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Predatory Lending

Athens Wellbeing Project 3.0
White Paper Series

Submitted by: Roswell Adams Cole, Emily Hatchett, Libin Joseph, Linda Calvo Kimbell, Mrigank Kothyari, Patrick Sapp
Edited by: Sara Benist, Abigail Borden, Emily Watson, and Gbemisola Talabi
Advised by: Grace Bagwell Adams, PhD and Rebecca Baskam, MPH

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Abstract

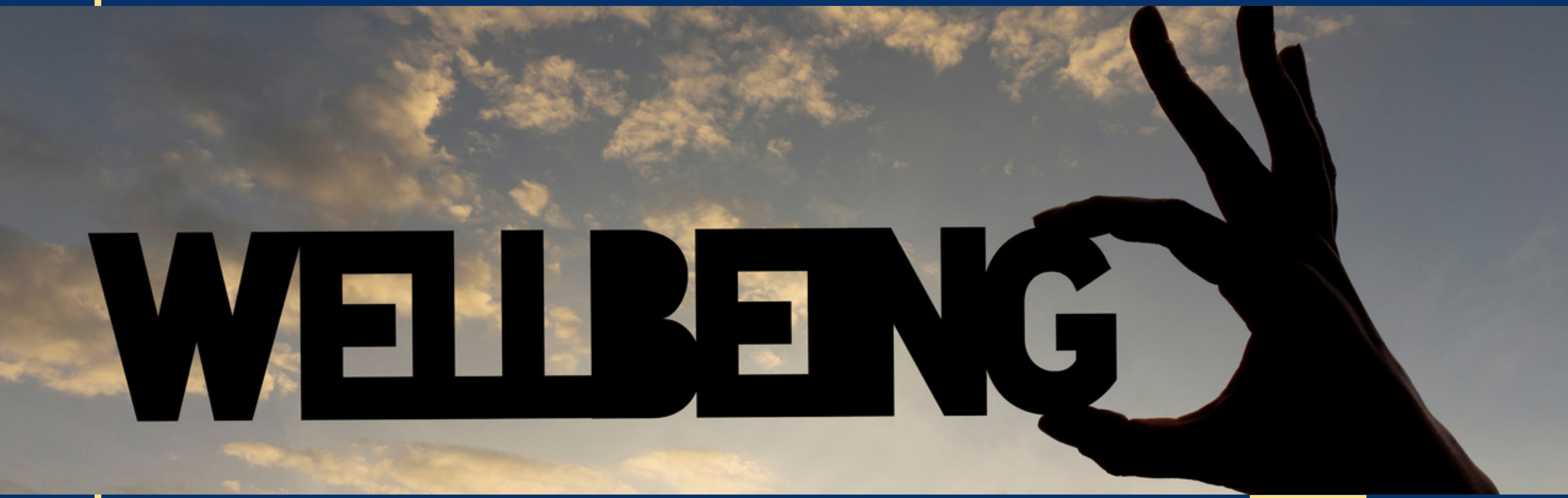
In the state of Georgia, there is a billion dollar industry focused on charging extremely high interest rates on loans that take advantage of vulnerable populations in need of immediate assistance and have lower levels of financial literacy. These practices are known as predatory lending and can often have interest rates ranging from 150% to 400%. Predatory lending in Athens-Clarke County typically takes the form of title loans, which have unregulated interest rates in Georgia (Georgia Department of Banking and Finance, 2022). According to 2022 data from the Athens Wellbeing Project household survey, 1 in 10 Athens residents report taking out at least one high interest loan in the last 90 days.

This paper explores the demographic characteristics of households that have taken out a high interest loan, discusses the consequences of engaging with predatory lending, and recommends policy solutions and their next steps to this issue. Due to the historically high levels of inflation, increasing cost of living, and projections of a recession in the coming months, addressing the financial barriers of households at risk of predatory lending is essential to ensuring their financial safety, security, and wellbeing.

