



Department of
Financial Institutions



2024 Report on the Title Pledge Industry

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Regulatory Oversight

Title pledge lenders are governed by the Tennessee Title Pledge Act (“Act”), codified at Tennessee Code Annotated (“T.C.A.”) Title 45, Chapter 15. The Department’s regulatory oversight includes reviewing all applications to ensure that licensing requirements are met, conducting periodic examinations for compliance with the Act, issuing enforcement actions, and investigating consumer complaints.

This report is provided pursuant to T.C.A. § 45-15-109(c)(5). The report is a biennial analysis and recapitulation of annual report data submitted by licensees for calendar year 2022. The purpose of the report is to reflect the general results of operations of the industry. Licensees provide transactional information with their license renewal submissions. Licensees attest to the accuracy of the information, and the Department’s Compliance Division audits a randomly selected sample of reports for accuracy.

A title pledge agreement is a 30-day loan secured by the borrower’s motor vehicle. These loans can be renewed for additional 30-day periods. Title pledge lenders may charge interest at a rate not to exceed 2% per month and a customary fee of no more than 1/5 of the original principal amount of the loan or of the unpaid balance due at the inception of any renewal. If a borrower fails to repay a loan, the lender may repossess and sell the vehicle. The borrower is not personally liable for any deficiency balance arising from the sale of the vehicle.

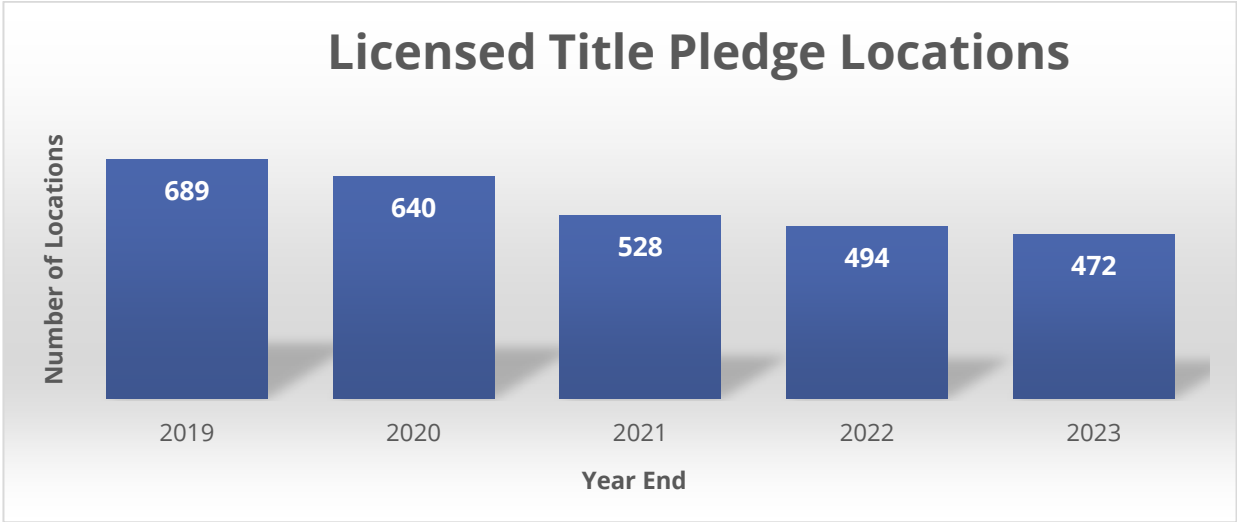
Licensing

To lawfully engage in business in Tennessee, each institution must first obtain a license from the Department. Each application must meet the licensing eligibility requirements of T.C.A. § 45-15-106. Applicants shall demonstrate financial responsibility, financial condition, business experience, character, and general fitness to reasonably warrant the belief that the business will be conducted lawfully and fairly.

Applications for a license must be accompanied by a nonrefundable supervision fee, as provided in T.C.A. § 45-1-118(i). The supervision fee is announced yearly and is currently \$625 per location. Licenses are non-transferable and must be renewed annually.

The applicant must also provide a surety bond or irrevocable letter of credit in the amount of \$25,000 per location, with the aggregate amount not to exceed \$200,000 for any single title pledge lender. An applicant is required to submit a set of financial statements, including a balance sheet and income statement, prepared by a non-affiliated certified public accountant or public accounting firm, in accordance with generally accepted accounting principles per T.C.A. § 45-15-109(c)(1)(D). The applicant must meet and maintain a tangible net worth of at least \$75,000 per location.

