

AUTO TITLE LOANS AND THE LAW

KNOW YOUR LEGAL RIGHTS BEFORE YOU TURN OVER THE TITLE OF YOUR CAR...

Here are some questions you might have:

WHAT IS AN AUTO TITLE LOAN?

An auto title loan is a short-term loan, usually no longer than 30 days. Your car title is used to secure the loan. This means that if the loan is not repaid, the lender may take the car and sell it to get the loan money back. Most title lenders will only make the loan if you do not owe anything else on the car.

WHO ARE AUTO TITLE LENDERS?

Auto title lenders often target people with bad credit, low-income individuals, military members, and elderly people. The lenders make money from high interest rates and the repossession of cars when consumers cannot pay off the loans.

WHY SHOULD I BE CAREFUL WITH AN AUTO TITLE LOAN?

When a person is facing financial problems, a short-term auto title loan seems like a good option, especially to someone with credit problems. However, the solution is short term and the effects can be devastating. You can end up paying very high interest rates and lots of money or lose your car.

HOW HIGH ARE THE INTEREST RATES?

The loan is written with an interest rate for a short time period. For example, the loan will show a 25% interest rate for one month. But this rate over a year is actually 300%. Auto title lenders will usually write a loan for 30 days or less. At the end of the month, the lender will accept the interest payment and allow the debt to be “rolled over” for another month. On a \$600 loan, the interest would be approximately \$150. This means you owe \$750. If you only pay \$150 for the month, you will owe \$750 the next month.

WHY ARE ALL THE LOANS FOR AT LEAST \$601 DOLLARS?

Lenders can only charge the high interest rates on loans over \$600. Under South Carolina law, loans below this amount have limited interest rates. This means they would make less money. That is why the auto title lenders often call themselves 601 lenders.

WHAT IF I CAN'T PAY THE LOAN OFF WITHIN THE PROPER TIME?

If you can't pay off the loan, it will be rolled over. In many cases the borrower will not be able to pay the loan off in full, and the interest will begin to build up all over again at the high rate. This is called “rolling over” or “flipping” the loan.

HOW MANY TIMES CAN THE LOAN BE “ROLLED OVER”?

By law, the lender may not allow the loan to be renewed more than six times. If the loan is “rolled over” that many times, the interest charged will be very high.

HOW MUCH MONEY CAN THE AUTO TITLE LENDER LOAN ME?

Auto title lenders may not make loans for more than the fair market retail value of the car. The fair market retail value is determined by common industry appraisal guides. Check in NADA or Kelly Blue Book to find the value. Most title loans are between \$601 and \$2,500.

WHAT HAPPENS IF I DON'T PAY OFF THE LOAN?

Except when there is fraud, the only thing the auto title lender can do is to repossess (take it from you) and sell off the car. The lender may not sue you to repay the loan, but they will take your car. Call a lawyer if this is about to happen.

HOW WILL I KNOW IF I AM GETTING A HIGH INTEREST LOAN?

To show the deal is a high interest loan, the lender must have the following notice on the paperwork: "THIS IS A HIGH-INTEREST LOAN. YOU SHOULD GO TO ANOTHER SOURCE IF YOU HAVE THE ABILITY TO BORROW AT A LOWER RATE OF INTEREST. YOU ARE PLACING YOUR VEHICLE AT RISK IF YOU DEFAULT ON THIS LOAN."

WHAT IF AFTER I SIGN THE PAPERS I WANT TO GET OUT OF THE DEAL?

You have the right to cancel or rescind the deal for one business day. You must repay the amount borrowed without interest until the close of business on the day after the date the original loan began. For example: If you get \$601 on Tuesday, you must give back all the money by the end of Wednesday, but you do not have to pay any interest.

WHAT IF THE AUTO TITLE LENDER ADVERTISES A LOWER INTEREST RATE AT FIRST THEN INCREASES THE RATE IN LATER RENEWALS?

By law, the lender may not advertise or offer a lower interest rate for the original period if the interest rate increases in later renewals. For example, the lender may not advertise a 10% interest rate, if that rate increases to 25% in the renewal periods.

CAN AN AUTO TITLE LENDER MAKE A LOAN FOR MORE THAN 30 DAYS?

Yes, to get around the law many lenders now make loans for one to two years and charge more than 300% APR.

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