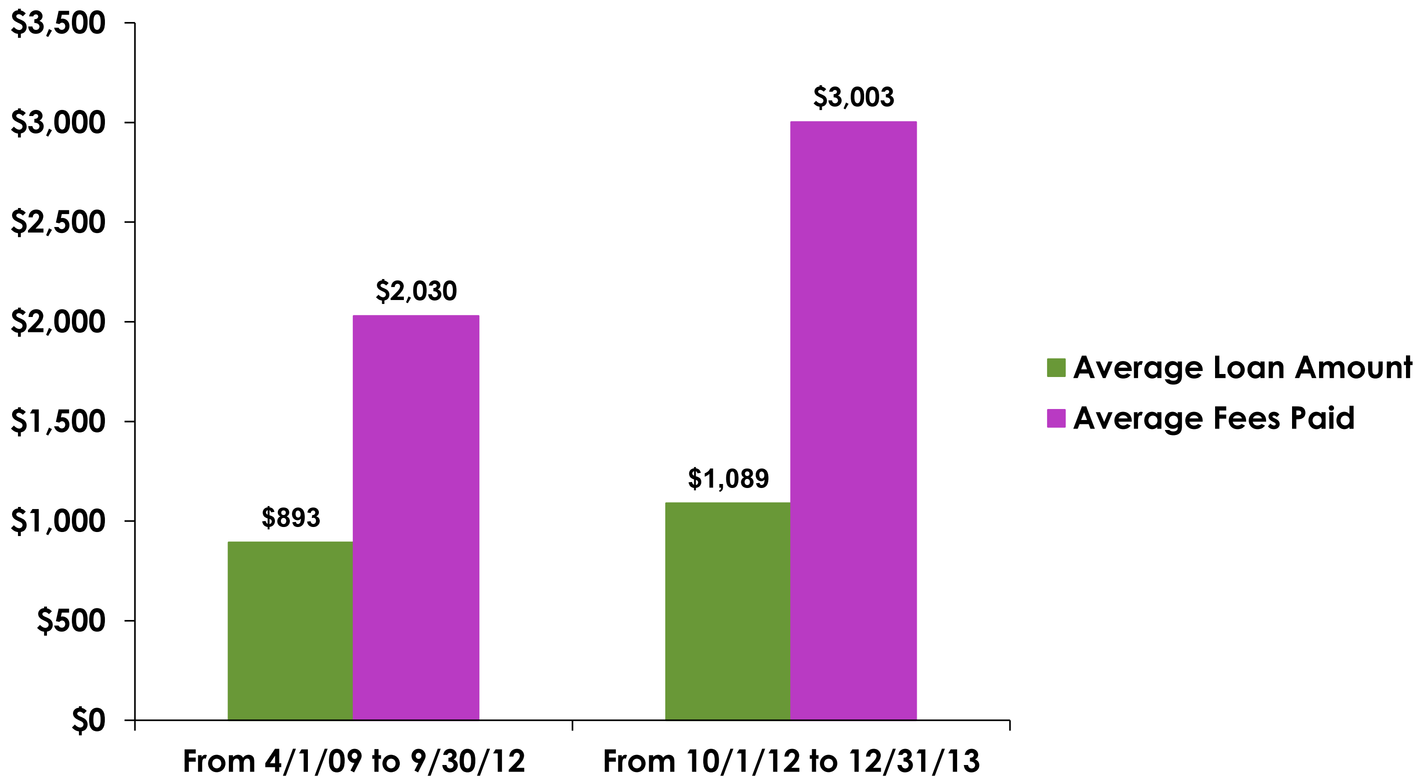
13. Each IDFPR report contains averages for the loan amount, total fees, and loan term over the entirety of the reporting period. By comparing the two reports, we were able to determine the changes in loan amount, total fees, and loan term over the 15-month time period between October 1, 2012, and December 31, 2013.

Chart 3: Average Title Loan Amount and Interest Paid



Source: Illinois Trends Report All Consumer Loan Products Through December 2013, Illinois Trends Report All Consumer Loan Products Through September 2012, Authors' calculations.

