Consumer Financial Protection Bureau

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PAYDAY LOANS, AUTO TITLE LOANS, AND HIGH-COST INSTALLMENT LOANS: HIGHLIGHTS FROM CFPB RESEARCH

The Consumer Financial Protection Bureau today proposed a rule aimed at ending payday debt traps by requiring lenders to take steps to make sure consumers have the ability to repay their loans. The proposed rule would also cut off repeated debit attempts that rack up fees. These strong proposed protections would cover payday loans, auto title loans, deposit advance products, and certain high-cost installment and open-end loans.

The proposal comes after extensive research by the CFPB that examined how certain high-cost financial products affect consumers. The CFPB has found that these products often prove unaffordable to consumers, leading to significant consumer harm. This factsheet provides an overview of key findings from the CFPB's research.

Storefront Payday Loans

Payday loans are short-term loans that are typically due on the borrower's next payday. The Bureau has found that the median fee on a storefront payday loan is $15 per $100 borrowed, and the median loan term is 14 days, resulting in an annual percentage rate of 391 percent on a loan with a median amount of $350.

Industry researchers have reported that storefront payday lenders received approximately $3.6 billion in fee revenue in 2015. The Bureau estimates that in 2015 there were 15,766 payday loan stores across 36 states. By way of comparison there were 14,350 McDonald's fast food outlets in all of the United States in 2014.

Four out of five payday loans are rolled over or reborrowed: In a study that tracked payday borrowers for a period of ten months, the CFPB found that more than 80 percent of payday loans taken out by these borrowers were rolled over or reborrowed within 30 days, incurring additional fees with every renewal.

Payday borrowers end up in default 20 percent of the time, either on their first loan or after reborrowing: Nearly half of defaults occur after a consumer reborrows three or more times. Late payments and defaults can cause consumers to rack up penalty fees from their lender, as well as additional fees from their bank.

Consumers receiving monthly benefits are especially likely to fall into a long-term debt trap: A CFPB study found that about 20 percent of the time, payday loan sequences for borrowers who were paid on a monthly basis continued every single month over a ten month period. Payday borrowers who fall into this category include elderly Americans or disability recipients receiving Social Security retirement benefits, Supplemental Security Income and Social Security Disability Insurance.

CFPB results are generally fairly consistent with other sources. In fact, an industry-supported study tracked borrowers for four years and found that 30 percent of borrowers had loans at the beginning and end of the four-year period and for these borrowers the median time in debt was over 1,000 days, or more than two and a half years. Of those that had loans at the beginning and end of the four-year period, 9 percent were in debt continuously for this entire period.

Online Payday and Payday Installment Loans

Many lenders offer loans to borrowers over the Internet. These include standard, single-payment payday loans where the entire balance is due on the borrower's payday, as well as loans where the payments are broken up into multiple installments. Some of these are structured as interest-only payments, with a large balloon payment at the end. These loans present many of the same concerns as traditional storefront payday loans.

The size of the online payday lending market is difficult to measure for a number of reasons, including that many online payday lenders are not publicly traded, and many claim to be exempt from state lending laws and licensing requirements. One recent industry analyst estimated that online lenders received approximately $3.1 billion in fees in 2015. Pricing for online loans tends to be more expensive than storefront payday; other researchers have found rates as high as $30 per $100 borrowed.

Many online payday borrowers end up unable to pay: A CFPB study found that over 40 percent of online payday installment loans and more than half – 55 percent – of all online payday installment loan sequences experience a default.

Half of online payday borrowers are charged an average of $185 in bank penalties: According to a CFPB report, over a period of 18 months, one-half of online payday and payday installment borrowers had at least one debit attempt that failed or resulted in an overdraft covered by their bank. These borrowers incurred an average of $185 in bank penalty fees over the study period, in addition to any fees the lender might charge for failed debit attempts.

Over one-third of online payday borrowers hit with a failed debit attempt wind up losing their account: Over the 18-month period covered by the data, 36 percent of accounts with a failed debit attempt from an online lender ended up being closed by the depository institution. This happened usually within 90 days of the first non-sufficient funds transaction.

Auto Title Loans

Auto title loans, also called vehicle title loans, are high-cost loans marketed for use to cover an emergency or other cash-flow shortage between paychecks or other income. For these loans, borrowers use their vehicle title as collateral. Borrowers are typically required to own their car free and clear, and if the borrower is unable to repay the loan, the lender can seize the borrower's car.

There are two types of auto title loans: single-payment loans and installment loans. The Bureau has found that the typical auto title loan is about $700, and the typical annual percentage rate is about 300 percent for a single-payment loan and 259 percent for an auto title installment loan. Of the 25 states that permit some form of auto title lending, seven states permit only single-payment title loans, 13 states allow the loans to be structured as single-payment or installment loans, and five permit only title installment loans. According to a research report there are approximately 8,000 title loan storefronts in the 25 states that permit this product.

One-in-five single-payment auto title loan borrowers have their vehicle seized by the lender: According to a CFPB report, single-payment auto title loans have a high rate of default, and one-in-five borrowers ultimately have their car or truck seized 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, and could compromise the consumer's ability to get to a job or obtain medical care.

Over four-in-five single-payment auto title loans are not repaid in a single payment: Most borrowers of single-payment auto title loans cannot repay a loan without reborrowing. A CFPB report that followed auto title borrowers for twelve months found that more than four-in-five auto title loans made to these borrowers are renewed the day they are due. In only 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 or defaulting.

More than half of single-payment auto title loans become long-term debt burdens: In more than half of instances, borrowers take out four or more consecutive loans.

Borrowers stuck in debt for seven months or more supply more than 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 loans were generated by consumers who reborrow six or more times in quick succession. 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 percent of all loans are in loan sequences of three or fewer loans. Of all loans made in this time period, 82 percent were reborrowings of the initial loan.

Auto title installment loans lead to high default and repossession rates: In a study of lenders making auto title installment loans, the Bureau found that these loans resulted in a default 31 percent of the time, often after one or more refinancings. The borrower's vehicle was seized by the lender in 11 percent of loan sequences.

<u>**CFPB Reports**</u>

- **April 2013 report on payday loans and deposit advance products:** **http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf**
- **March 2014 report on payday loans:** **http://files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf**
- **April 2016 report on online payday and payday installment loans:** **http://files.consumerfinance.gov/f/201604_cfpb_online-payday-loan-payments.pdf**
- **May 2016 report on single-payment auto title loans:** **http://files.consumerfinance.gov/f/documents/201605_cfpb_single-payment-vehicle-title-lending.pdf**
- **June 2016 supplemental research report:** **http://files.consumerfinance.gov/f/documents/Supplemental_Report_060116.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.