

## Underregulated auto title loans are a bad deal for Alabamians

*By Dev Wakeley, policy analyst | January 2022*

Alabama doesn't know how many people lose their cars because of auto title loans every year. No agency collects data on title loans, which are treated as pawn transactions. But with annual percentage rates (APR) of 300% allowable under the state's Pawn Shop Act, which governs title loans, the cost of these loans is far too high to justify.

From the lender's perspective, a title loan is a completely safe transaction. Because title loans are backed (or secured) by ownership of the vehicle, the lender can never lose money. Secured loans, such as mortgages, usually carry lower interest rates because the lender doesn't have the risk of losing money. But that isn't the case with title loans.

If a title borrower defaults, the lender can simply take the car and sell it to get the money owed. Further, Alabama law allows the lender to keep all the money received at auction, even when the auction value of the vehicle is more than the amount owed.

### **Title loans can devastate family finances**

Lack of legislative oversight means Alabamians pledging their vehicle title have the same lack of protection as someone pawning a TV or watch. But for many Alabamians, a vehicle is the most valuable asset they own.

In a state like Alabama with inadequate public transportation, a car is often the only way a person can see to their basic needs. Taking someone's car because of a loan default means they can't drive to work. They can't drive to medical appointments. They can't drive to pick up their kids from school.

Most states have realized that predatory title loans are a major drain on the finances and well-being of their residents. That's why [the majority of states have prohibited or restricted the practice](#). Even in states where the practice remains legal, borrowers usually have protections unavailable to Alabama borrowers.

# Steps to rein in high-cost title loans in Alabama

Alabama has a menu of policy options to protect borrowers and rein in high-cost auto title lending. Those solutions include:

- Cap the interest rates on all consumer loans in Alabama at 36% APR. This would relieve significant financial pressure on borrowers with low incomes.
- Reduce the allowable APR on title loans to 36%. This would bring rate uniformity for small loans and help stop the worst abuses of borrowers.
- Ensure borrowers get any amount received at auction beyond the loan amount owed. This would help limit Alabamians' financial damage from defaults and the resulting loss of a vehicle.
- Require title lenders to ensure borrowers' ability to repay before making a loan. This would reduce the number of loans that result in vehicle repossession.
- Give borrowers 60 days to cure defaults. This would better reflect the gravity of losing a car without significantly impacting lenders.
- Create a statewide database of all title loans in Alabama, similar to the one that already exists for payday loans. This would provide additional data necessary to guide informed oversight of these businesses.

## Bottom line

Auto title loans are harmful products that damage the financial health of their consumers. Alabama has failed to protect title loan borrowers or monitor title lenders in a meaningful way. A statewide loan database would be a good start toward informing legislators and the public of the system's shortcomings. It also would build momentum for a rate cap and other major reforms needed to prevent financial abuse of Alabamians.