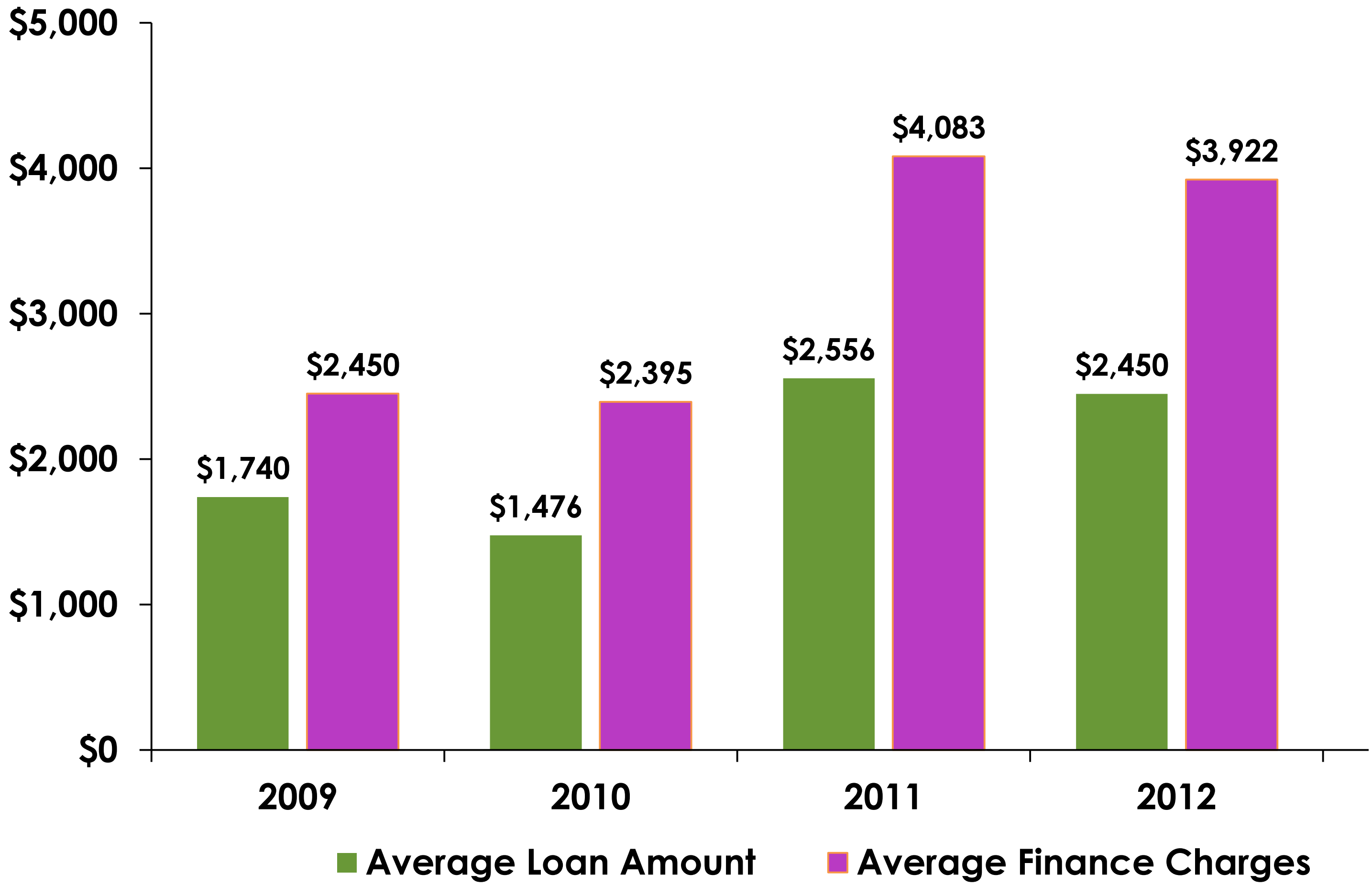
Table 1: Percent of Title Loans by Term Range

Year	Up to 360 Days	360 to 720 Days	More Than 720 Days
2009	33.6	58.3	8.1
2010	40.6	49.8	9.7
2011	22.2	50.0	27.8
2012	18.2	41.3	40.6
2013	10.6	30.6	58.8

Source: Illinois Trends Report All Consumer Loan Products Through December 2013.