Introduction

Predatory lending targets vulnerable populations with immediate needs by deceiving borrowers into taking out high-interest loans. The effects of predatory lending are exacerbated by factors such as disparities in income, job insecurity, inflation, lack of savings, medical, auto, and other bills, and debts. As a result of these hardships, one in ten households (approximately 12,000 households) residing in Athens-Clarke County suffered from predatory lending in 2022 (AWP, 2022; US Census Bureau, 2021). High-interest lending falls under a larger umbrella of banking services known as “fringe banking.” Fringe banking encompasses the sector of financial services that enables patrons with bad or no credit and without access to mainstream financial institutions to obtain money (Caplan, 2014). Fringe banking includes high-interest rate loans such as payday lending, pawnbrokers, car-title loans, and check cashing.

The most common form of predatory lending that plagues ACC is car-title lending which are asset-based consumer loan products where cars are used as collateral for the loans. (Martin & Adams, 2012). If the debtor is unable to repay the full terms of the loan, the lender can charge interest and renew the loan terms or repossess the agreed upon collateralized vehicle (Sugata, 2019). This often results in the loan being reissued every 30 days when the consumer does not repay the loan in full each month. In the state of Georgia, title loan companies and pawn transactions are valid for only 30 days but they may be extended or continued for additional 30-day periods (GA Code § 44-12-131, 2021). As the prevalence of fringe banking stores increases, the probability of more households experiencing predatory lending will also increase. This paper will explore predatory lending in Athens with a focus on title loans.



The Policy Problem

Fringe banking primarily affects households in poverty. Athens-Clarke County has a poverty rate over 26%, so a substantial portion of the population is at risk of fringe banking services (U.S. Census, 2021). In times of financial hardships, consumers turn to lenders who offer immediate assistance but use predatory lending practices. In Georgia, pawnbrokers are not subject to the same regulations as banks and other financing companies, meaning consumer protection legislation and interest rate caps do not apply in the same ways (Georgia Department of Banking and Finance, 2022). Instead, with title-loans renewing monthly and compounding, pawnbrokers can charge as much as 400% interest for one of these short-term fringe loans (Eisenberg-Guyot et al., 2018).

Research Question

The goal of increasing financial stability in Athens-Clarke communities demands that we address the policy problem of unregulated interest rates and predatory lending practices. To understand the issue of local predatory loans and potential solutions to that problem, we must examine the characteristics of those most frequently affected, in addition to understanding household conditions that create the need for consuming title loan products. Thus, our research questions are as follows:

1. What are the characteristics of households who have relied on predatory lending in Athens?
2. What can be done to reduce predatory lending in Athens-Clarke County?
3. What measures can be taken to mitigate the consequences of predatory lending?

Literature Review

What evidence is already established on this subject?

Predatory lending began in the 1970s when inflation increased (Eisenberg-Guyot et al., 2018). Socioeconomic and political pressure provoked federal monetary policy to regulate inflation by increasing long-term commercial interest rates. This policy also reduced federal oversight on financial institutions and caused mainstream banking services to withdraw from low-income and working-class communities (Caplan, 2014).

As inflation increased, borrowers turned to loan services. Small financial institutions historically catered to the working poor by offering small, manageable loans; as these small institutions were absorbed by larger conglomerates, the services for low-income and working-class communities were cut due to lack of profit or had added account fees, making them unusable for this economic class (Eisenberg-Guyot et al., 2018). The restricted banking access to marginalized low-income communities led to the targeting of vulnerable citizens by predatory lenders. The new economic sphere created a system where the impoverished populations have fewer choices and protections forcing them to pay more for financial services due to high fees (Caplan, 2014).

