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Opponents of auto title lending industry hope legislature limits 'outrageous' fees

Memphis Business Journal - by [Einat Paz-Frankel](#)

Memphis groups are working to curb auto title lending through legislation and groundbreaking litigation that could potentially restrict a market that's been called excessively saturated.

There are 111 auto title lending stores in Shelby County and more than 700 in the state, according to financial literacy organization [RISE Foundation](#). In comparison, the entire state of Illinois has 260 auto title lenders, says RISE director of research Corky Neale.

The state's relatively relaxed laws -- particularly the Tennessee Title Pledge Act -- allow title lenders to charge as much as 22% a month, or 264% annually, in interest and fees. That's compared to the majority of states that either prohibit title lending altogether or have capped interest at much lower rates, Neale says.

The 20% roll-over fee levied on the Tennessee borrower every 30 days to renew the loan is "outrageous," he says. With the amount owed nearly tripling over the course of one year, borrowers "are trapped in a cycle of debt." Though the practice is legal, Neale says it preys on the working poor and the Hispanic population, part of which has no bank accounts.

"They may not be legal (citizens), but they have car titles, which is a way to get cash," he says.

As opposed to payday loans, cars are used as collateral for title loans, says Craig Barnes, staff attorney at [Memphis Area Legal Services](#), Inc.

When vehicles are repossessed, borrowers often are left with no means of driving to work.

Before repossessing the car, some title lenders call borrowers and ask them for an additional fee that will halt the repossession.

That fee, among other charges not included in the title pledge agreement, has led MALS to file two lawsuits against Golden Title Loans LLC, one of the largest players in the local industry.

The pioneering lawsuit alleges that by the time borrowers pay those "repo call-off fees," late fees and roll-over fees, it's hard for them to pay the principal loan, Barnes says. In other words, if a customer borrows \$1,000 and pays \$220 in interest and rollover fees every month, it would take almost five months to start paying back the original \$1,000 borrowed.

Golden Title officials and its attorney didn't return phone calls.

Barnes says borrowers usually don't fight predatory title lenders in court because they can't afford to hire an attorney, but there's another reason for their inaction.

"They're ashamed," he says. "They're afraid to sue."

Barnes hopes MALS will bring the issue to light through litigation. The non-profit legal organization has, along with RISE, been pushing to amend the state's title lending legislation. A bill sponsored by Tennessee Rep. Larry Turner, D-Memphis, would put several restraints on title lenders, including limiting the industry to a one-time fee of no more than 20% with no rollover fees, and requiring lenders to ensure that monthly payments will reduce the principal loan balance by at least 10% after two renewals.

Neale believes the interest rate should be capped at 36% annually, which some states have already imposed.

But so far, RISE and MALS have had little success on the Tennessee Legislature, where last month lawmakers on the House utilities, banking and small businesses study committee heard from industry representatives and parties interested in amending title lending laws.

"The hearing where we gave testimony was very hostile," Neale says, "like the Romans watching the lions eat the Christians."

Robert Reich, president of Atlanta-based Community Loans of America, which operates several Tennessee Title Loans locations in Memphis, and the company's vice president, Billy Mitchell, who was at last month's hearing, were contacted but didn't comment for this story.

Turner says he will re-file the bill after the November elections. He says title lending should be curbed because it "preys on the people least able to pay off the loan."

"It's hard to say what will come out of it (the bill)," Turner says, "but I suspect something will pass."

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