As of 12/31/2023, there were 472 licensed title pledge locations. This is a reduction from 494 licensed locations as of 12/31/2022, attributed to consolidation and office closures.



Risk-Focused Examination Program

Title pledge lenders have been under the Risk-Focused Examination Program (“the program”) for over a decade. The program assigns ratings based on historical examination data at the start of a fiscal year. The ratings are High, Moderate, or Low risk. The ratings are used to set the examination schedule where the higher the rating, the more frequent the examination.

Based on the FY 2024 risk period, the title pledge industry had 11.53% of the licensed locations in the High risk rating. Violations found during examinations were the main factors contributing to High risk rated locations. The Low risk rated locations made up 57.02% of the total licensed locations for FY 2024.

Rating	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Low	49.60%	48.23%	45.45%	47.28%	57.02%
Moderate	36.00%	34.87%	38.59%	37.63%	31.45%
High	14.40%	16.90%	15.96%	15.09%	11.53%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Examinations

The regulatory oversight of licensees includes compliance examinations conducted pursuant to T.C.A. § 45-15-108. Examinations are designed to test and ensure compliance with Tennessee laws, as well as certain federal laws and regulations such as the Truth in Lending Act. These laws and regulations were established to protect consumers. Examples of consumer protection are limiting the amount of interest and loan charges that may be imposed and providing for specific disclosures to the consumer regarding loan provisions.

Failure to comply with statutory requirements result in violations being cited on the examination. The examiners document and present findings to the licensee in a written report of examination. The Department requests each lender to respond in writing to each violation cited in the examination providing detailed actions taken to correct all violations. Most violations are resolved through the response process. However, unresolved issues are referred within the Department for further review and action.

In calendar year 2022, the Department conducted 246 examinations resulting in consumer refunds of \$58,936.38, as compared to 267 examinations in calendar year 2023, resulting in refunds of \$47,960.39. Issues found during the examination process can result in enforcement actions against licensees. In calendar years 2022 and 2023, the Department initiated 30 enforcement actions against Title Pledge Lenders resulting in civil money penalties totaling \$129,414.85.

Common Violations

The Division saw improvement in FY 2023 with 21.3% of examined locations having violations when compared to 38.2% in FY 2022. The more common violations are described below. Corrective action for these violations can include refund of fees to consumers.

Missing Renewal Statements/Disclosures

Title pledge agreements are structured as 30-day written agreements but may be renewed for an additional 30 days, which can occur automatically. Disclosing a renewal period other than 30 days is a violation of T.C.A. § 45-15-113(a). Renewal statements shall either be hand delivered at the time of renewal or mailed to the borrower at least five (5) days prior to the beginning of each renewal period. Failure to do so is a violation of T.C.A. § 45-15-113(b)(1). This violation is present when the examination finds no documentation supporting the renewal.

Principal Reduction

T.C.A. § 45-15-113(d) requires a five percent (5%) principal reduction beginning with the third renewal. This violation is present when the licensee fails to account for the principal reduction requirement.

Exceeding \$2,500 Limitation

A title pledge lender cannot enter into an agreement or agreements where the amount of money loaned when combined with the outstanding balance of other outstanding title pledge agreements exceeds \$2,500 when secured by a single certificate of title per T.C.A. § 45-15-115(3).

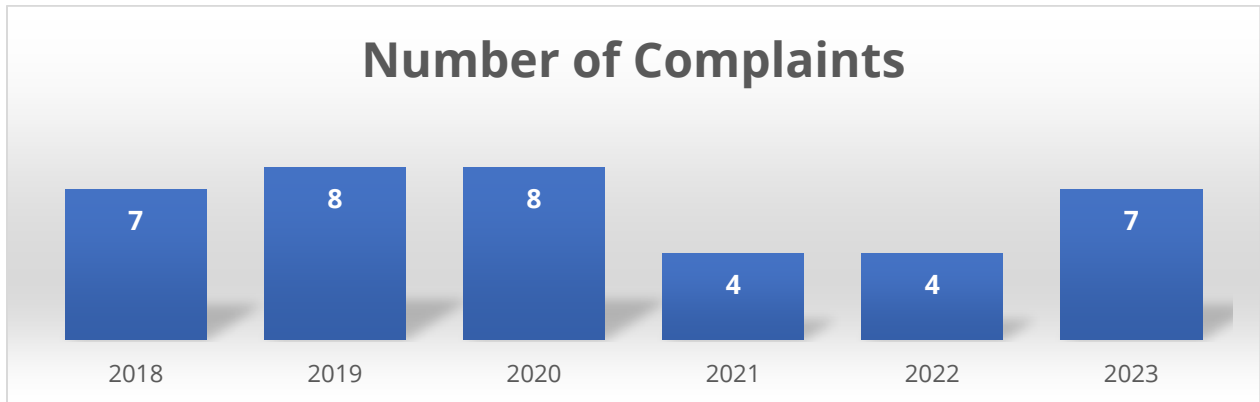
Sale of Repossession/Unauthorized Charges

