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Single-Payment Vehicle Title Lending

Consumer Financial Protection Bureau

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1. Introduction

This report examines consumer usage and default patterns for single-payment vehicle title loans.[1] Vehicle title loans are a type of credit product in which the lender takes a security interest in the borrower's vehicle and the loan approval and amount is primarily based on the vehicle's value, rather than a credit check and traditonal underwriting.[2] While the vehicle title loans that are the subject of this report are structured so that a single payment of the principal and associated fees are due in about a month,[3] some lenders also offer longer-term vehicle title loans that are repayable in installments.[4] Hereinafter in this report, we use the term "vehicle title loan" to refer to just those loans with a single payment.

1 The CFPB previously has reported data findings on single-payment payday loans. See "CFPB Data Point: Payday Lending," available at http://files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf (hereinafter "Payday Lending Data Point") and "Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings," available at http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf.

2 Our analysis of vehicle title loans in this report does not include products offered by depository institutions, such as the refinancing of an existing vehicle loan in which the borrower takes cash out; nor does it include loans where a borrower may pledge a car as security, but the loan itself is not underwritten based on the value of the vehicle. The Bureau is also aware of some small depository institutions which make loans that may be described as vehicle title loans. However, these loans are generally not their primary product and are also beyond the scope of this report.

3 Vehicle title loans typically have terms of about a month to conform to laws in many states that specify allowable loan terms. For example, at least 8 states—Alabama, Georgia, Idaho, Mississippi, Nevada, New Hampshire, South Dakota, and Tennessee—set a maximum loan term of about 30 days (or one month), although loans can be renewed beyond this initial term.

4 Single-payment vehicle title loans are available in 20 states. Thirteen states allow lenders to offer both single-payment and installment vehicle title loans, and five states only allow these loans if they are repayable in

Like payday loans, vehicle title loans are made by non-depository lenders. The cost is typically expressed in dollars per $100 borrowed, and annual percentage rates (APRs) are in the triple digits. However, there are several key differences between the two products. While the repayment of a payday loan is timed to coincide with a borrower's payday or other income receipt, vehicle title loans are due in about a month regardless of the borrower's pay frequency. In addition, instead of giving the lender a post-dated check or authorizing the lender to withdraw payments from a bank account, a vehicle title borrower provides the lender with the title to her car, which generally must be owned free and clear.[5] The vehicle's value is the primary consideration for the amount that can be borrowed.[6] Although the borrower retains use of her car while the loan is outstanding, a lender can repossess and sell the vehicle to satisfy the amount owed if loan payments are not made on time. Because account access is not required, vehicle title borrowers may not have an account with a bank or credit union. Finally, while payday loans are offered both through storefronts and online, vehicle title lending is typically conducted in storefronts so that the lender can assess the vehicle's condition.

The Bureau analyzed nearly 3.5 million de-identified records of vehicle title loans originated by lenders in storefronts over a multi-year period. We examined loan usage patterns, with a particular focus on whether a loan is reborrowed. Reborrowing occurs when a loan is rolled over by paying a fee to extend the loan another 30 days, or when a subsequent loan is taken soon after repayment. We measure the number of times a loan is reborrowed by the length of a "loan sequence," which consists of an initial loan made to a borrower and any subsequent loans made within a short period of time after a previous loan is repaid.[7] We also examine whether the

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installments. For a breakdown of states where single-payment and installment vehicle title loans are available, see The Pew Charitable Trusts, "Auto Title Loans: Market Practices and Borrowers' Experiences," available at http://www.pewtrusts.org/~/media/assets/2015/03/autotitleloansreport.pdf?la=en, at p. 4.

[5] Owning the vehicle free and clear allows the borrower to provide the lender with an unencumbered title. Some lenders will accept a second lien position.

[6] Lenders may also collect some information about a consumer's income, but do not generally engage in detailed underwriting based on the consumer's financial situation.

[7] We report findings in this report using three different loan sequence definitions: (1) an initial loan and any loans made within 14 days of a previous loan being repaid; (2) an initial loan and any loans made within 30 days of a

amount borrowed during a loan sequence changes over time and the extent to which loans default and vehicles are repossessed.

The following key findings from this analysis are included in this report:

- A small share of vehicle title loans are repaid without taking out a subsequent loan.
  - Over 80 percent of vehicle title loans in our data are reborrowed on the same day a previous loan is repaid and nearly 90 percent are reborrowed within 60 days. The remaining loans are either repaid without reborrowing, or end in default.
  - Only about one-in-eight loan sequences consist of a single loan that is repaid without reborrowing.
  - Over half of loan sequences are for more than three loans, and more than a third of loan sequences are for seven or more loans. One-fifth to one-quarter of loan sequences are at least ten loans long, depending on the loan sequence definition used.
- Most loans are part of long borrowing sequences. About half of loans are in sequences of ten loans or more. In contrast, no more than 15% of loans are in sequences of three loans or fewer.
- Borrowers who take out multiple loans within a sequence are more likely to borrow the same or smaller amounts over time rather than larger amounts. Borrowers who take on increasing amounts of debt over time are at greater risk of default. In general, the more loans in a sequence, the more likely the amount borrowed in the last loan of the sequence is greater than that of the first.
- Vehicle title loan sequences have high default rates. About a third of loan sequences experience a default and one-in-five result in the repossession of the borrower's vehicle.

previous loan being repaid; and (3) an initial loan and any loans made within 60 days of a previous loan being repaid. The key findings presented in this section apply regardless of which loan sequence definition is used.