Most borrowers are low to middle income individuals who use the loans mostly for day-to-day expenses such as rent or unexpected expenses like medical bills (Eisenberg-Guyot et al., 2018; Athens ARK, 2022). Fringe loans were also associated with poorer health with a 21% higher prevalence of poor or fair health compared to people without a bank account (Eisenberg-Guyot et al., 2018). High fees and interest payments drain assets and wealth from an already struggling individual/household into the pockets of loaners, a claim we see rampant in ACC (The Community Reinvestment Association of North Carolina, 2001).

Literature Review

What evidence is already established on this subject?

Many title loan borrowers fall into a debt cycle where they have to forfeit their vehicles and the principal loan amount, or they take out other predatory loans to repay the title loan (Zinn & Tarver, 2021). A complex solution to avoid the financial hardships that lead to predatory lending is expanding social welfare programs and labor protections to advance health equity and increase financial stability. Georgia banned the payday loan option in 2004, but it is still one of the remaining 22 states that allow annual interest rates over 100% (Haynes, 2018).

Title-pawn shops are purposely concentrated in low-income communities to exploit potential borrowers in economic crises. Reports from GeorgiaWatch stated, as of 2018, there are a minimum of 755 title pawn locations statewide, with three national companies headquartered and garrisoned in Georgia: TMX Finance (which operates TitleMax®, TitleBucks® and other brands), Community Loans of America Inc, and Select Management Resources LLC.

Lending toward the ongoing transparency issue, the Georgia Department of Revenue's motor vehicle division does not keep statistics on the transfer of titles from individuals to title-pawn companies (Haynes, 2018). However, the Georgia Office of Insurance does warn borrowers that car-title loans are an unregulated product. The only regulation standards are that title-pawn companies can charge up to 25% monthly interest for the first three months and 12.5% monthly for the remainder of the year. The complex math adds up to a total maximum yearly interest rate of 187.5%. Interest rates as high as 330% for loans that are continually renewed is possible if a loan is held for another year (GA Code § 44-12-131, 2020; Zinn & Tarver, 2021).

Data & Analysis

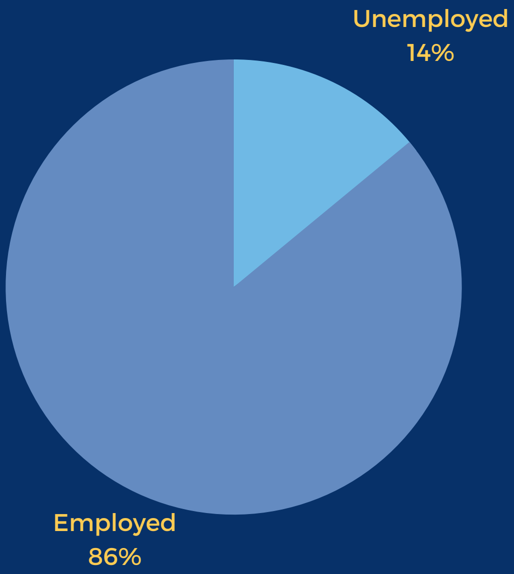
This Project uses data from the Athens Wellbeing Project, Georgia Watch, The Ark, and the Grady College of Journalism and Mass Communication

Data on the prevalence of predatory lending in Athens comes from the 2022 Athens Wellbeing Project household survey data. This primary data set describes the demographics of people in Athens-Clarke County who took out a high interest or predatory loan in the last 90 days. Using these data, we determined and identified borrower's demographic characteristics, such as race, ethnicity, education levels, employment status, socioeconomic status, social determinants of health, and health access. In addition to AWP data, we examined data from a state-level nonprofit organization called Georgia Watch. Georgia Watch works to ensure that Georgians are legally protected from predatory lending tactics used to take advantage of those who have limited financial literacy (Georgia Watch, 2022). Georgia Watch collects data on consequences of predatory lending; the variables examined include initial amounts of title loans borrowed and how much consumers pay statewide.