The title pledge lender has, upon default by the pledgor, the right to take possession of the titled personal property. After taking possession, the lender must retain possession of the titled personal property and the certificate of title for a twenty-day holding period. If the pledgor fails to redeem the titled personal property and certificate of title during the required 20 day holding period, the title pledge lender has a period of 60 days in which to sell the titled personal property in a commercially reasonable manner. Failure to dispose of the titled personal property within 60 days, failure to remit surplus funds to pledgor, or imposing unauthorized charges to the pledgor is a violation of T.C.A. § 45-15-114(b)(2). Examples of unauthorized charges include “fix up” costs such as replacing tires or detailing a vehicle after taking possession of the vehicle.

Consumer Complaints

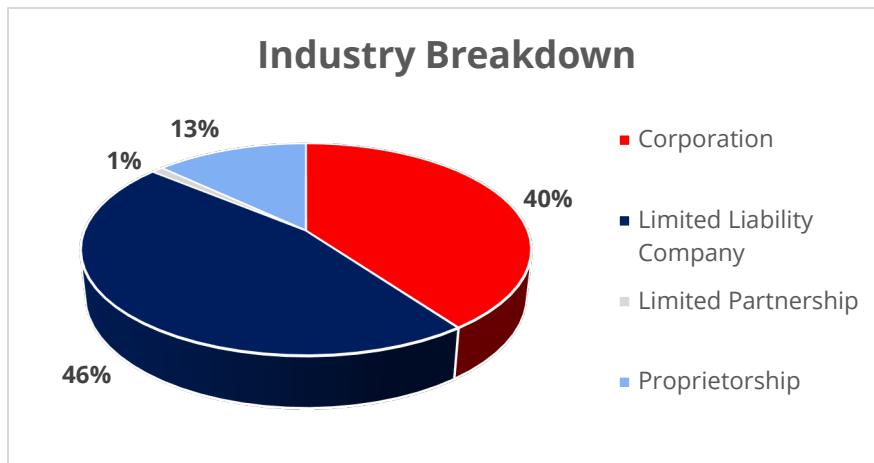
The Department’s Consumer Resources Section investigates and attempts to resolve complaints filed against financial institutions chartered or licensed by the Department. Any person aggrieved by the conduct of a title pledge lender may file a written complaint with the Commissioner through the

Consumer Resources Section pursuant to T.C.A. § 45-15-118(c)(1). The Department will take appropriate action once the complaint is fully investigated. Complaints about customer service, as compared to violations of the Act, are very difficult to substantiate since they are much more subjective. The chart below shows the number of consumer complaints received and investigated by the Department relating to title pledge lenders during calendar years 2018-2023, resulting in a total of \$1,767.81 in consumer refunds to the complainants.



Analysis of Operations

Licensees provide supplemental financial reports for the preceding calendar year at time of renewal. The following data presented in this section was compiled from information provided by 63 title pledge lenders, representing 464 licensed locations in Tennessee and reflects the general results of operations for calendar year 2022. The industry is now predominantly made up of corporations and limited liability companies representing 86% of the marketplace.



New Title Pledge Agreements

For calendar year 2022, licensees entered into a total of 40,739 new title pledge agreements, not including renewals of these initial agreements. Of the new agreements written, 67% were for \$1,000 or less, whereas approximately 3,901 were made for amounts between \$2,251 and \$2,500 which is the maximum loan amount permitted by law. The following schedule presents the breakdown of new title pledge agreements by loan amount:

New Agreements by Loan Amount		
	Number	% of Total
\$0 - \$250	3,200	7.85%
\$251 - \$500	11,125	27.31%
\$501 - \$750	5,947	14.60%
\$751 - \$1,000	7,128	17.50%
\$1,001 - \$1,250	2,517	6.18%
\$1,251 - \$1,500	3,214	7.89%
\$1,501 - \$1,750	1,045	2.56%
\$1,751 - \$2,000	2,203	5.41%
\$2,001 - \$2,250	459	1.13%
\$2,251 - \$2,500	3,901	9.57%
Total Number of Agreements	40,739	100.00%

Agreements Renewed

From the following analysis, 24,862 agreements were renewed during calendar year 2022. Of these, approximately 12% were renewed only one (1) time. Of the total number of agreements executed in calendar year 2022, 4,177 or 14%, were paid in full after 30 days without renewing.