The next section provides a description of the data used to perform these analyses, and the following sections outline our findings related to usage patterns and default in greater detail.

2. Data

The Bureau obtained de-identified data from vehicle title lenders consisting of nearly 3.5 million loans made to over 400,000 borrowers in ten states during 2010-2013.[8] Our data contain an anonymous customer ID that we use to link all loans to the same consumer by a given lender.[9]

The single-payment vehicle title loans in our data were originated in storefronts and typically have 30-day terms, at which point the full amount of principal and associated fees is due. As shown in the table below, the median loan size was just under $700. The average loan size is much higher ($959), reflecting the fact that a portion of loans were for significantly greater amounts. The loans in our data carry APRs of around 300%.

[8] Some of this data was obtained through the confidential investigation process; other data was obtained through a request consistent with authorities outlined in Section 1022(c)(4) of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010.

[9] Because anonymous customer IDs in our data are lender specific, we cannot analyze potential borrowing behavior by individual consumers across multiple lenders. For more information about privacy protections used for this data, see the Bureau's "Market Analysis of Administrative Data under Research Authorities Privacy Impact Assessment" and "Certain Supervision, Enforcement, and Fair Lending Data used for Market Research Privacy Impact Assessment." Consistent with CFPB's rules, the data findings presented in this report do not directly or indirectly identify the institutions or consumers involved. See CFPB's final rule on the Disclosure of Records and Information, 12 C.F.R. § 1070.41(c).

TABLE 1: SUMMARY OF VEHICLE TITLE LOAN CHARACTERISTICS AND TERMS

	Mean	25th percentile	Median	75th percentile
Loan amount	$959	$487	$694	$1,080
APR	291%	300%	317%	317%

3. Patterns of usage and default

In this section, we present patterns of loan usage and default. We report the share of vehicle title loans that are reborrowed, the distribution of loan sequence lengths, any changes in loan size over the course of a loan sequence, and the incidence of default and repossession for these loans.

To describe usage patterns for vehicle title loans, we measure the length of "loan sequences." A loan sequence consists of an initial loan and any subsequent loans that are taken within a specified period of time after the prior loan. As described earlier, these subsequent loans are considered a "reborrowing" of the initial loan.[10]

There are multiple ways in which a loan sequence can be defined. One approach is to only consider those loans made within 14 days of a previous loan being repaid to be part of the same loan sequence.[11] While the intention of this measure is to determine whether a borrower can afford to repay a loan without taking another within the same pay period, the 14-day definition is limited in that it does not account for borrowers who are paid on a less frequent basis, such as

[10] Reborrowing that occurs on the same day a previous loan is repaid may either be a rollover, which occurs when a borrower pays a fee to extend the loan another 30 days, or a new loan that is taken on the same day a the previous loan is repaid.

[11] In our Payday Lending Data Point, only loans taken within 14 days of a previous loan were considered part of the same loan sequence in the findings reported.

those paid monthly.[12] In addition, many recurring expenses, such as housing payments, are on a monthly cycle. To understand the extent to which borrowers can afford to repay a vehicle title loan without reborrowing, a 30-day definition provides a useful measure of whether borrowers go a full expense cycle without taking out another loan. Finally, a more expansive 60-day definition is likely to capture a still greater number of instances of reborrowing, as it excludes only subsequent loans that are taken out after two full expense cycles. In this report, we detail findings for single-payment vehicle title loans for each of these possible loan sequence definitions—14, 30, and 60 days. Each approach yields very similar results.

We also report on the extent to which loans and loan sequences experience a "default," which includes any charge-offs or repossessions that are identified by the lenders in our data.[13] For sequences consisting of more than one loan, we also look at whether loan amounts increase, decrease, or stay the same between the first and last loan.

3.1 Vehicle title loan reborrowing

The loans in our dataset have three possible outcomes: (1) they can be repaid without a subsequent reborrowing, (2) they could end in default, or (3) they could be followed by a reborrowing either the same day or within a specified period of time after repayment. In Table 2 below, we report on the share of loans in our dataset that are reborrowed the same day,[14] or

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[12] Likewise, the 14-day definition is over-inclusive for those borrowers paid weekly.

[13] Some vehicle title loan records in our data show a charge-off without a repossession, while others show a repossession without a charge-off. Other records have both a charge-off and a repossession. Because these measures signal an extreme difficulty in making payments, a loan with these outcomes reported is classified as a default. In the Payday Lending Data Point, we considered any loan with a missing repayment date to have defaulted—a different definition than what is used here. While our vehicle title loan data allow us to more precisely identify defaults, we have performed the analysis on our vehicle loan data using the "missing date paid" definition used with our payday loan data. That analysis, which is not presented here, yields very similar results.

