The Debt Trap Drives the Fee Drain: Payday and Car-Title Lenders Drain Nearly $3 Billion in Fees Every Year

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Introduction

In the 31 states that allow for single-payment and payday installment loans, these loans drain more than $2.2 billion in fees each year from borrowers who have an average annual income of approximately $25,000.[1] Car-title loans drain more than $700 million in fees annually from people in 17 states. Together, these predatory loan products drain nearly $3 billion annually.

Single-payment, payday installment, and car-title loans are small loans that typically carry triple-digit interest rates that average more than 300% Annual Percentage Rate (APR).[2] These high-cost loans are marketed as quick solutions to a financial emergency. Research demonstrates, however, that they frequently lead to a debt trap that is nearly impossible to escape. In reality, these loans often drain far more money from a person's bank account than they originally borrowed.

By charging exorbitant fees without assessing the borrower's ability to meet the terms and repay the loan, payday and car-title loans leave consumers susceptible to a cascade of adverse financial consequences, such as difficulty covering living expenses, increased overdraft fees, delinquency on other bills, involuntary loss of bank accounts, wage garnishment, and even bankruptcy. For car-title loans, the end result is too often the repossession of the borrower's car—with one in five car-title loan sequences ending in vehicle repossession.[3]

Past CRL research has demonstrated that payday and car-title lenders' bottom lines depend on borrowers being stuck in a cycle of debt.[4] Even after essential pandemic federal relief reduced financially struggling people's reliance on predatory lenders, among those who do take out these loans, reborrowing is ubiquitous. For example, in Kentucky, the average amount of a payday loan is $363. Additionally, in 2021 a typical payday loan user borrowed $3,363 over the course of a year and paid $587 in fees for their loans.

For payday lenders to maintain profitability, reborrowing is a central feature in the payday lending industry. In states without protections, such as California, more than half of loans go to borrowers with five or more loans a year.[5] Further, according to the Consumer Financial Protection Bureau (CFPB), 75% of all payday loan fees are generated from borrowers with more than 10 loans a year.[6]

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Table 1: Average Number of Loans per Borrower per Year in States that Report Borrowing Rates without Meaningful Regulation of Payday Lending

State	Average Number of Loans per Borrower	Number of Payday Loans within the State
Alaska	5.4	45,546
California	5.7	4,526,338
Florida	5.6	3,605,089
Iowa	11.0	340,776
Kentucky	9.3	922,815

Source: Compilation of state regulator data as obtained by the Center for Responsible Lending.

Despite the fact that there are limited state-level data available for car-title lenders, researchers have found that the typical car-title loan is refinanced eight times.[7] Car-title loans extract twice as much in fees as credit extended as a result.[8] In addition to car-title loans having high reborrowing rates, in states that report data on vehicle repossessions, the share of car-title loans that lead to vehicle repossession is alarming. In California (one of the few states that reports on car-title lending), 33% of car-title loans result in the repossession of a vehicle. For many people, a car is a critical asset enabling them to go to work, attend medical appointments, and drive their children to school. Car-title loans are too often a debt trap that not only places an onerous financial burden on their borrowers but also can threaten their livelihoods.

Millions of Americans continue to experience financial precarity, and this report illustrates how payday and car-title lending extract financial resources from communities across the United States. Instead of cultivating greater economic opportunity and allowing families to sufficiently build wealth, payday loan storefronts have a history of locating in communities of color and rely on repeat borrowing to fuel their business model.[9] The debt trap drives the fee drain.

Methodology

This brief provides an update to the Center for Responsible Lending's previous 2019 brief, *Payday and Car-Title Lenders Drain $8 Billion in Fees Every Year.* In reporting the costs of payday and car-title loans, we relied primarily on data that the respective state regulator made available. We made public records requests from November 2022 through January 2023, and we report the most recent annual fees disclosed by the regulator. Most data reported comes from 2021. When regulator data were not available, we based cost estimates for loans on the same methodology utilized in CRL's 2013 *State of Lending* reports and the previously mentioned 2019 brief. We used an updated count of storefronts provided by RefUSA as of the latest date for which the data are available.[10]

Our figures include fee totals for both single-payment loans and longer term payday installment loans, as reported by state regulators. In states where payday and car-title lenders make both single-payment and longer term payday installment loans, data on payday installment loans are not reported; this analysis includes estimates for fees drained only by single-payment loans.