Total Number of Agreements Renewed in 2022					
	Number	% of Total		Number	% of Total
1 Time	2,935	11.81%	12 Times	651	2.62%
2 Times	2,368	9.53%	13 Times	670	2.69%
3 Times	1,951	7.85%	14 Times	739	2.97%
4 Times	1,698	6.83%	15 Times	633	2.55%
5 Times	1,558	6.27%	16 Times	644	2.59%
6 Times	1,335	5.37%	17 Times	705	2.84%
7 Times	1,151	4.63%	18 Times	643	2.59%

8 Times	1,035	4.16%	19 Times	704	2.83%
9 Times	965	3.88%	20 Times	837	3.37%
10 Times	792	3.18%	21 Times	1,115	4.48%
11 Times	749	3.00%	22 Times	984	3.96%

Principal Reduction Requirements

Prior to the 2005 amendments to the Act, a title pledge agreement could be renewed for 30-day periods indefinitely, and interest and fees charged over the life of the loan were unlimited. With these amendments, and pursuant to T.C.A. § 45-15-113(d), beginning with the third renewal and at each successive renewal, the borrower is required to make a payment of at least five percent (5%) of the original principal amount of the title pledge transaction, in addition to interest and fees. This enables the borrower to reduce the original loan amount by five percent (5%) with each payment, resulting in a decrease in interest and fees with each subsequent renewal. The number of renewals over the life of the loan is limited based on this statutory requirement of a five percent (5%) principal reduction.

In the event the borrower cannot make the scheduled principal reduction(s), the lender may defer such payment(s) until the end of the title pledge agreement. However, the lender cannot charge fees and interest on the deferred amount. For year-end 2022, the number of deferred principal reduction payments was 2,880 compared to 4,871 deferrals in 2020.

Borrower Default

Under the Act, the interest and fees which a title pledge lender is authorized to charge are deemed to be earned, due and owing as of the date of the title pledge agreement and on the same day of each subsequent renewal period. The borrower is legally obligated to pay back the principal, interest, and fees. If the borrower defaults, the lender's recourse is limited to taking possession of and selling the pledged collateral. In calendar year 2022, the industry took possession of 6,094 vehicles due to non-payment, compared to 7,742 in 2020. If the borrower fails to redeem the titled property during a 20-day holding period, the lender then has 60 days to sell it in a commercially reasonable manner. Proceeds from the sale must be applied against the outstanding loan balance and any surplus returned to the borrower. The industry returned a surplus of \$236,704 to borrowers in 2022, compared to \$174,494 in 2020.

Bad debt is an expense associated with a company’s inability to collect accounts receivable. Unless all proceeds from the sale of pledged collateral offset the debt, the balance due is considered uncollectible by the lender and is subsequently charged-off. Unpaid accounts and balances remaining from sale of repossessions represents bad debt on the financial statements. In calendar year 2022, lenders incurred bad debt expense of \$19,370,727, due to non-payment of all or part of the original principal balance, representing 23% of total revenue.

Profitability Analysis

In analyzing profitability industry-wide, this report focuses on net income before tax and performs a break-even analysis based upon interest and fees charged. Net income before tax is revenue from operations less business expenses. In the industry, the revenues are made up of interest and customary fees. Company expenses can include salaries, repossessions, bad debt expense, and other general expenses such as rent, utilities, insurance, supplies, and licensure.