[14] A same day reborrowing occurs if a previous loan is rolled over by paying a fee and extending the loan term or if a new loan is originated the same day a previous loan is repaid.

within 14, 30, or 60 days of repayment. Over 80% of vehicle title loans are reborrowed on the same day a previous loan is repaid, and 87% of loans are reborrowed within 60 days. The remaining loans are either repaid without reborrowing or end in default.[15]

TABLE 2: VEHICLE TITLE LOAN REBORROWING RATES

	Share of loans reborrowed
Same day	83%
Within 14 days	84%
Within 30 days	85%
Within 60 days	87%

3.2 Loan sequence lengths

To understand how borrowers use vehicle title loans, we look at the length of loan sequences and the share of loans that are included in sequences of varying lengths. We are particularly interested in understanding the extent to which consumers reborrow after paying back a previous loan, and thus may pay more and be indebted longer than the loan term specified in their initial loan. As previously noted, we define a loan sequence three ways: an initial loan and any loans made within 14 days of a previous loan being repaid; an initial loan and any loans made within 30 days of a previous loan being repaid; and an initial loan and any loans made within 60 days of a previous loan being repaid.

We examine usage patterns over a rolling 12-month time period. To do this, we first ensure that we do not include any loan sequences already in progress by excluding any loan sequences that appear in the first two months of our data and any loans made within 60 days following the

[15] Any loans outstanding at the end of the time period for which an outcome cannot be observed are assumed to have not been reborrowed in this analysis, potentially causing the reborrowing rate to be understated.

conclusion of a previous sequence. We then track each loan sequence for up to 12 months. Because the vehicle title loans in our sample typically have terms of 30 days, a borrower taking one loan every month could have a sequence of 12 loans during our period of analysis, though more may be possible under certain circumstances even within our 12-month observation window.[16]

There are four possible outcomes for loan sequences: (1) a single loan sequence that is repaid, (2) a single loan sequence that defaults, (3) a loan sequence consisting of multiple loans that is ultimately repaid or (4) a loan sequence consisting of multiple loans that ultimately defaults. Table 3 provides a breakdown of these outcomes for loan sequences in our data. Depending on the loan sequence definition used, between 11-13% of loan sequences are for a single loan that is repaid. About one-quarter of loan sequences (22-25%, depending on the loan sequence definition used) consist of multiple loans that ultimately default.[17]

TABLE 3: DISTRIBUTION OF VEHICLE TITLE LOAN SEQUENCE OUTCOMES, BY LOAN SEQUENCE DEFINITION

	14-day definition	**30-day definition**	**60-day definition**
Single loan sequence, repaid	13%	12%	11%
Single loan sequence, defaulted	9%	9%	9%
Multi-loan sequence, repaid	55%	56%	56%
Multi-loan sequence, defaulted	22%	23%	25%

Note: Numbers may not sum to 100% due to rounding

[16] For example, a borrower could reborrow one or more loans before the due date. Of course, a sequence also could extend longer than 12 loans if examined over a longer period of time.

[17] Most defaults occur at the end of a loan sequence; however, 9% of defaulted loan sequences in our data have a default that occurs earlier.

A majority of vehicle title loan sequences consist of four or more loans, as shown in Table 4. Depending on the loan sequence definition used, about one-fifth to one-quarter of loan sequences are for ten or more loans.

TABLE 4: SHARE OF VEHICLE TITLE LOAN SEQUENCES OF VARYING LENGTHS, BY LOAN SEQUENCE DEFINITION

	14-day definition	30-day definition	60-day definition
4+ loans	54%	56%	59%
7+ loans	34%	36%	39%
10+ loans	21%	23%	26%
12+ loans	13%	15%	16%

Figures 1-3 provide a more detailed look at the distribution of loan sequences of varying lengths over a rolling 12-month time period for each of our loan sequence definitions. The darker portion of the bar represents the share of sequences that were repaid while the lighter portion of the bar represents the share of sequences that experienced a default.