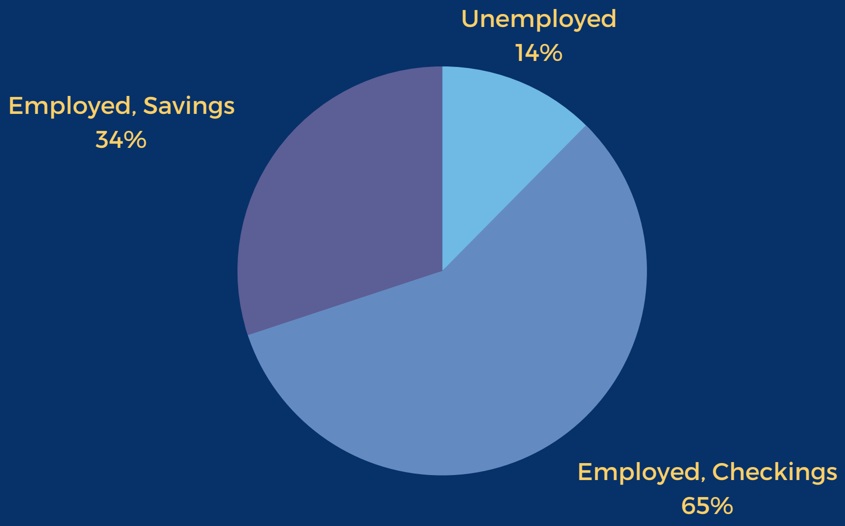
Findings

Data pulled from the Athens Wellbeing Project's 2022 survey of the community showed that 1 in 10 Athenian households had taken out a high interest loan in the last 90 days (AWP, 2022). Upon further examination of this issue, we found that working families (86%) are most affected by this. This is problematic because aside from getting a higher paying job, people generally cannot work more hours than they already are which makes this a difficult problem to address due to people maxing their earnings and still winding up in financial distress. While 65% of these residents had a checking account, only 34% reported having a savings account which creates more vulnerability to the emergent situations that often prompt the need for title lending. In general, the population taking out high interest loans in Athens are significantly more likely to be unbanked than those who do not take out a loan. In the full sample, 98% of households have a checking account, relative to the 65% of households that took out a loan.

Graph 1: Percentage of Athens Households Employed Who Took Out a High Interest Loan



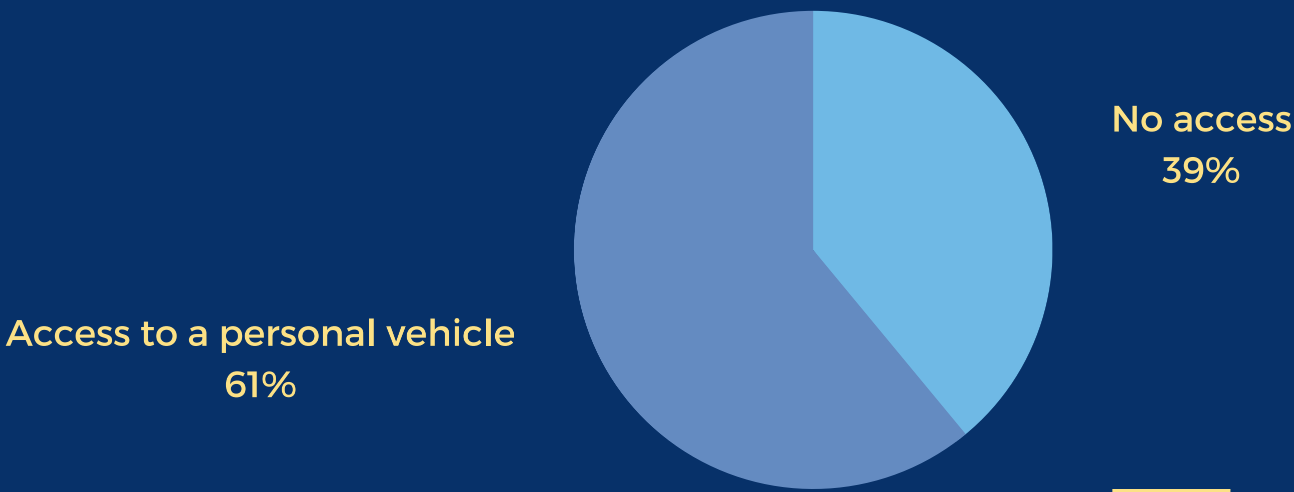
Graph 2: Percentage of Athens Households Employed Who Have a Checking and Savings Account