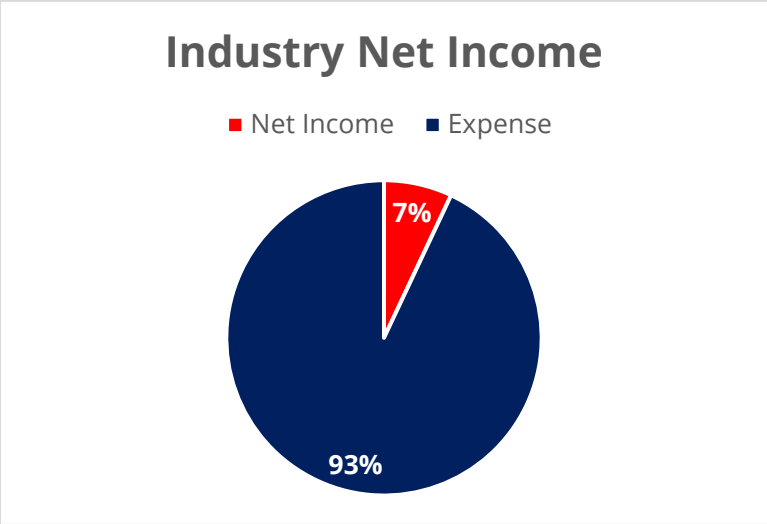
There are several measures of a company’s profitability, but pretax income is generally viewed as a better indicator of financial performance and is commonly used to compare a company’s financial performance with the performance of its peers. The combined net income before tax, excluding owner compensation for the 63 companies (464 licensed locations) reporting, was \$5,428,005.

In calendar year 2022, the amount of revenue earned was \$82,787,912. Of this amount, 37% was paid toward general expenses. The next largest expense categories for the industry were employee salaries and bad debt, with each making up 23% of total revenue.

Industry Percentage		
Revenue	\$ 82,787,912	100%
Employee Salary	\$ 18,761,402	23%
Bad Debt Expense	\$ 19,370,727	23%
Repossession Expense	\$ 7,391,055	9%
General Expense	\$ 30,590,246	37%
Total Expense	\$ 76,736,679	93%
Net Income Before Tax*	\$ 5,428,005	7%
*Net Income Before Tax Excludes Officer/Owner Compensation		
**The numbers above are rounded to the nearest whole number.		

An Income Statement Summary Comparison for years 2016, 2018, 2020 and 2022 can be found in Exhibit A.

The break-even point is where a company is earning neither a profit nor loss, or in other words, it is the amount of activity where a company's revenues and expenses are equal. For the title pledge industry, the break-even point was 93%. This means that \$0.93 of every dollar of revenue goes toward expenses.



Conclusion

Title pledge lending in Tennessee continues to be significant but is a declining segment of the financial services sector. Based on reported information covering calendar year 2022, there were 40,739 new title pledge agreements during the reporting period. This compares to 48,666 new agreements for calendar year 2020, 122,580 new agreements for calendar year 2018, and 181,367 new agreements for calendar year 2016. The total dollar loan volume of these new agreements in 2022 amounted to \$39,672,752, compared to \$40,439,021 in 2020, \$106,248,639 in 2018, and \$167,713,147 in 2016. From calendar year 2016 to 2022, the percentage decrease in dollar loan volume was approximately 76%.

Title pledge lenders entered into 40,739 new agreements with borrowers in calendar year 2022, representing \$39,672,752 in loan volume. The top 10 companies by number of loans made entered into 36,979 new agreements, representing 90.7% of the market share.

This report cannot make a judgment on the efficiency of licensee operations. Bad debt expense for the industry amounted to 23% of revenues for calendar year 2022, 17% for 2020, 29% for 2018, and 29% for 2016. As a percentage of revenues, total expenses increased to 93% in 2022 from 86% in 2020.

While attention is placed on the rates and practices of title pledge lenders, we also see a more fundamental need facing a segment of Tennessee consumers. The lack of financial literacy among some citizens is a concern. We understand that some consumers are hindered by circumstances outside of their control, such as a serious illness that may force a short-term need for immediate credit. Apart from unexpected events that may seem to force some to seek out immediate credit, we believe that a lack of a basic understanding of financial concepts has permeated generations of Tennessee families. This has created an environment that perhaps supports some of the numbers reported herein.

We are hopeful that a personal finance class, which has become mandatory in Tennessee schools, will pay long term dividends. Financial literacy continues to be an important segment of our core operations, and the Department has reached out with workshops and established partnerships with other public and private entities. The Department has worked for many years with organizations such as the Tennessee Jumpstart Coalition and others that have done much to promote financial literacy. The Department also supports, and is a member of, the Tennessee Financial Literacy Commission. Their mission is to equip Tennesseans to make sound financial decisions when it comes to planning, saving, and investing. The Tennessee Financial Literacy Commission reports that several teachers and children have been reached through their efforts to train Tennessee teachers. Not only is financial literacy important for the welfare of the individual, but we believe it is a key factor for the health of well-meaning financial institutions and ultimately for the Tennessee economy.