Average loan amounts and finance charges are consistently increasing.[14]
The average loan amount and finance charges in the reviewed court cases increased consistently from year to year, with the exception of a slight drop in finance charges for 2012 (Chart 4). In every year, the average finance charges exceeded the actual amount of the title loan.

Chart 4: Court Cases Average Title Loan Amounts and Finance Charges



Source: Review of cases filed in Cook County Circuit Court, Districts 1 (Daley Center) and 6 (Markham) between April 2009 and July 2013, Authors' calculations.

Illinois title lenders made loans to borrowers living in states where auto title loans are illegal. The cases also show that auto title lenders made loans to people who live in states where title loans are not allowed under state law. Of the 58 cases examined, 31 cases showed title loans were issued to people whose listed address was in a state that does not allow auto title lending, including eight loans to residents of Pennsylvania, five loans to residents of Indiana, and four loans to residents of Michigan.

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14. Court case data support the statewide analysis, and also indicate that Illinois title lenders are making loans to borrowers liv4ng in states where auto title loans are illegal. The data from court cases are limited and not a random sampling, so therefore are not a good basis for drawing conclusions about broader trends in auto title lending. The court data do, however, show patterns that are consistent with the analysis of the statewide data.

Meet Amber & Jason

Last summer, Amber and Jason bought a new home for their family in Rantoul, Illinois. During their first weekend in their new home, the water main broke. Though they had paychecks coming in, they didn't have enough money to cover the cost of the repairs.

Needing to keep the water on for their family, they sought out an auto title lender, who told them, "You can take out a loan right now, no problem." They took out a loan for $500, and started making monthly payments of about $86. Looking back, Jason states, "I was under the impression when we started that as we paid that $86 per month, it would come off the $500 that we got."

When Jason checked on the principal balance after paying for a couple of months, however, he found the balance was $498 – only $2 had gone toward the principal and the APR on the loan was 200 percent. Living paycheck to paycheck and trying to pay off the loan, Jason and Amber actively worked with the lender to change the payment plan, change the payment date, and make adjustments to the loan. But, as Jason shares,

"I couldn't move the payment date. I couldn't pay it early. There's no lee-way. There's nothing. It's either that or they take the only vehicle I've got."

The $86 a month inflexible payment affected their family in horrible ways – forcing them to choose between their vehicle and their health, or to delay paying other bills. Jason sacrificed an important post-operative appointment to make the loan payment one month.

One loan payment occurred the day before Amber gave birth to twins. With all the extra money going towards the loan, Jason was left with no money for gas and was unable to visit Amber and his newborns in the hospital.

After 13 months of making $86 payments – a total of about $1,118 - Salt and Light Ministries helped Amber and Jason find the money to pay off the loan entirely. When they went to pay off the loan, they owed $559, of which $463 went to the principal. After making more than $1,000 in payments, they had only made $37 of progress on the principal. Had they continued with their two-year payment plan, they would have paid a total of $2,050.80, more than four times the amount of the loan.

The Real Impact

Our analysis provides a glimpse into the impact of title loans on Illinois consumers. The number of consumers taking out auto title loans increased significantly since 2009, when IDFPR first required title lenders to report lending activity. Almost one third of title loans were taken out by repeat borrowers, whether in the same year, or over the course of a few years.

While the average APR declined slightly, it remained well above 200 percent. The small reduction in APR did nothing to lower the total cost of title loans to consumers because the average loan term increased significantly, meaning consumers paid more in total fees over the lifetime of the loan. The analysis shows that more recent title loans had an average principal amount of $1,089, a term of 18.6 months, an APR above 230 percent, and a total of $3,003 dollars in fees.

The Average Title Loan in Illinois

Loan Amount = $1,089

Average Term = 18.6 months

Average APR = Over 230%

Total Fees = $3,003

Title loans in Illinois are exceptionally harmful because of their combined high interest rate and long loan terms. While traditional and installment payday loans have high APRs (up to 400 percent), those loans have maximum term lengths of 120 and 180 days, respectively, enabling borrowers to pay back loans in installments, but ensuring that borrowers are not paying high rates for excessive periods of time. Small consumer installment loans have longer terms (over 180 days), but are capped at 99 percent APR. Under current Illinois law, title loans have no APR cap and no maximum term, so borrowers can be trapped into paying high rates for years at a time.

