Montana State Legislature

Exhibit Number: 5

This exhibit is a full-colored paper copy of a P.P. Presentation. This is difficult to view when scanned. It has been scanned to aid in your research the original is on file at the Montana Historical Society and may be viewed there.

Montana Historical Society Archives, 225 N. Roberts, Helena, MT 59620-1201;
phone (406) 444-4774.
Scanning done by: Susie Hamilton

Title Loans in Montana

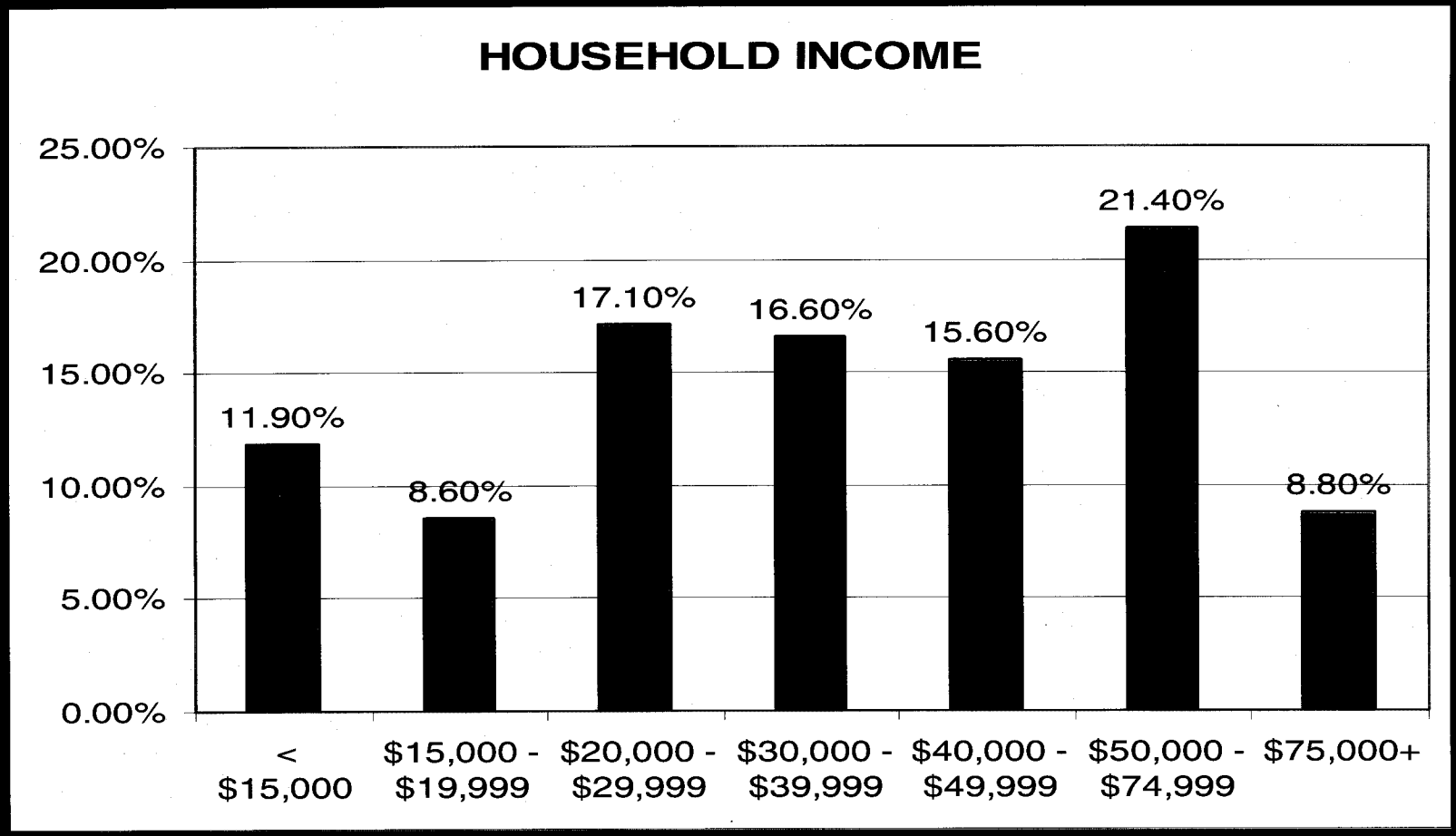
Presented to the Montana Senate
Committee on Business, Labor and Economic Affairs
by: John J. McCloskey, Esq.
General Counsel
Select Management Resources
February 20, 2007