Considering this, the Department is focused on a three (3) part response. First, we continue to monitor depository institutions in Tennessee to determine if they are able to make small dollar loans to the

public. Secondly, ongoing emphasis should be placed on financial literacy, and we will continue to work with the Tennessee Financial Literacy Commission to determine what else can be done in that regard. The Department has just begun an initiative to visit schools in economically distressed areas to provide students with basic information on how to handle credit. Finally, the Department has created a Risk-Focused Examination Program that allows us to risk profile over 4,500 non-bank licensees as to potential consumer risk. The program is giving us the data to expedite examinations of High risk rated companies by deferring exams to an extent on Low risk rated licensees. Over time, the goal is to demonstrate improvement in the risk profile of all regulated industries. This Program has reflected a general decrease in the comprehensive risk profile of all the non-deposit industries supervised by the Department's Compliance Division since program implementation.

The Department will continue to ensure, through the licensing and examination processes, that all licensed title pledge lenders meet the qualifications for a license and through the examination process, comply with applicable laws. While these traditional areas of operation are very important, we also realize that more focus needs to be placed on educating consumers about the responsible use of credit. The Risk-Focused Examination Program is intended to help lenders provide fair and appropriate access to credit for all consumers.

Exhibits

Exhibit A

Income Statement Summary for Prior Years' Comparison				
	Calendar 2016		Calendar 2018	
	97 Companies	719 Locations	94 Companies	655 Locations
	Amount	% of Revenue	Amount	% of Revenue
Revenue	\$146,491,993		\$121,936,800	
Employee Salary	\$27,835,390	19%	\$26,279,914	22%
Bad Debt Expense	\$41,999,943	29%	\$35,131,220	29%
Repossession Expense	\$4,619,398	3%	\$4,425,750	4%
General Expense	\$46,095,850	31%	\$39,177,019	32%
Total Expense	\$120,550,580	82%	\$105,013,903	86%
Net Income Before Tax*	\$25,941,413	18%	\$16,922,897	14%
	Calendar 2020		Calendar 2022	
	72 Companies	506 Locations	63 Companies	464 Locations
	Amount	% of Revenue	Amount	% of Revenue
Revenue	\$76,479,059		\$82,787,912	
Employee Salary	\$18,068,689	24%	\$18,761,402	23%
Bad Debt Expense	\$12,754,920	17%	\$19,370,727	23%
Repossession Expense	\$4,007,838	5%	\$7,391,055	9%
General Expense	\$29,776,403	41%	\$30,590,246	37%
Total Expense	\$64,607,850	86%	\$76,736,679	93%
Net Income Before Tax*	\$11,871,209	14%	\$5,428,005	7%
*Net Income Before Tax Excludes Officer/Owner Compensation				
**The numbers above are rounded to the nearest whole number.				

Exhibit B

County	6/30/2023 Licensed Locations	County	6/30/2023 Licensed Locations	County	6/30/2023 Licensed Locations
Anderson	6	Hamilton	25	Morgan	1
Bedford	5	Hancock	1	Obion	3
Benton	2	Hardeman	1	Out of state	6
Bledsoe	1	Hardin	3	Overton	3
Blount	5	Hawkins	2	Perry	1
Bradley	8	Haywood	3	Pickett	1
Campbell	3	Henderson	3	Polk	3
Cannon	2	Henry	2	Putnam	9
Carroll	3	Hickman	1	Rhea	3
Carter	3	Houston	1	Roane	4
Cheatham	3	Humphreys	2	Robertson	5
Chester	1	Jackson	1	Rutherford	18
Claiborne	3	Jefferson	4	Scott	2
Clay	1	Johnson	0	Sequatchie	3
Cocke	4	Knox	19	Sevier	5
Coffee	6	Lake	0	Shelby	60
Crockett	0	Lauderdale	1	Smith	1
Cumberland	3	Lawrence	5	Stewart	1
Davidson	39	Lewis	3	Sullivan	12
Decatur	1	Lincoln	5	Sumner	14
DeKalb	2	Loudon	5	Tipton	4
Dickson	5	Macon	3	Trousdale	1
Dyer	6	Madison	13	Unicoi	2
Fayette	2	Marion	3	Union	1
Fentress	1	Marshall	3	Van Buren	0
Franklin	3	Mauzy	8	Warren	3
Gibson	6	McMinn	8	Washington	8
Giles	2	McNairy	2	Wayne	2
Grainger	0	Meigs	1	Weakley	2
Greene	7	Monroe	7	White	2
Grundy	1	Montgomery	13	Williamson	2
Hamblen	6	Moore	0	Wilson	7