FIGURE 1: DURATION OF VEHICLE TITLE LOAN SEQUENCES, 14-DAY LOAN SEQUENCE DEFINITION

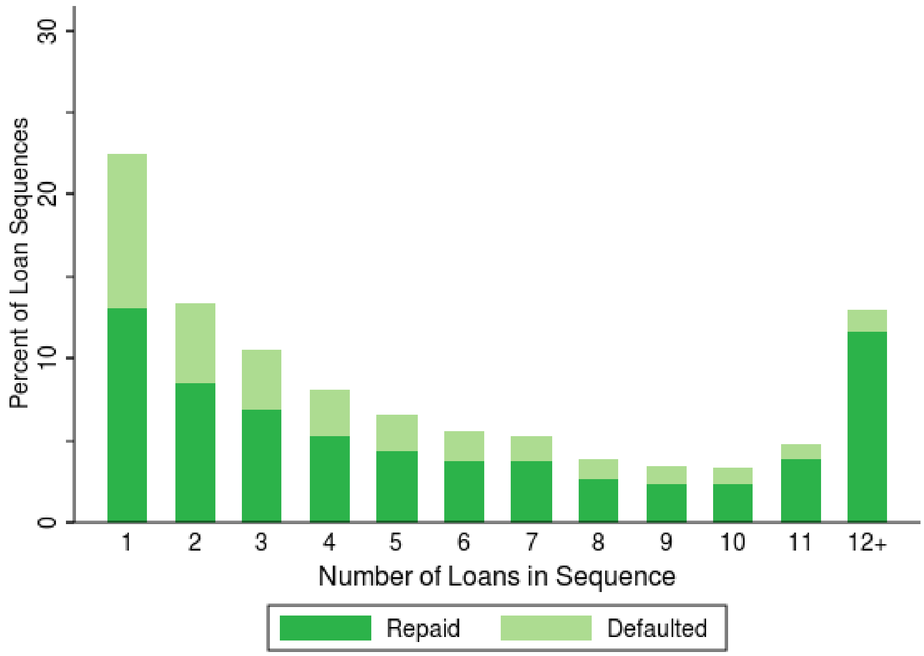


FIGURE 2: DURATION OF VEHICLE TITLE LOAN SEQUENCES, 30-DAY LOAN SEQUENCE DEFINITION

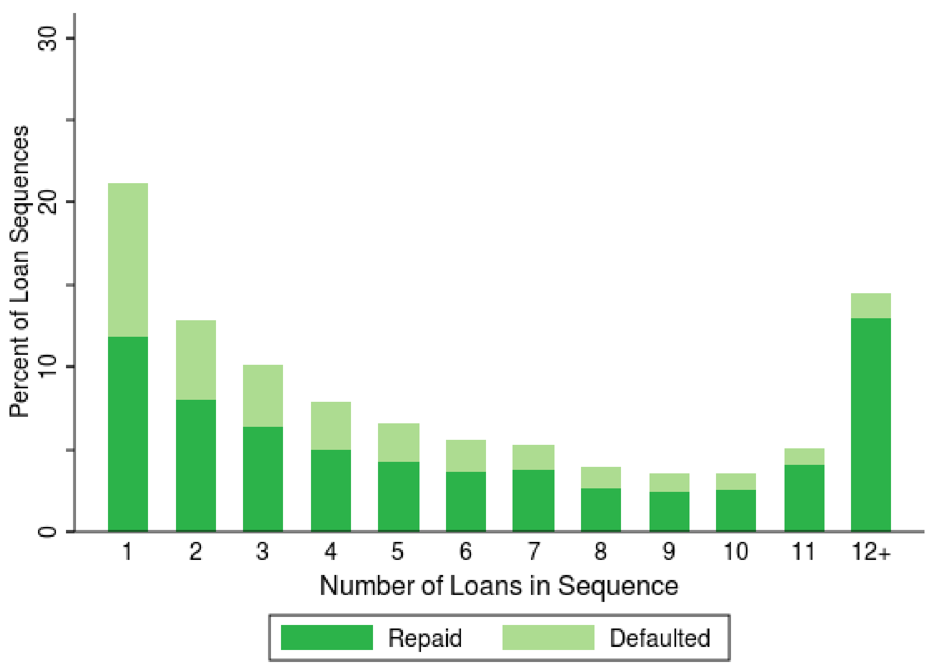
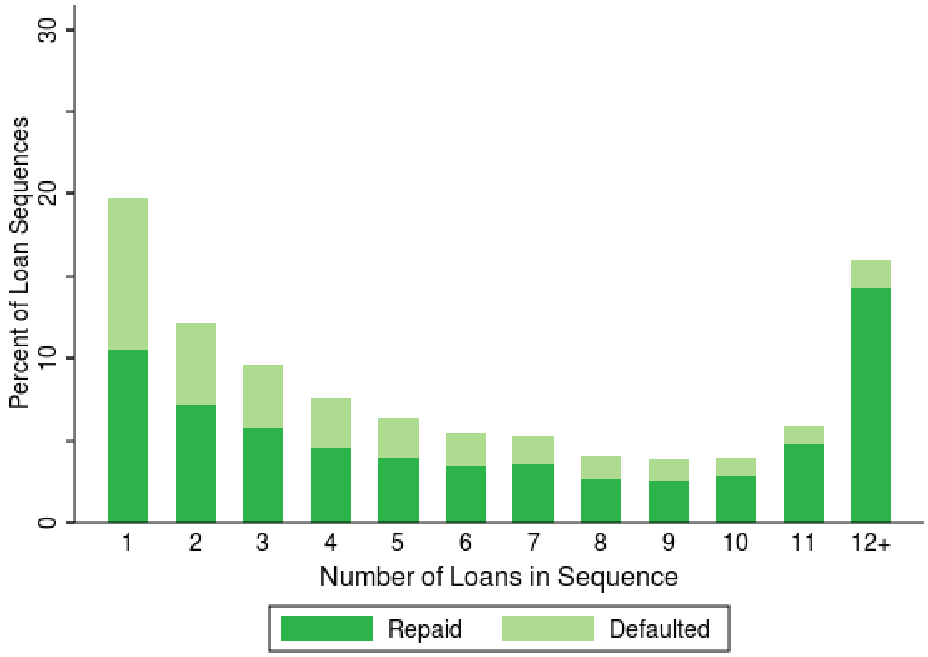