Findings

Title lending almost exclusively revolves around the selling of car titles and is one of the simplest types of predatory loans to obtain, with at least twelve easily searchable in the ACC region promising same day cash payment for titles. 61% of those impacted by high interest loans in Athens had access to a personal vehicle, meaning that title lending is likely a large culprit of these high interest loan options utilized by Athenians (AWP, 2022). ARK Athens confirmed that many of its' clients relied on these loans for medical expenses and to remedy issues with cars or other relied-on transport, and that approximately one fifth of these people have their car repossessed by title lenders for missed payments (Stephanie Cockfield, ARK Athens, personal communication, November 14, 2022). The domino effect of car expenses incite lack of ability to get to work further burying the working class, and forcing their hand to search for predatory loans. These $400-600 micro-loans rapidly spiral out of control when consumers are unaware of the procedures and literature regarding interest and repayment, which keeps those with title loans suppressed under unending debt cycles unless the loan is paid in full (Stephanie Cockfield, ARK Athens, personal communication, November 14, 2022). As discussed in the beginning of this paper, the need for high interest loans is generally emergent, quick-turnaround situations. As mentioned, this is not only applicable for car troubles but also medical concerns.

Graph 3: Percentage of Households Impacted by High Interest Loans with Access to a Personal Vehicle



Findings

AWP found that a third of the households who took out these loans were uninsured and over 42% have utilized the emergency department in the last year (AWP, 2022). It is well known that emergency health bills can be astronomically high, particularly compared to general outpatient care. Within this group of residents, 49% needed dental care, 30% needed primary care, and 40% needed mental health care and did not receive it (AWP, 2022). These needs going unaddressed will cause smaller issues to exacerbate and become more costly, as well as cause more dangerous medical conditions. This leaves these families, who are already financially distressed, in dire straits when a primary breadwinner becomes incapacitated and unable to work because of a preventable medical condition, leading to the use of additional high interest predatory loans.

Moving outside of Athens, the issue of title loans plagues the state of Georgia as well. Georgia Watch distributes a breadth of statewide information on the issue (Georgia Watch, 2022). When Georgia banned payday loans, as mentioned in the previous Literature Review, it came with increases in title loans institutions within the state of Georgia and their successes have likely only prompted further growth (Hall et al., 2018). Because of the lack of regulation in this industry, finding exact numbers of people who have been impacted is difficult, and the Georgia Department of Revenue's motor vehicle division has no capacity to determine how many titles individuals own versus how many title lenders are possessing (Hall et al., 2018). Nonprofits like Georgia Watch have also been involved in the advocacy process to attempt to regulate title lending. In March 2020, the Georgia Senate read SB 329, the Motor Vehicle Title Loan Act, which proposed to move title pawns under the regulation of the Department of Banking and Finance (LegiScan, 2020). This would allow and require rate caps on interest and provide regulation for a largely unregulated industry. Although bipartisanly sponsored and supported, this bill never made it off the Senate floor and died with the end of the 2020 legislative session (LegiScan, 2020).

Recommendations

I. State Policy Change - Capping Interest Rates & Increasing Regulations on Lending

Similar to other states, such as Illinois, Georgia's General Assembly could enact legislation to lower the cap on interest rates of the most predatory loans, those currently up to 187.5% APR with no maximum value as the loan progresses. SB 329 was proposed in the 2020 legislative session, placing increased regulations and oversight on predatory loans, such as motor vehicle title loans, and reducing the impact of these practices on low-income communities. With the upcoming 2023 session, this bipartisan legislation could be re-introduced, with the hopes of some change in legislators' concern.