We report fees from states in which the amount of fees drained by payday, longer term payday installment loans, and car-title loans is directly reported to the state regulator. These states are Florida and Texas for payday loans. For car-title loans, these states are California and Texas.

The fee drain estimates in this brief are conservative for the following reasons: First, the reported figures for fees drained do not include the costs of longer term loans in every state where they are made. We have included fees only for states in which the data are reported to the state regulators under payday and/or car-title loan reporting statutes. Second, except for California and Alaska, the fees provided here do not include the vast majority of payday and car-title loans made by online lenders. Although storefront lenders remain a significant presence across the states where they operate, internet lending is a burgeoning sector of the industry, and their lending activity is, with few exceptions, not being monitored by state consumer finance regulatory agencies.

Table 2: Annual Payday and Car-Title Loan Fee Drain

	Total Payday Fees	Total Car-Title Fees	Total Fee Drain
States without Debt Trap Protections	$2,132,592,801.17	$701,913,218.91	$2,834,506,020.08
States with Some Debt Trap Protections	$92,654,078.16	Fees Saved	$92,654,078.16
U.S. FEE DRAIN TOTAL	**$2,225,246,879.33**	**$701,913,218.91**	**$2,927,160,098.24**

Source: Compilation of state regulator data as obtained by the Center for Responsible Lending.

Table 3: Annual Payday and Car-Title Loan Fee Drain in States Without Debt Trap Protections

Rank	State	Total Payday Fees	Total Car-Title Fees	Total Fee Drain
6	Alabama	$58,800,956.00	$46,058,672.86	$104,859,628.86
29	Alaska	$3,230,868.66	Fees Saved	$3,230,868.66
21	Arizona	Fees Saved	$9,156,242.20	$9,156,242.20
3	California	$187,700,000.00	$17,375,043.52	$205,075,043.52
33	Delaware	$44,000.00	$1,387,309.42	$1,431,309.42
2	Florida	$215,000,000.00	Fees Saved	$215,000,000.00
8	Georgia	Fees Saved	$67,978,161.75	$67,978,161.75
24	Idaho	$5,012,824.56	$1,862,109.62	$6,874,934.18
16	Indiana	$29,200,000.00	Fees Saved	$29,200,000.00
20	Iowa	$15,709,773.60	Fees Saved	$15,709,773.60
18	Kansas	$15,964,218.96	$2,526,648.45	$18,490,867.41
12	Kentucky	$58,500,000.00	Fees Saved	$58,500,000.00
5	Louisiana	$70,639,030.00	$49,580,309.70	$120,219,339.70
9	Michigan	$67,429,340.67	Fees Saved	$67,429,340.67
27	Minnesota	$4,490,222.00	Fees Saved	$4,490,222.00
4	Mississippi	$107,873,362.80	$19,977,255.70	$127,850,618.50
15	Missouri	$13,057,171.82	$18,035,022.51	$31,092,194.33
7	Nevada	$63,186,480.00	$11,930,861.04	$75,117,341.04
32	New Hampshire	Fees Saved	$1,803,502.25	$1,803,502.25
31	North Dakota	$2,900,000.00	Fees Saved	$2,900,000.00
17	Oklahoma	$21,758,660.00	Fees Saved	$21,758,660.00
30	Rhode Island	$3,040,689.30	Fees Saved	$3,040,689.30
13	South Carolina	$20,800,000.00	$21,780,757.95	$42,580,757.95
11	Tennessee	$51,727,209.30	$7,191,288.72	$58,918,498.02
1	Texas	$1,075,160,252.00	$413,961,098.13	$1,489,121,350.13
14	Utah	$31,812,637.50	$4,916,928.30	$36,729,565.80
22	Wisconsin	$1,679,999.88	$6,392,006.79	$8,072,006.67
23	Wyoming	$7,875,104.12	Fees Saved	$7,875,104.12
	FEE DRAIN TOTAL	**$2,132,592,801.17**	**$701,913,218.91**	**$2,834,506,020.08**

Source: Compilation of state regulator data as obtained by the Center for Responsible Lending.