What is a "Title Loan"

- A way for a consumer to borrow against the equity in their motor vehicle
  - Most title loan customers don't own a home so their vehicle is their largest asset.
- It is a small loan (avg. $500).
- For a short-term (30 days).
- Secured by the motor vehicle, which the borrower is able to continue to use (unlike a pawn).
- Sole finance charge is a simple interest rate.
  - No fees, points, late penalties, hidden charges, etc.
- In Montana, these loans are regulated pursuant to MCA section 31-1-801, et. seq.

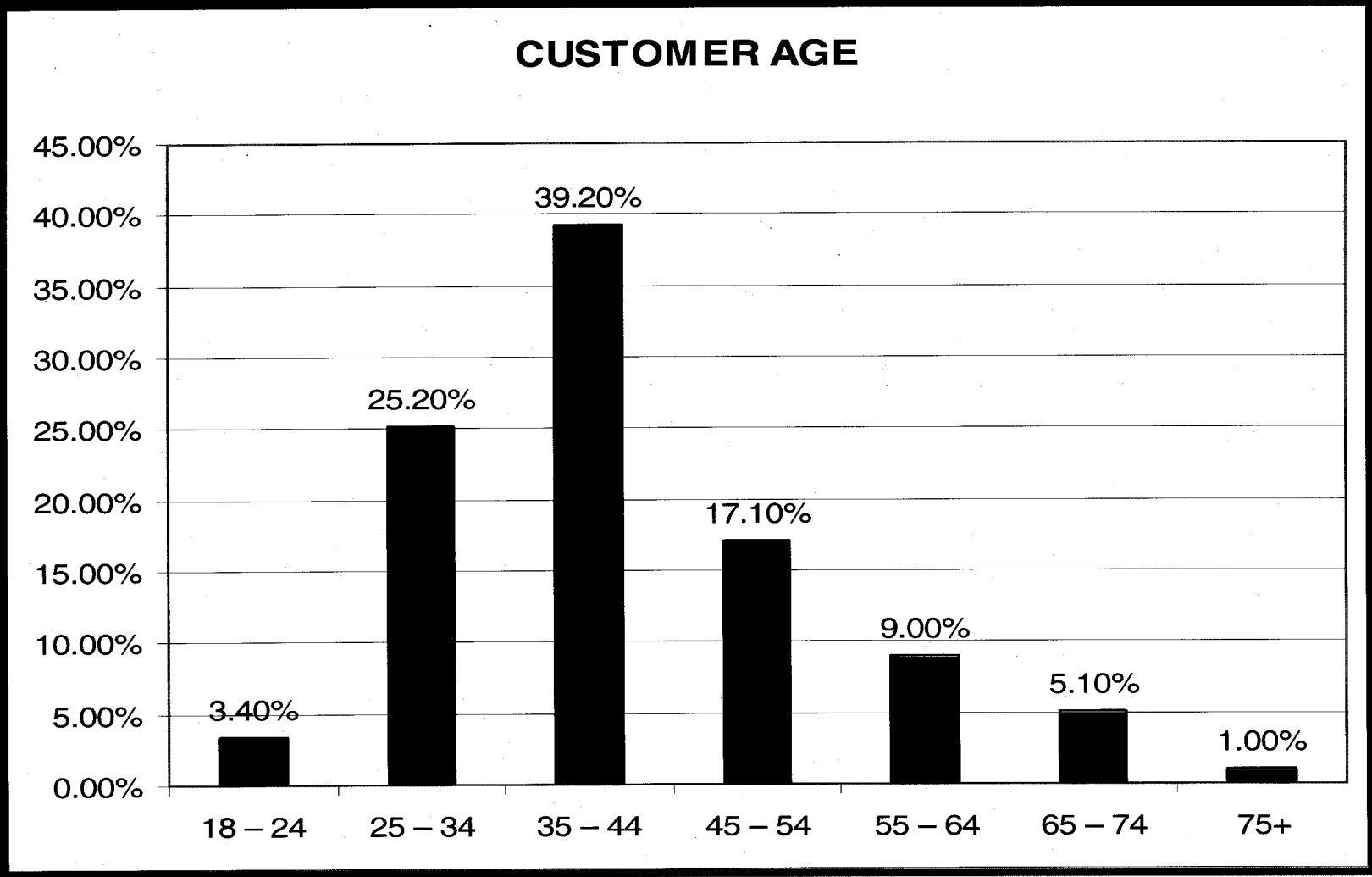
Who Uses Title Loans

- R.L. Polk conducted a nationwide demographic analysis of title loan customers and looked at:
  - Income
  - Age
  - Credit card usage



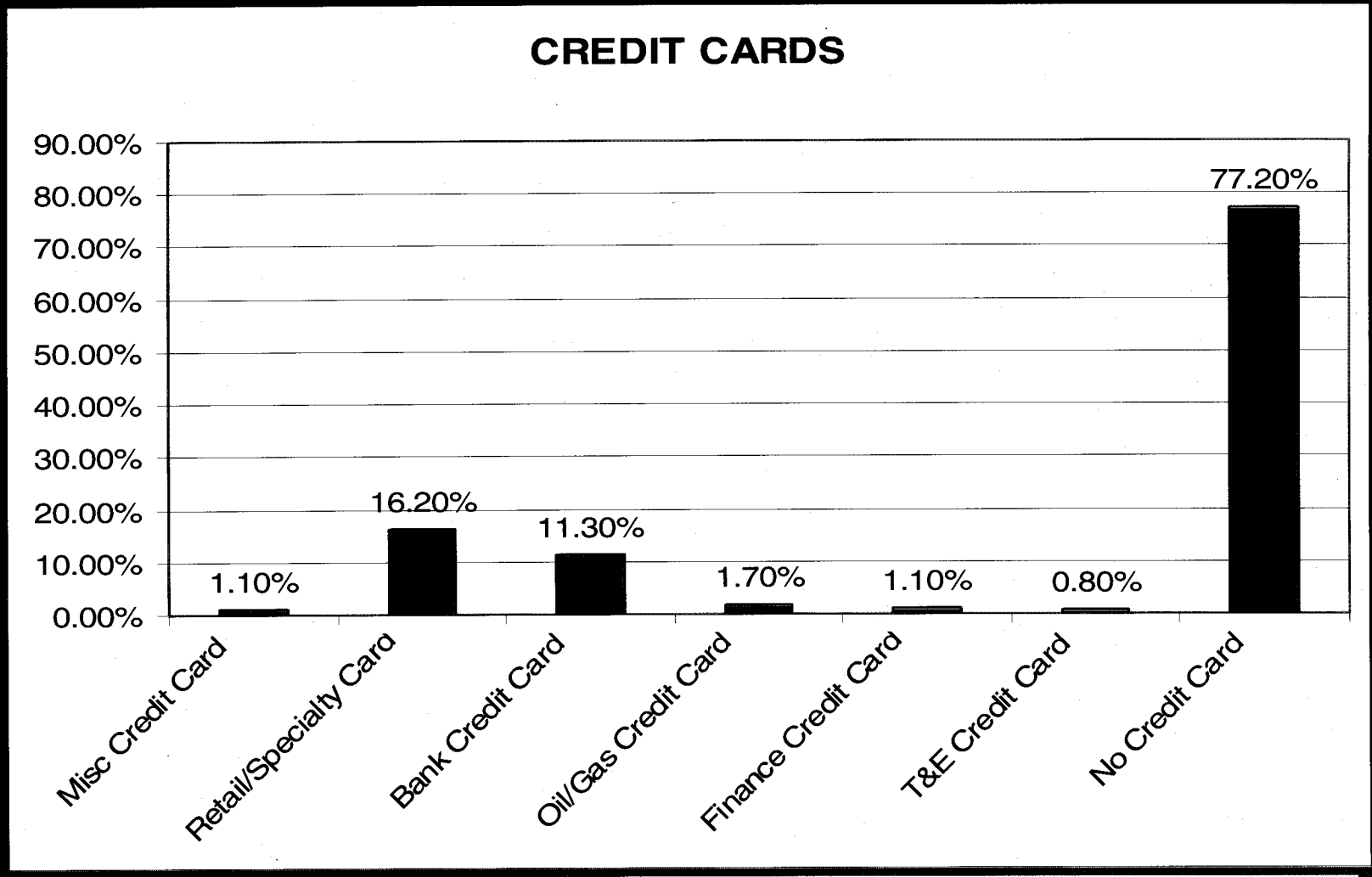
Conclusion:

Loan customers are spread throughout all incomes, with the largest group being $50,000 - $75,000.



Conclusion:

The most common age group is 35-44 years old.



Conclusion:

Loan customers have very limited amounts of credit

Three Primary Customers

- Credit Impaired
  - May have had credit card, but it was taken away due to irregular or nonpayment
- Non-homeowners
  - No home to borrow against equity.
  - Vehicle is next largest asset.
- Self-employed
  - Landscapers, contractors (plumbers, drywallers, etc.) and others use truck as source of working capital. Borrow using vehicle as collateral, do job, get paid, repay loan.

Why Customers Use Title Loans

- Simplicity (simple rate, simple term)
- Accessibility
  - Small minimum loans ($100)
  - No minimum length of time on job
  - No tax return documentation for self employment
  - No minimum credit history
- Speed (15 to 20 minute transaction)
- Lack of Intrusiveness & Privacy
  - No Credit Bureau or reporting
  - Discrete verification of loan application.
- No Personal Liability

Why Customers Use Title Loans (cont.)

- Many borrowing needs
  - Moving / Relocation Costs
  - Home / Vehicle Repair
  - Unexpected bills
  - Working Capital

  - NOT LUXURY REASONS

Conventional Financial Institutions Leaving Consumer Needs Unmet

Issues – Rate
Why Lenders Need to Charge What They Charge

- These are costly, small balance transactions averaging $400 - $500
  - 36% per annum rate would bring lender less than $9.00, and that's before losses, payroll, overhead and other expenses.
- Loss ratios are high.
- Not truly "secured"
  - Vehicle 10 – 12 years old
  - Depreciating quickly
- Most banks and consumer finance companies don't provide these services…but when they do…rates are consistently high.

Issues - Repossession

- Contrary to myth, title lenders are not after the vehicle.
- Only repossess about 4% to 6% of the motor vehicles serving as collateral
  - Most frequent reasons for nonpayment is that vehicle stops working. If not worth anything to borrower, worth even less to lender
  - Cost of repossession, storage and sale rarely merited on small loan secured by 12 year old vehicle.
  - Return of excess sale proceeds eliminates potential windfall.

Existing Montana Consumer Protections

- Licensing and Regulation. Including a customer complaint procedure.
- Required Disclosures. In loan agreement and additional pamphlet.
- No Personal Liability for the Loan. This means no judgments against borrowers after default and no garnishment of their wages. Borrower's only risk is the loss of a 10 to 12 year old vehicle. Customers often surrender keys to their broken-down vehicle and walk away .
- Right of Rescission. Customer can cancel loan without cost by end of next business day.
- Mandatory Principal Reduction. This addresses the "cycle of debt" issue. Borrower cannot indefinitely extend loan term. Borrower must begin to reduce the principal of loan. If borrower doesn't, lender must do so on borrower's behalf.
- Notice of Default. Provides notice to borrower to allow redemption of title.
- Rate Cap. Montana law already limits rates that can be charged by title lenders. In fact, because rates are reduced on larger title loans, Montana already has one of the lower rates in the country. Many states have unlimited rates on title loans.

Conclusions

- Title loan customers make rational economic decisions.
- Customers come from diverse income, age and credit backgrounds.
- Rates are consistent with banks and other financial companies that deal in high risk, low balance lending
- Title lenders provide positive economic impact (jobs, money lent is spent in community).
- The Montana Title Loan Act already provides all the consumer protections seen in other states. Other states have followed Montana's lead.
- A 36% rate cap would immediately result in lenders being put out of business and borrowers being deprived of this financial choice.