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Thursday, April 28, 2005

Rep. Christopher Rants, Speaker of the House
Rep. Chuck Gipp, Majority Leader of the House
Rep. Jamie Van Fossen, Chairman, House Ways & Means Committee
Iowa House of Representatives
State Capitol, Des Moines, Iowa 50319

Dear Speaker Rants, Rep. Gipp and Rep. Van Fossen:

This is an 11th-hour renewal of our appeal that the House take up and enact Senate File 409, which includes language that would in a few sentences remedy a very serious consumer problem: abusive and unconscionable "car-title loans."

I am very disappointed that the House has not taken action on the bill. I ask you to move this simple measure as you wrap up your action for the year. If SF409 contains other matters that are holding up passage, I ask you to bring up and enact the car-title elements separately.

This measure regarding car-title loans would be extraordinarily valuable to consumers -- and to legitimate Iowa businesses -- and I believe it should be non-controversial. Indeed, the Senate approved the car-title loan sections by a vote of 50-0, and other states have banned or severely limited abusive car-title loan practices.

There is only one car-title loan business in Iowa now, a Georgia company operating a number of branches around the state. It charges 360% APR on its loans, avoiding interest rate limits by structuring the debt as open-ended credit, like credit cards. But, unlike a credit card or even "payday loans," a car-title loan is secured lending. Secured lending should be much cheaper, because it is guaranteed by the car -- there is no justification for the astronomical interest rates. There are legitimate Iowa banks and credit unions that can and do extend credit to these borrowers at far better rates, without putting their means of transportation and livelihood at risk. Repossession and loss of transportation to work and health care is a very severe threat to these Iowans. (Please see additional material enclosed for your information.)

Again, I urge you to pass the car-title legislation. Thank you for considering this appeal, and best of luck as you wrap up the Session.

Sincerely,

A handwritten signature in cursive script that reads "Tom Miller".

Attorney General Tom Miller

Now S.F. 409

Bill #: SF 217 448 1999

Date: March 2, 2005

THE ATTORNEY GENERAL SUPPORTS THIS BILL

Subject: Car Title Loans

As the administrator of the Iowa Consumer Credit Code, and enforcer of Iowa consumer protection laws, the Attorney General supports this bill that would protect consumers from exorbitant interest rates by limiting the rates charged on car title loans.

- **Exorbitant Interest Rates.** The one car title loan business in Iowa currently charges 360% APR on all of its loans. That APR is 10 times higher than what any other secured lender is charging.
- **Secured Lending Should be Cheaper.** Secured lending is supposed to be cheaper for borrowers than unsecured lending, because the lender can look to collateral in the event of default. That security means that it is a kind of lending that is in a vastly different category than payday loans – and should not be compared to it.
- **Not the purpose of Open-end Credit.** The car title lenders have avoided interest rate limitations by structuring the debt as open-ended credit, like credit cards. Open-end credit was deregulated in Iowa because federal law let out-of-state card issuers export their no-cap law. The legislature has never decided that secured, small loans should be deregulated. (The current maximum allowable on a loan secured by the equity in a car would be 36%, available to Consumer Loan licensees under Chapter 536 or 21% available to Credit Unions.)
- **More secure title loans are charging 29 times the rate charged on unsecured credit cards:** Credit cards are unsecured, and therefore more risky than secured loans. Despite the greater risk, the current average interest rate charged by credit card companies is 12.5% . Yet car title loans in Iowa, which are secured by cars which are owned free and clear by the title loan borrowers, are being charged rates that are **29 times the rate being charged on credit cards.** (credit card rate is the national average November, 2004, FRB Statistical release G.19 2/7/05).
- **Due to Astronomical APR, High Repossession Rate.** The first payment on these loans is due a scant 15 days after borrowing the money. Failure to make the first payment or any one payment thereafter results in repossession. While no data is currently available on repossessions in Iowa, it has been reported that at one auction house in eastern Iowa over 150 vehicles have been sold after being repossessed due to auto title loan collection efforts.
- **Iowans Access to Transportation.** Most Iowans are forced to rely on their cars as a means of transportation to and from work, to healthcare facilities, and to educational institutions. The 360% APR risks Iowans ability to get to work, hospital and school.
- **No Credit Checks.** These companies charge excessive interest, but do not have to run a credit check in order to ascertain if the consumer is able to afford such a costly loan. The one indicator of “predatory lending” that everybody agrees on is making a loan without regard to ability to repay. Indeed, with the first payment due just 15 days after the loan it is very likely that the consumer who didn’t have

the \$300 two weeks ago now does not have the approximately \$330 to pay off the loan. The result is that most consumers are on the down escalator as soon as they sign the loan papers, and while this poses a great risk to consumers, the car title loan company with the vehicle as collateral is risking nothing.

- **Loss of Equity.** For many Iowans their car is their most valuable asset. Car title loans put this asset at risk, and Iowans are losing all of their equity to the astronomical interest rates. For the unfortunate Iowans who lose their car to repossession any excess equity they may have built is eaten by the repossession costs and interest rate charges.
- **Inability to Escape the Loan.** The “financial emergency” that necessitated the desperate loan for these consumers is rarely as short-lived as the loan terms, so the interest quickly mounts as paying the loan off with a balloon payment is commonly impossible. In Oregon, 1 in 5 title loans was renewed six times prior to payoff. In Illinois, the extensions typically keep these loans afloat for over 4 months. (www.cbs.state.or.us/external/dfcs/activity_reports/cf/renew2001.htm; Illinois DFI 1999 Short Term Lending Report, pp. 8, 30). The result is that those Iowans able to pay off these loans often end up paying more than the value of their car in interest payments alone.
- **The bankruptcy rate in Iowa has doubled in the last 10 years.** Loans of this nature put Iowan’s jobs at risk and can only make things worse.
- **Economic Detriment.** Far from benefiting Iowans, the enormous interest rate charged by these out-of-state companies serves only to put Iowans in financial turmoil. The bill solves this problem by still allowing car title loans, but limiting the interest to that charged on similar loans made by other financial institutions.