The Truth About Title Loans

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Title loans are the evil cousins of payday loans. On top of the high fees and high interest rates typically associated with payday loans, the borrower must hand over a copy of their keys and their car's title to the lender. If the borrower defaults on their loan, the vehicle becomes the property of the lender. Title loans are considered a type of predatory lending (see "Protecting Yourself from Predatory Lending" Hot Sheet on our web site).

What exactly is a Title Loan?

> Many consumers get caught in a never-ending loan cycle. They take out a loan and can't afford to pay it. Then they get ANOTHER loan to pay the first one, and so forth and so on. REMEMBER you should never have to pay off one loan by taking out another.

- Title loans are short term
    - Usually about 30 days
- Normally the amount loaned is about 50% of the value of the vehicle
- No credit check is done, so these loans are considered high risk to lenders
    - Because of this high risk, lenders charge very high interest rates
    - Normally the interest rate is in the triple digits
- Before the loan is taken out, the borrower will give the lender a copy of their car keys and the title to their car
- If the loan is not paid off on time, the loan can be rolled over for a high fee
- However if the roll over fee is not paid, the lender can repossess the vehicle and sell it ***without*** any notice to the borrower
    - In most cases the lender will keep all proceeds made from the sale (even if it is a higher amount than the borrower owes)

Title Loans Under Attack

- In some states predatory loans (such as title and payday loans) are restricted
    - Loopholes are usually found in the law and title loan lenders are able to operate anyway
        - For example, they refer to themselves as pawnbrokers or they operate strictly over the internet
- In 2007, Congress added an amendment to the National Defense Authorization making it illegal for title loan operators (and other predatory lenders) to take advantage of military service people and their dependants
    - The amendment placed a cap of 36% APR on all loans to military personal, along with other restrictions and regulations

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