As we saw with Paul, Mark, and Jason and Amber, title loans can destabilize a family by stripping thousands of dollars from their budgets over more than a year. For an average title loan in Illinois, the borrower must make on-time payments of over $220 per month for almost 19 months, or risk going into default and losing the vehicle.

Many title loan borrowers lost their vehicles. As the default rate data show, over a quarter of all Illinois title loan borrowers were unable to make payments and defaulted. This means that one in every four title loan borrowers in Illinois lost the means for commuting to work, going to the doctor, or transporting kids.

Policy Solutions

The lack of strong state and federal regulations for title loans creates an increasingly more costly and dangerous trap for consumers. With longer terms, and interest rates over 200 percent, borrowers are paying thousands of dollars more than the original loan amount. The following recommendations would go a long way towards reining in the title loan industry and making loans safer and more affordable for consumers.

The Consumer Financial Protection Bureau (CFPB) should issue strong consumer protections for high-cost, small-dollar loans, including auto title loans, to ensure loans are safe and affordable. While Congress did not give the CFPB authority under the Dodd-Frank Act to institute an APR rate cap on small-dollar loans, the CFPB does have rule-writing, supervisory, and enforcement authority over non-bank financial institutions, such as payday lenders and auto title lenders. The CFPB released an outline for small-dollar loan regulations in March of 2015 in which title loans were included. The Bureau should issue broad rules that cover both short-term and long-term, small-dollar loans to ensure that lenders do not make slight changes to their products in an effort to evade consumer protections. The rules must include strong underwriting requirements documenting that consumers have the ability to repay a loan while still covering existing expenses and debt, and should prohibit rollovers and balloon payments.

Congress should pass legislation instituting a rate cap of 36 percent for all consumer loan products, including auto title loans. While some states have instituted strong rate caps, payday and title lenders continue to charge exhorbitant rates in states with less stringent regulations. Online lenders circumvent rate caps and title lending prohibitions in some states by operating their businesses in states where lending is legal or less regulated, and making loans to consumers in states where title loans are not allowed. Our snapshot of loans in default clearly shows that title lenders in Illinois made loans to borrowers in states where auto title loans are prohibited. Congress should ensure that consumers in all states are protected from usurious interest rates and predatory products. U.S. Senator Dick Durbin's proposals to cap consumer credit at 36-percent APR, while not preempting stronger state laws, are a good model.

Illinois should strengthen the Consumer Installment Loan Act to require stronger ability-to-repay standards, maximum loan terms, and a rate cap of 36-percent APR. As previously mentioned, title loans in Illinois are regulated under CILA, but many of its consumer protections do not currently apply to title loans. Title loans are not subject to a cap on rates or loan terms. The Illinois General Assembly should take legislative action to institute maximum term lengths; strengthen underwriting requirements to include assessment of a borrower's income and ability to repay the loan, as well as existing expenses and debt; and apply the rate cap of 36 percent to title loans.

Illinois should strengthen protections for borrowers who default on title loans and have their vehicles repossessed. Illinois policymakers should pass administrative rules or legislation to ensure that no interest accrues on title loans after default, and that borrowers receive any surplus remaining in the event of a default, repossession, and sale of their vehicles. Policymakers should also prohibit title lenders from collecting deficiency balances (where a borrower still owes fees to the lender if the sale of the vehicle did not completely cover the debt), and attorney fees.

IDFPR should release loan-level data from the state database to allow for a more detailed analysis of title lending in Illinois. Illinois lawmakers should require IDFPR to make the auto title database information available through a Freedom of Information Act (FOIA) request (after redacting personally identifiable information, such as social security numbers). At a minimum, IDFPR should be required to publicly release a report each calendar year showing the loan terms, features, and borrower income for title loans taken out during the previous year.