The most important stakeholder to get involved in this process is state elected officials. Without their support, this bill can never be brought for consideration.

The 2023 Georgia Legislative Session begins in January. A bill would need to be written, taken up by a representative, and make its way through committee before Legislative Crossover Day, which is generally around mid-March (Highland, 2022). This gives a very small timeframe for the 2023 session. However, this process can be repeated indefinitely if there are stakeholders willing to put in the time and effort. There is no explicit monetary cost, but the time spent lobbying for such a large piece of already-failed legislation has a great opportunity cost.

Recommendations

II. Local Policy Change - Increasing support of nonprofits in strategic locations focused on cutting down the demand for predatory lending

By supporting the expansion of The Ark in ACC, possibly even into other nearby preyed upon communities, their beneficial work could gain momentum and create widespread improvement of this critical issue. According to their website, in the four years since their founding, The Ark has provided over $81,000 in relief with a 90% repayment rate of their 0-3% interest loans (Stephanie Cockfield, The Ark, personal communication, November 14, 2022). An expansion of these services, through additional local government funding or support of creating similar organizations, would create access to less predatory options when people are in need of immediate assistance.

The Ark would be the primary stakeholder of this proposal, as they would need to operate at increased capacity. After conversations with Stephanie Cockfield, it was learnt that The Ark would need another banking partner to expand services. This coupled with any additional local governmental assistance could prove to be useful stakeholders in furthering this aim.

The timeline of this proposal would depend on The Ark's ability to expand and advertise expanded services to ACC residents. Funding and the new banking partner mentioned earlier would likely be the limiting factor for any expansion services. The costs of this proposal would include salary and benefits for new employees at The Ark, rent for new locations or a mobile unit to target at-risk areas, and the funds for the actual loans.

Recommendations

II. Local Policy Change - Implementation of local ordinance further regulating pawnbrokers and pawn transactions

According to the Georgia Department of Banking and Finance, local governments have some capacity to regulate pawnshop dealings, such as licensing, defining powers and privileges, and “[exercising] such general supervision as will ensure fair dealing between pawnbrokers and consumers,” (GDBF, 2022). While the law is vague and it seems that no municipalities have taken up the enforcement of such regulations, local regulation and monitoring has huge possibility to hinder the dealings of these predatory lenders if ordinances were enacted to curb interest rates or provide further regulation of the industry.

Stakeholders involved in this solution would include the Mayor and the County Commision, who would be necessary to write and codify the law. Law enforcement and the cooperation of local sheriffs would also be necessary to help enforce the law once passed by government officials.

The beauty of this solution is that the timeline for implementation of this could be as short ACC deems it necessary to be. It is recommended that a small feasibility study be completed to ensure compliance within state laws, followed by the typical process of implementing new local ordinances. The cost of this solution will not be monetary; rather, it will take time from local officials and law enforcement to ensure pawnbrokers comply with new regulations.

Recommendations

III. Education - Loan Recipient Education: Implementation of local ordinance raising awareness of predatory practices within lender facilities

As seen with nicotine products, COVID-19 warning signs, and other risky behaviors, an ordinance could be enacted to place warning signs within lender facilities. Upon entering a space where these products are solicited, potential borrowers would be warned that these institutions have a known history of causing significant, negative impacts on one's financial status. These warnings, designed to be an honest depiction of the risk, would allow all consumers to acquire risks associated with taking a loan from a title-lender at their own discretion. This would in turn provide necessary pre-loan education to prevent debt cycling and exorbitant repayment costs.

Necessary stakeholders for this intervention would also be the County Commission and Mayor to first implement this ordinance into law. Subject matter experts, such as The Ark or Georgia Watch would need to be involved as well to create the warning materials for display/distribution.In the codification, this would need to be placed under the jurisdiction of a local governing agency, such as the Tax Commissioner's Office or the ACC Code Enforcement Division. This department would be responsible for ensuring all relevant entities received educational materials and enforce the displaying of them.