FIGURE 3: DURATION OF VEHICLE TITLE LOAN SEQUENCES, 60-DAY LOAN SEQUENCE DEFINITION



3.3 Distribution of vehicle title loans by loan sequence length

We find that most vehicle title loans are part of long loan sequences. Figures 4-6 show the distribution of loans by the length of the loan sequence to which they belong. Across a rolling 12-month time period, about half of all loans are in sequences of ten or more loans, and more than two-thirds of loans are in loan sequences of at least seven loans. In contrast, no more than 15% of all loans are in loan sequences of three or fewer loans.

FIGURE 4: SHARE OF VEHICLE TITLE LOANS ORIGINATED IN LOAN SEQUENCES OF DIFFERENT LENGTHS, 14-DAY LOAN SEQUENCE DEFINITION

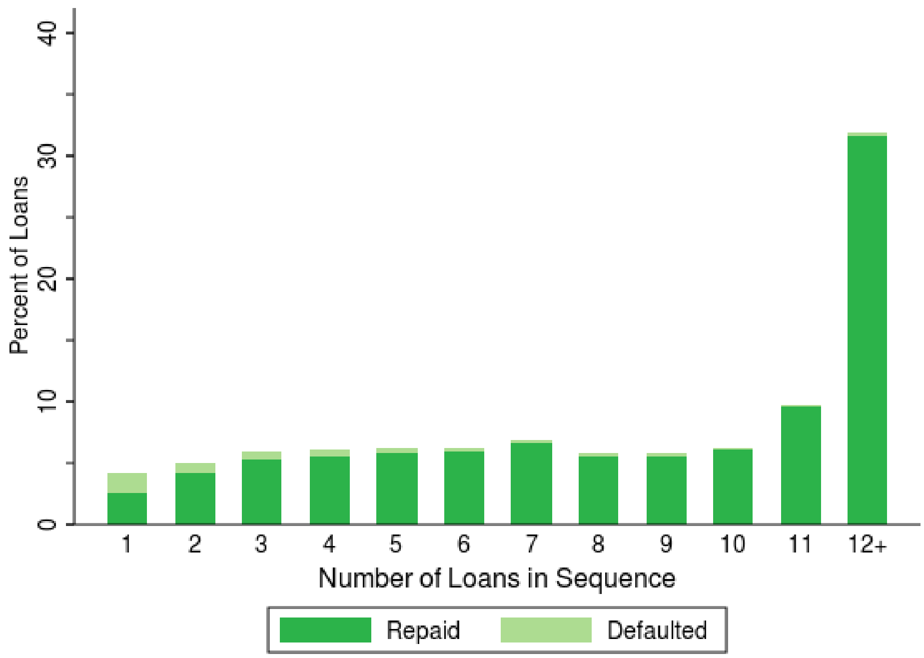


FIGURE 5: SHARE OF VEHICLE TITLE LOANS ORIGINATED IN LOAN SEQUENCES OF DIFFERENT LENGTHS, 30-DAY LOAN SEQUENCE DEFINITION

