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DEPARTMENT OF FINANCIAL INSTITUTIONS
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BILL HASLAM
GOVERNOR

GREG GONZALES
COMMISSIONER

March 30, 2012

The Honorable Bill Haslam
Governor
State of Tennessee

The Honorable Members of the 107th General Assembly
State of Tennessee
Legislative Plaza
Nashville, TN 37243

Re: Report on the Title Pledge Industry

Dear Governor Haslam and Members of the General Assembly:

Beginning November 1, 2005, pursuant to Chapter 440 of the Public Acts of 2005, the Department of Financial Institutions was charged with the enforcement of the Tennessee Title Pledge Act (the "Act"). The Act provides, at Tenn. Code Ann. § 45-15-109(c), that each title pledge lender shall file a report with the Commissioner of the Department, commencing on October 1, 2007, and every odd-numbered year thereafter, containing specific information, and that the Commissioner shall submit to the Governor and General Assembly a biennial analysis and recapitulation of the reports for the preceding calendar year, for the purpose of reflecting the general results of operations under the Act. The enclosed Report will serve to fulfill the Department's reporting obligations under the Act.

Respectfully submitted,

Greg Gonzales

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Tennessee Department of Financial Institutions

2012 Report on the Title Pledge Industry

March, 2012

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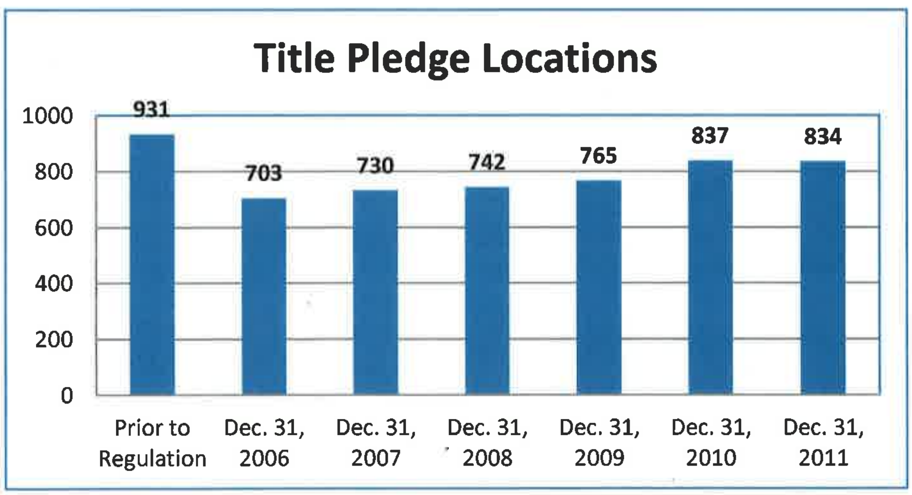
REGULATORY OVERVIEW

The activities of title pledge lenders are governed by the Tennessee Title Pledge Act ("Act"), codified at Tennessee Code Annotated ("T.C.A.") Title 45, Chapter 15. This report is provided pursuant to T.C.A. § 45-15-109(c)(5), requiring a biennial analysis and recapitulation of the reports of calendar year 2010, for the purpose of reflecting the general results of operations of the industry. The compilation and analysis of information in this report was gathered from licensees in submission of their annual renewal applications. As part of the submission, licensees were required to attest, under oath, to the truthfulness and accuracy of the information. As a further measure to ensure the accuracy of information submitted, the Department selected a sampling of licensees for on-site audit of reports provided.

The Department's regulatory oversight includes reviewing all applications to ensure that licensing requirements are met, conducting periodic on-site examinations for compliance with the Act, issuing corrective enforcement actions, and investigating consumer complaints. In addition to the regulation of the title pledge industry, the Department's Compliance Division is responsible for the licensing and regulatory supervision of other non-depository financial institutions and individuals operating in Tennessee including: Check Cashing Companies, Deferred Presentment Services Companies, Industrial Loan and Thrift Companies, Insurance Premium Finance Companies, Residential Mortgage Lenders, Brokers, Servicers, and Mortgage Loan Originators.

LICENSING

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.



State law allows the Department up to 90 days to act on a properly completed application. As set forth in Department Rule 0180-33-.01, a nonrefundable filing fee of $700 per location is required at the time of filing. 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. A complete application must be notarized and include a listing of the owners, along with their resumes and credit reports.

An applicant is required to submit a set of financial statements, including a balance sheet and income statement, prepared by a certified public accountant or public accounting firm not affiliated with the applicant and in accordance with generally accepted accounting principles. The applicant must meet and maintain a tangible net worth of at least $75,000 per location. Additional supporting documents may be requested to substantiate the value of assets reported. Licenses are non-transferable and must be renewed annually.