Table 4: Annual Payday and Car-Title Loan Fee Drain in States with Some Debt Trap Protections Against the Payday Loan Debt Trap.

Rank	State	Total Payday Fees	Total Car-Title Fees	Total Fee Drain
25	Hawaii	$5,190,318.00	Fees Saved	$5,190,318.00
34	Maine	$909,255.00	Fees Saved	$909,255.00
10	Ohio	$62,476,172.00	Fees Saved	$62,476,172.00
28	Oregon	$3,626,591.16	Fees Saved	$3,626,591.16
26	Virginia	$4,562,133.00	Fees Saved	$4,562,133.00
19	Washington	$15,889,609.00	Fees Saved	$15,889,609.00
	FEE DRAIN TOTAL	**$92,654,078.16**	**Fees Saved**	**$92,654,078.16**

Source: Compilation of state regulator data as obtained by the Center for Responsible Lending.

Current Policy & Market Landscape

Since the 2019 release of this policy brief, important regulatory and market changes have occurred at the state, federal, and marketplace level.

In March 2021, Illinois signed into law the Illinois Predatory Loan Prevention Act (PLPA), which caps annual interest on consumer loans at 36%. The bill was part of a package put forth by the Legislative Black Caucus to address racial inequities in the state. It is estimated to save Illinois families more than $400 million per year in predatory fees and provide protections covering more than 12 million people.[11] Additionally, a research report published by Woodstock Institute estimates that over 5,500 jobs would be created because of the PLPA.[12]

In 2022, New Mexico passed H.B. 132, which will cap interest rates at 36% APR for loans under $10,000, but does permit some additional fees that can be charged to borrowers in addition to interest. This law went into effect January 1, 2023. Prior to the passage of this law, lenders could charge a maximum APR of 175% on loans up to $5,000.

In May 2023, Minnesota passed a law capping annual interest rates on payday loans at 36% APR, with strict limitations on loans bearing annual rates from 37%–50%. Payday loans with interest rates above 50% will be outlawed.[13] The passage of this law, which takes effect January 1, 2024, continues a growing movement at the state level to protect consumers from unscrupulous lenders by passing rate caps to stop predatory payday lending with triple-digit interest rates. To illustrate the current state of payday lending in Minnesota, the current fee drain amount is included in Table 3.

Through a ballot measure, Nebraskans voted for Initiative 428 to stop triple-digit predatory lending by reducing annual interest rates from an average of over 400% to 36%. The initiative passed by an overwhelming majority of 83% of the vote.[14] Nebraska joins Colorado (2018) and South Dakota (2016) in enacting this reform through a citizen's initiative in recent years. These states' legislative and ballot changes reflect the bipartisan and broad consensus that interest rate caps are critical to protecting consumers from the debt trap cycle.

Since our last report, a few states—Ohio, Hawaii, and Virginia—have passed bills permitting loans with interest rates above 36% that allow for longer terms. For example, in 2021 Hawaii passed a law repealing single-payment payday loans and setting a minimum repayment term of two months. Despite these protections, CRL estimates the loans permitted under these laws cost consumers in these three states over $72 million in fees in 2021.