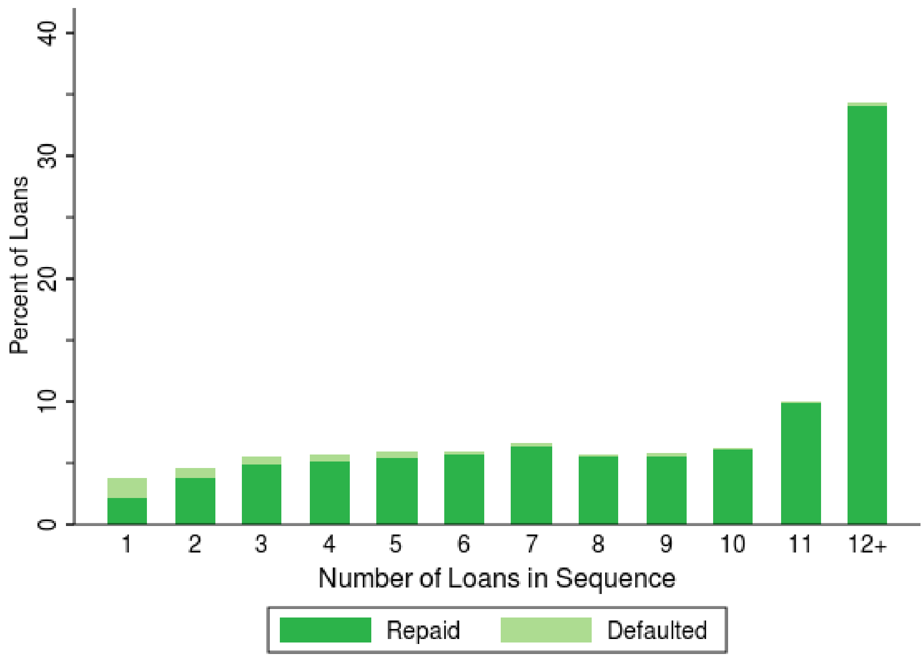
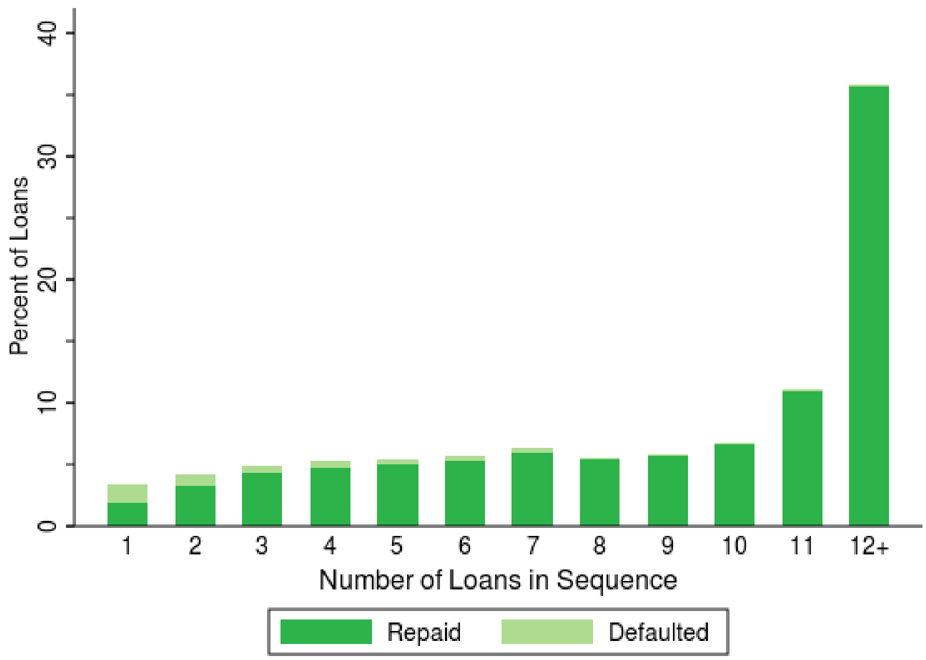


FIGURE 6: SHARE OF VEHICLE TITLE LOANS ORIGINATED IN LOAN SEQUENCES OF DIFFERENT LENGTHS, 60-DAY LOAN SEQUENCE DEFINITION



Overall, we find that fewer than 20% of loans are the initial loan in a sequence in our 12-month rolling sample.[18] The remaining loans all represent reborrowings of these initial loans.

[18] Specifically, we find that 19% of loans are an initial loan in a sequence using the 14-day loan sequence definition, 18% of loans are an initial loan using the 30-day definition, and 17% of loans are an initial loan using the 60-day definition.

3.4 Changes in loan size during loan sequences

Next, we analyze the extent to which the amount borrowed increases, decreases or stays the same for loan sequences that consist of multiple loans.[19] Instead of repaying the full amount due, borrowers could potentially take out smaller subsequent loans to pay down their debt more gradually. Alternatively, consumers who reborrow may take out increasingly larger amounts over time, either to cover the fee associated with each new loan or to use the additional funds for other purposes.

Table 5 compares the share of vehicle title loans in multi-loan sequences that increase, decrease, or remain unchanged for our three sequence definitions and notes the share of the loan sequences in each category that default. Borrowers with multi-loan sequences are more likely to borrow the same or decreased amounts over time than increased amounts. Well over a third (37%) of multi-loan sequences have a decrease in loan size between the first and last loans in the sequence.

Multi-loan sequences that decrease in loan size are less likely to default than those that increase or remain unchanged. Fewer than a quarter (21-23%) of sequences that decrease in loan amount over time default, compared to at least one-third of sequences with loan amounts that stay the same or increase.

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[19] We consider any increases or decreases in principal greater than $25 to be a change in the loan size to account for the possibility of extraneous fees that may be included in the loan origination. Thus, any changes of $25 or less are not considered to be an increase or decrease in principal. In addition, the ability to borrow an increased amount may be constrained by State law limiting loan sizes, as well as a lender's willingness to lend larger amounts based on the value of the borrower's vehicle.