While a simpler solution, this recommendation involves many players. For this reason, it is estimated that it will take approximately 1-2 years to implement. The cost of this proposal is minimal, mostly requiring time from already existing entities to enforce it. However, this proposal has the potential to fund itself, with fines levied from violations going toward paying the stakeholders needed to implement it.

Recommendations

III. Education - Implementation of education on finance, loans, and lending in ACC School District (ACCSD)

This recommendation might be ineffective for those who have already taken out car-title and other forms of predatory loans. Increasing financial literacy in the school system can help encourage less utilization of these loans in present and future generations. AWP data found that almost all (93%) of the 10% of Athens households that had taken out a high interest loan in the last three months had children in the ACCSD (2022). The language and concepts surrounding finance and banking are intentionally complex, discouraging understanding of the system and putting those with less knowledge at risk of falling prey to more predatory schemes such as these. ACCSD students can learn the basics and take information home to their parents, creating a new, more targeted avenue for education about these practices.

Teachers, school administrators, and the ACC Board of Education are the major stakeholders for this solution, since they will be the ones implementing this curriculum. Partnership is recommended with The Ark and Georgia Watch, along with grade appropriate educators to create a local curriculum that is informative and developmentally appropriate. Since educators are constantly inundated with new mandates for what is required in classrooms, creating buy-in with educators early on is key to the success of the program. Involving student stakeholders is also recommended in order to allow students a say in the process and ensure the creation of a curriculum that is helpful and engaging.

This recommendation is estimated to take at least a year because of the steps needed to implement policies in schools. Curriculum development, BOE approval and implementing the teachings will be a laborious task, but one that can have far-reaching effects for many generations. By the start of the 2024–2025 school year, it is expected that this will begin to be taught in schools. The only direct cost of this program is the curriculum creation. However, implementation will require a lot of time and effort.

Next Steps

The following action steps are needed to get the project started:

1

Market Regulation

Reintroduce the SB329 Bill proposed during the 2020 Georgia Senate Session

2

Reform Banking

Bring attention to Athens Ark repayment record

3

Local Action

Push for education on finance, loans and lending in ACCSD; Also implementation of local ordinance

Predatory lending is a complex issue with many players involved and even more reasons behind its use. Regulation of the market is necessary to bring the exorbitant interest rates to reasonable, non-exploitative numbers and to be able to accurately assess the scope of the problem. The community is being threatened by predatory lenders and title loan companies; people should not have to go from being set up for a comfortable retirement to being trapped in an endless debt cycle due to health concerns or automobile repairs. AWP hopes that this has sparked a similar passion in everyone today to learn more and make moves toward the needed changes to create a better financial future for the hardworking families of Athens.

About AWP and the White Papers

Athens Wellbeing Project

The Athens Wellbeing Project (AWP) is an unprecedented collaboration between institutional stakeholders and community partners with the mission is to empower the Athens community with meaningful data that will lead to more informed decision-making, improvements in service delivery, and greater quality of life for our citizens. The purpose of the Athens Wellbeing Project is to assist our community leaders and institutions by providing a comprehensive snapshot of our community's unique needs and assets in Athens-Clarke County. AWP uses a Social Determinants of Health framework to guide all data collection and reporting, providing information across five domains: civic vitality, community safety, health, housing, and lifelong learning.

The White Paper Series

The Fall 2022 White Paper Series was produced as part of the academic requirements of the Fall 2022 Health Policy Analysis course (HPAM 7400) in the Department of Health Policy & Management, College of Public Health, University of Georgia. The course was taught by Dr. Grace Bagwell Adams with Rebecca Baskam serving as the teaching assistant. The student team drafted the white paper and conducted the analysis and recommendations seen here.

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