

Bill targets auto title loans -- Changes could bring about new strategies on borrowing

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Source: David Flaum

With a law aimed at predatory mortgage lending on the books, the Memphis and Shelby County Anti-Predatory Lending Coalition has honed in on a new target - auto title loans.

A bill designed by the coalition was filed Thursday by Sen. Roy Herron, D-Dresden, Webb Brewer, a lawyer with Memphis Area Legal Services and coalition member, told the group Friday.

"We have a law, but it's a very bad law," said Brewer, who on Wednesday filed suit on behalf of three people who borrowed money from Golden Title of Memphis using their cars as collateral.

"It (current law) permits atrocious loans with interest rates up to 264 percent, a lot of that disguised as administrative fees," he said.

Lenders may charge 20 percent a month for administrative fees, 2 percent a month interest plus reasonable expenses, such as costs for repossessing a car.

The lawsuit, Brewer said, charged Golden Title had assessed excessive fees beyond those allowed in the law.

"The real evil, in my view is what is permitted under the law," he said. "A few states prohibit these kinds of loans and that would be my preference, but that is not a possibility given the political realities."

The bill Brewer helped craft - Rep. Larry Turner, D-Memphis, is expected to file a House version - would limit administrative fees to a one-time charge of 20 percent of the loan amount. Coupled with interest charges, that would reduce the annual rate to about 44 percent.

Borrowers would have to start by the third month they have the loan making payments of at least 10 percent of the loan amount, under the proposal.

With the monthly administrative charge eliminated, borrowers could do that and still pay less each month than under current law, he said. For example, someone who borrowed \$1,000 would have to pay \$220 a month to keep his loan afloat. If the bill becomes law, he'd pay \$20 interest and \$100 principal, saving \$100 in the third month.

Other provisions of the bill give borrowers the right to sue lenders and impose a \$2,000 penalty if violations are found.

One coalition member, Emily Trenholm, executive director of the Community Development Council, was concerned about fallout from the plan.

"If we're successful with the bill, title companies may be even more tempted to do these (allegedly improper) things to get their profits up," she said.

With the bill - and others on the same subject - freshly filed, officials of the Tennessee Department of Financial Institutions haven't analyzed them and don't have a position on the proposals, said Greg Gonzales, acting commissioner.

Beth Winstead of the Tennessee Title Pledge Association did not respond to a message left at the group's office in Nashville.

With the shift in Senate leadership from Democrats to Republicans, Brewer isn't sure how the bill will fare.

"There are several bills out there and that's a healthy situation," he said. "There's a history of people on both sides of the aisle being interested in this."

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