TABLE 5: SHARE OF VEHICLE TITLE MULTI-LOAN SEQUENCES THAT INCREASE, DECREASE, OR REMAIN UNCHANGED, BY LOAN SEQUENCE DEFINITION

	Total (14-day def.)	Percent defaulted (14-day def.)	Total (30-day def.)	Percent defaulted (30-day def.)	Total (60-day def.)	Percent defaulted (60-day def.)
Increased loan size	28%	33%	29%	34%	31%	34%
Unchanged loan size	36%	33%	34%	34%	32%	36%
Decreased loan size	37%	21%	37%	22%	37%	23%

Note: The share of multi-loan sequences that increase, are unchanged or decrease may not sum to 100% due to rounding.

The change in loan amount is greater for those loan sequences that increase than those that decrease. Loan sequences that have an increase in loan size go up by a median of over 50% ($322-325) from the initial to last loan in a sequence. In contrast, loan sequences with a decrease in loan size go down by a median of just over 25% ($193-200) of the initial loan amount. Table 6 provides a summary of our average and median results.

TABLE 6: MEDIAN AND AVERAGE AMOUNT OF CHANGE IN LOAN AMOUNT, AMONG VEHICLE TITLE LOAN SEQUENCES WITH AN INCREASED OR DECREASED LOAN SIZE

	Median change ($)	Median change (%)	Average change ($)	Average change (%)
Increase between initial and last loan in a sequence				
14-day definition	$325	57%	$534	95%
30-day definition	$325	58%	$541	97%
60-day definition	$322	58%	$541	97%
Decrease from initial and last loan in a sequence				
14-day definition	$193	26%	$320	31%
30-day definition	$196	26%	$326	31%
60-day definition	$200	27%	$332	31%

Figures 7-9 below provide a more detailed look at changes in the amount borrowed for different loan sequence lengths. Among loan sequences that are ultimately repaid, we find that shorter loan sequences (those 2-4 loans long) are more likely to have unchanged loan amounts. Longer repaid loan sequences have decreases in loan size for loan sequences that consist of fewer than 12 loans. For repaid loan sequences of 12 loans or more, an increase in loan size between the first and last loan is more likely. Loan sequences that default are generally more likely to have increases than decreases in loan size, once loan sequences are at least three loans long.

FIGURE 7: SHARE OF VEHICLE TITLE LOAN SEQUENCES BY CHANGE IN LOAN AMOUNT BETWEEN FIRST AND LAST LOAN, BY SEQUENCE LENGTH, 14-DAY LOAN SEQUENCE DEFINITION

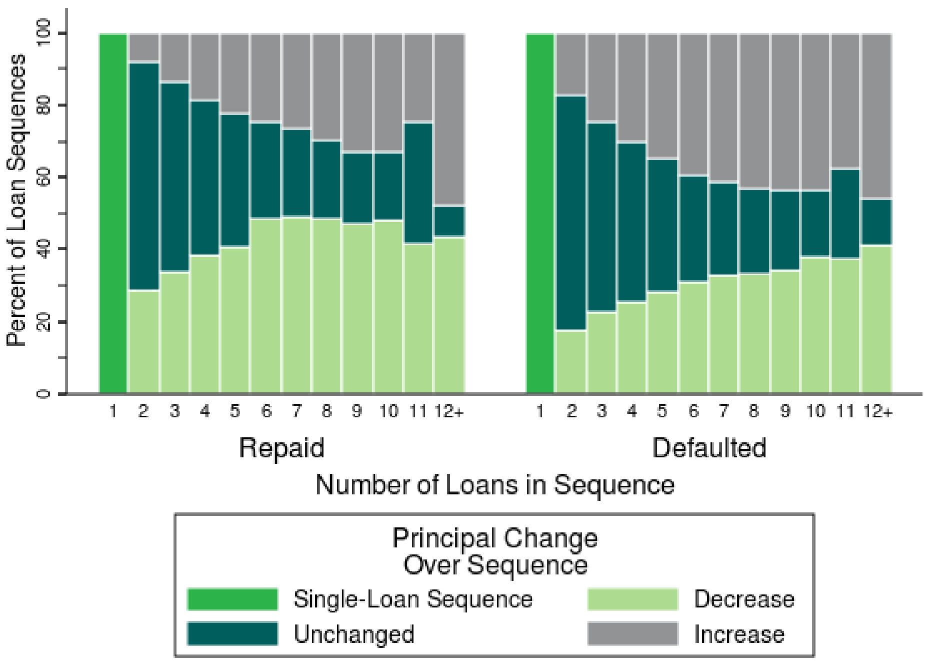


FIGURE 8: SHARE OF VEHICLE TITLE LOAN SEQUENCES BY CHANGE IN LOAN AMOUNT BETWEEN FIRST AND LAST LOAN, BY SEQUENCE LENGTH, 30-DAY LOAN SEQUENCE DEFINITION