Financial institutions should create and market affordable small-dollar loans, with ability-to-repay standards, as alternatives to high-cost, predatory products. Local credit unions, community banks, and larger financial institutions should develop safe and affordable small-dollar loans and strategically market them in communities with records of high usage of high-cost, small-dollar loans. Certain credit unions provide loans secured with a consumer's car title and charge APR's of less than 25 percent. Other financial institutions offer small-dollar loans with APR's well below 36 percent. Prudential banking regulators should use the Community Reinvestment Act to assess whether FDIC-insured depository institutions are adequately meeting the credit needs of low- and moderate-income communities – and this should include whether banks are providing access to safe and affordable small-dollar credit.

Appendix

Data Sources

Data on auto title lending for this report come from two sources. The statewide data come from two reports prepared for the Illinois Department of Financial and Professional Regulation (IDFPR) by Veritec Solutions, LLC. The first report covered the period between April 2009 and September 2012;[15] the second covered the period between April 2009 and December 2013.[16] The reports contain longitudinal data aggregated at the state level for four types of consumer loans – Payday Loans[17] and Installment Payday Loans[18] regulated under the Payday Loan Reform Act, and Title Secured Loans[19] and Small Consumer Installment Loans[20] regulated under the Consumer Installment Loan Act. For each type of loan, the report includes annualized data on the number of unique borrowers and loans and the approximate default rate for each type, and data aggregated over the period of the report on borrower income, average interest rate, loan amount, loan term, and total fees. We submitted a Freedom of Information Act request for more detailed data, but IDFPR denied our request. Without access to loan-level data, the only available information is what the Department chooses to release. There is no requirement for annual reports.

The loan-level data come from cases filed in Cook County Circuit Court, Districts 1 (Daley Center) and 6 (Markham) between April 2009 and July 2013. Auto title lenders filed the 58 cases we examined to collect on defaulted auto title loans, and the complaints contain the basic terms of the loans, including the amount borrowed, fees, interest rate, term of the loan, and total amount due.

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15. Illinois Trends Report All Consumer Loan Products Through September 2012.
16. Illinois Trends Report All Consumer Loan Products Through December 2013.
17. A Payday Loan is defined as a loan with a finance charge exceeding an annual percentage rate of 36 percent with a term of 120 days or less.
18. An Installment Payday Loan is defined as a loan with a finance charge exceeding an annual percentage rate of 36 percent with a term of between 112 days and 180 days.
19. A Title Secured Loan is defined as a loan with an interest rate exceeding an annual percentage rate of 36 percent with physical possession of the borrower's automobile title as security for the loan.
20. A Small Consumer Installment Loan is defined as a loan with an interest rate exceeding an annuall percentage rate of 36 percent with an amount financed of $4,000 or less with a term of more than 180 days.

Methodology

The data in the reports on the four loan types allow for comparison among types to show, for example, how the income profile of borrowers using payday loans differs from the profile of borrowers using auto title loans. Using the annualized data in the second IDFPR report, we calculated the growth rate in the use of auto title loans over time, both in the number of borrowers and the number of loans, and the average number of loans per borrower for each year. Combining the default rate data with the borrower data, we estimated the number of borrowers who default in each year. We used the difference between the total number of unique borrowers over the term of the second report and the sum of the annual unique borrowers to estimate the percentage of borrowers who took auto title loans in more than one year.

Using the difference between the loan data in the two IDFPR reports, we examined how auto title lending changed over time. For example, there were a total of 189,928 unique title loan consumers between April 2009, and September 2012, and a total of 256,849 unique borrowers between April 2009, and December 2013. Taking the difference between the two reports shows that there were 66,921 unique borrowers between October 2012, and December 2013. For changes in averages, we estimated what the average would have to be during the period between October 2012, and December 2013, to change the average reported in the first report to the average value presented in the second report. Comparing the values contained in the first report with the values estimated for the period between October 2012, and December 2013, we can see how the auto title lending business changed over time.

Because the IDFPR reports present data only at the state level, they do not permit analysis for smaller geographies. It is not possible, therefore, to use the data in the reports to determine where in the state the use of auto title loans is more or less prevalent.

The data from the 58 court filings are for loans originated between April 2009, and August 2013. While not a random sample, the records show the loan amount, finance charges and fees, and the place of residence of the borrower.