

**DEPARTMENT OF BUSINESS OVERSIGHT***Ensuring a Fair and Secure Financial Services Marketplace for all Californians***JAN LYNN OWEN****Commissioner of Business Oversight****For Immediate Release**

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## **State Alerts Consumers About Dangers of Loans that Require Car Title as Collateral**

### ***Interest Rates Can Top 100%; Consumers Risk Vehicle Loss***

SACRAMENTO – The state Department of Business Oversight (DBO) today alerted consumers to the dangers of “auto title loans,” a growing credit product for which lenders can charge unlimited interest rates on most loans and some firms use devices that remotely disable car engines when borrowers miss payments.

“It’s understandable that vulnerable consumers in a tight spot would turn to any lending source that offers help,” said DBO Commissioner Jan Lynn Owen. “But auto title loans should be a last resort. They put consumers at risk of losing their cars, and the law does not limit the interest rate lenders can charge for virtually all loans of this type. We urge consumers to pursue other options before taking out an auto title loan.”

Auto title loans effectively require borrowers to put up as collateral their car ownership. The lender can take possession of the vehicle if the borrower fails to make payments as required by the loan contract. Some lenders use remote engine shutdown devices that allow them to turn off the cars of borrowers who don’t make payments. Some of these devices have GPS tracking capability.

State law does not limit interest rates on consumer loans of \$2,500 or more. In 2013, virtually 100 percent (99.99 percent) of auto title loans fell into that category, according to DBO data received from lenders. The annualized interest rate on the vast majority of those 2013 loans ranged from 70 percent to 100 percent and higher, the data show.

Auto title loans are advertised as short-term products for consumers who need cash quickly. In many cases, potential customers’ credit standing may prevent them from borrowing through more conventional means.

The auto title loan market has been growing rapidly in California. From 2011-13, the number of loans increased by 140 percent, from 38,148 to 91,505. Over the same period, the aggregate principal on such loans increased by 150 percent, from \$133.9 million to \$334.8 million.

The advisory issued today offers tips for consumers considering an auto title loan. It also urges consumers to contact the DBO to find out if the lender they’re dealing with is licensed to operate in the state. The advisory can be accessed at [http://www.dbo.ca.gov/Consumers/Advisories/Auto\\_Title\\_Advisory.pdf](http://www.dbo.ca.gov/Consumers/Advisories/Auto_Title_Advisory.pdf).

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