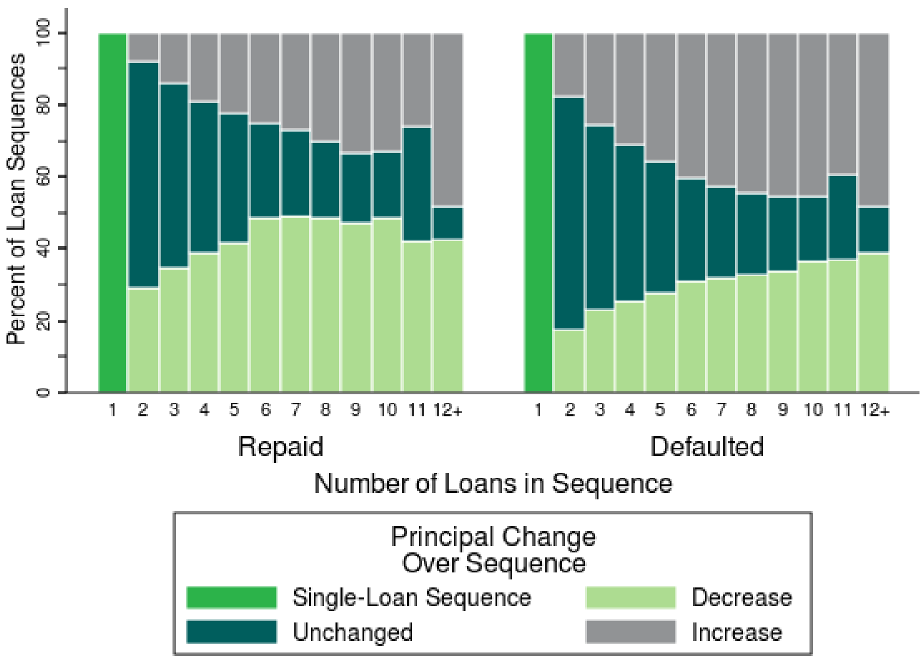
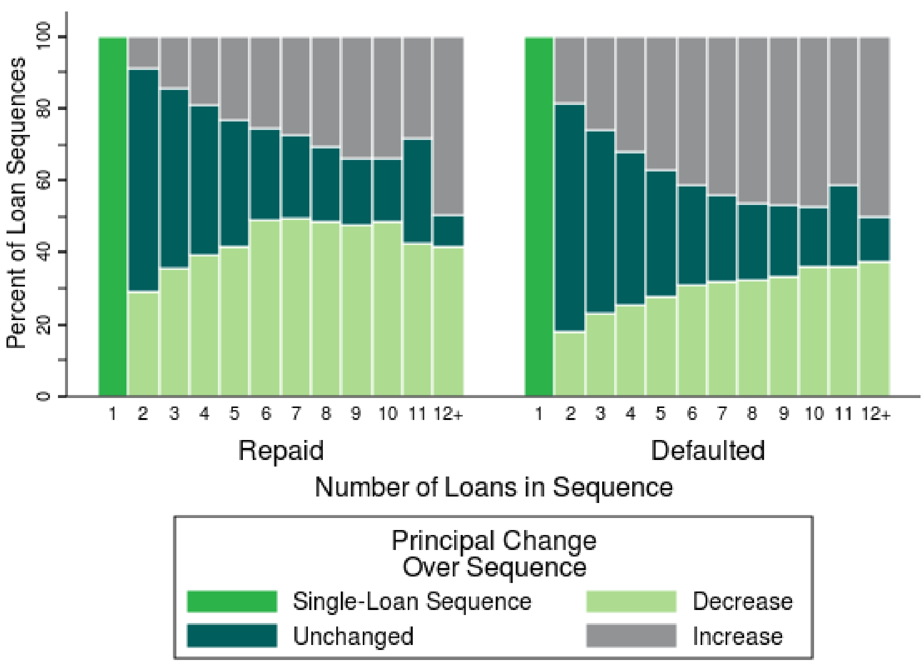


FIGURE 9: SHARE OF VEHICLE TITLE LOAN SEQUENCES BY CHANGE IN LOAN AMOUNT BETWEEN FIRST AND LAST LOAN, BY SEQUENCE LENGTH, 60-DAY LOAN SEQUENCE DEFINITION



3.5 Defaults and repossessions

Our data includes lender information about whether a vehicle title loan is charged-off, a vehicle is repossessed, or both. We classify loans as defaulted if the lender notes either a charge-off or repossession, and also break out repossessions as a distinct sub-set of this broader category. The loan-sequence level default rate is over five times greater than the default rate at the individual loan level, reflecting the fact that most loan sequences consist of multiple loans. Overall, about a third of loan sequences experience a default and one-in-five loan sequences result in the repossession of the borrower's vehicle.

TABLE 7: VEHICLE TITLE LOAN DEFAULT AND REPOSSESSION RATES, AT LOAN AND SEQUENCE LEVEL

	Percent defaulted (loan level)	Percent repossessed (loan level)	Percent defaulted (sequence level)	Percent repossessed (sequence level)
14-day loan sequence definition	6%	3%	32%	19%
30-day loan sequence definition	6%	3%	33%	20%
60-day loan sequence definition	6%	3%	34%	20%