Additionally, since 2019, there have been marketplace developments, particularly in states with insufficient consumer protections, as payday and car-title lenders continue to move to longer term loans that stretch for months, or even years.[15] The updated numbers in this brief reflect another market development since the 2019 fee drain brief. National payday lending company Check 'n Go no longer operates storefronts in Rhode Island, Kansas, Indiana, and Florida and has closed stores across other states as well. Similarly, TMX Finance, a car-title lender with $721 million in revenue in 2021 has closed its operations in three states that have passed rate cap protections that effectively prohibiting car-title lending.[16]

At the federal level, efforts to rein in payday lending have shifted. The proposed 2017 Payday Rule would have established an ability-to-repay standard on payday loans. In 2019, former CFPB Director Kathy Kraninger proposed a final rule to eliminate these consumer protections. Despite the documented harms of eliminating the 2017 rule, the Bureau issued a final rule in 2020 that effectively limited the pathway forward for regulatory protections through CFPB rulemaking.[17] In 2021, President Biden appointed a new Director, Rohit Chopra, to the CFPB. Since then, the bureau has issued a number of legal actions addressing the payday and car-title lending market, including actions against TitleMax,[18] ACE Cash Express,[19] Approved Cash Advance,[20] and Cash Store.[21]

State & Federal Policymakers Can Stop the Debt Trap

States can enact and enforce rate caps that lower the rates of these high-cost loans. Currently, 19 states and the District of Columbia enforce rate caps of 36% APR or less on payday loans, ensuring that their residents are not losing billions of dollars annually.[22] On January 1, 2024, Minnesota will become the twentieth state to cap rates, saving their consumers over $4 million dollars. These rate caps provide states with the necessary tools to prevent predatory lending practices, whether online or in a store.[23] Within state statutes, CRL recommends that policymakers include language protecting against rent-a-bank evasions of state usury caps.

The CFPB should continue to enforce existing laws that protect consumers from predatory consumer loans. These actions are needed to prevent payday loans from trapping borrowers in debt. A 2022 poll conducted by the Center for Responsible Lending and Americans for Financial Reform found that voters are strongly supportive of a variety of proposed policies to expand regulations on new types of financial products and to protect consumers from excessive fees and abusive high-cost lenders. Not only do voters want to see greater protections for consumers, they also strongly support expanding the role of the CFPB to take on discrimination in all areas of banking, including enforcing existing rules and regulations so that payday and car-title lenders are held accountable for exploiting consumers. In addition, Congress can expand the Military Lending Act to all consumers and enact a federal rate cap of 36% APR or less, while still allowing states to enact and enforce stronger state laws.

Appendices

Appendix A: Average Car-Title Loan Size in States without Meaningful Regulation of Car-Title Lending

State	Average Car-Title Loan Amount	Number of Initial Car-Title Loans Within the State
Idaho	$1,458.76	7,998
Kansas	$828.83	20,323
Tennessee	$671.67	48,666
Texas	$1,751.30	384,029

Source: Compilation of state regulator data as obtained by the Center for Responsible Lending.

Appendix A includes states that report car-title lending activity, excluding California, which due to loopholes in their existing consumer finance laws make it so that car-title loans are only viable for lenders if the loan amount exceeds $2,500.

Appendix B: Average Number of Car-Title Loans per Storefront in States without Meaningful Regulation of Car-Title Lending

State	Average Number of Loans per Store	Number of Loans	Number of Car-Title Stores
California	16	8,546	545
Idaho	131	7,998	40
Kansas	370	20,323	55
Tennessee	178	48,666	539
Texas	653	384,029	588

Source: Compilation of state regulator data as obtained by the Center for Responsible Lending.

Endnotes

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Center for Responsible Lending

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The Center for Responsible Lending (CRL) is working to ensure a fair, inclusive financial marketplace that creates opportunities for all responsible borrowers, regardless of their income, because too many hard-working people are deceived by dishonest and harmful lending practices.

CRL is a nonprofit, non-partisan organization that works to protect homeownership and family wealth by fighting predatory lending practices. Our focus is on consumer lending: primarily mortgages, payday loans, credit cards, bank overdrafts, and auto loans.

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