EXAMINATIONS, CORRECTIVE ACTIONS, AND REFUNDS

The regulatory oversight of licensees includes on-site compliance examinations conducted pursuant to T.C.A. § 45-15-108. Cited violations represent instances in which the licensee did not comply with statutory requirements. On-site examinations have proven an effective tool in the detection and prevention of violations of the Act. Examiners also review lenders' compliance with the U.S. Department of Defense Rule 32 CFR Part 232 ("DOD Rule") that went into effect October 1, 2007. The DOD Rule covers members of the armed forces and their dependents. Confirmation of military status is included as a question on the loan application. One of the main provisions of the DOD Rule caps the interest rate on loans whereby the Military Annual Percentage Rate is limited to 36% inclusive of interest, fees, and other charges. There appears to be substantial compliance with the DOD Rule, with minimal issues unrelated to rates and fees, resulting in no consumer harm.

Examiners document and present the examination findings to the licensee in a written report. The Department requests each lender to respond to the examination in writing, detailing the actions taken to correct all violations. Most violations are resolved through the examination process. However, unresolved issues, systemic problems, significant refunds, unlicensed activity, repeat violations, or apparent criminal activity are referred to the Chief Administrator in the Nashville office for appropriate follow-up action.

In 2010, the Department conducted 800 examinations, resulting in consumer refunds of $123,930; whereas, in 2011, 852 examinations were conducted, resulting in refunds of $99,167.54. In 2010, twelve enforcement actions were initiated as a result of violations of the Act; whereas, in 2011, one enforcement action was initiated due to violations of the Act. The decrease in the number of enforcement actions was due to a decline in unlicensed activity and the fact that most violations were resolved through the examination process, and did not rise to the level of an enforcement action.

Although it appears from the examinations that lenders are not charging more than the statutory limit of 22% per month, refunds were made in 2010 and 2011 due to other violations of the Act. There were fewer instances of unlicensed activity this reporting period than in previous years. Five (5) instances of unlicensed activity were reported in 2010 and one (1) instance in 2011 which resulted in a requirement that the lender make consumer refunds. Based on the examinations conducted in 2010 and 2011, the following represent the more prevalent violations cited:

1) Inadequate Books and Records:

- Title pledge agreements and records are to be consecutively numbered and documented as required by the Act. All books and records must be preserved and made available to the Commissioner for a period of twenty-five (25) months on rejected applications and twenty-four (24) months on loans paid in full.

2) Missing Renewal Statements:

- Title pledge agreements are structured as thirty (30) day written agreements, but may be renewed for an additional thirty (30) days for up to twenty-two (22) renewal periods. The consumer is limited to twenty-two (22) renewals, because the statute requires the borrower to make a 5% reduction in the principal amount borrowed, beginning with the third renewal period and each successive renewal period, until the loan principal is paid off. This principal payment is required along with the applicable interest and fees due the lender; however, with each principal reduction payment, the interest and fees charged are reduced with each subsequent renewal period. Lenders shall either hand deliver at the time of renewal or mail the renewal statement to the borrower at least five (5) days prior to the beginning of each renewal period. These statements are to be filed with the original title pledge agreement. Otherwise, consumer refunds will result if this documentation is missing.

3) Agreements/Automatic Renewals Exceeding Thirty (30) Days:

- A title pledge agreement is thirty (30) days in length. However, the agreements may provide for renewals for additional thirty (30) day periods, which may occur automatically. Otherwise, lenders are cited if their agreements and/or renewals are not 30 days in length.

4) Unauthorized Charges:

- A title pledge lender may contract for and receive an effective interest rate not to exceed 2%, plus a maximum customary fee of 20% per month. All other charges, other than the actual repossession charges and/or any direct costs incurred to sell the titled property, are unauthorized and subject to refunds. Examples of unauthorized charges include "fix up" costs such as replacing tires or detailing a vehicle.

5) Unsigned Agreements:

- Both the lender and borrower must sign the agreement. Otherwise, lenders must refund interest and fees on agreements lacking the appropriate signatures.

6) Taking Possession of the Collateral During An Active Renewal Period:

- If the lender takes possession of the titled property during a disclosed thirty (30) day renewal period, then the lender would be required to refund any interest and fees earned for the renewal period in which the repossession occurred. The Department issued industry Bulletin C-08-1 on January 24, 2008 to explain and clarify this position.

CONSUMER COMPLAINTS

One of the purposes of the Consumer Resources Section is to investigate and attempt to resolve complaints filed against financial institutions chartered and licensed by the Department. The Consumer Resources Section makes the regulated entity aware of the complaint(s) against it and strives to resolve the complaint(s). Any person aggrieved by the conduct of a title pledge lender may file a written complaint with the Commissioner. Once the lender responds in writing, the Consumer Resources Section fully investigates the complaint and takes appropriate follow-up action as indicated.

In 2010-2011, the Consumer Resources Section processed 15.6% fewer complaints (55) involving title pledge lenders than in 2008-2009 (64). There were no instances of licensees charging more than the statutorily authorized 22% per month.

The Consumer Resources Section investigated 27 complaints in 2010. The more frequent complaints (59%) concerned the following issues.

Complaint	Totals
• Payment disputes and account balance discrepancies	6
• Customer service issues	5
• Alleged overpayments	3
• Repossessions	2

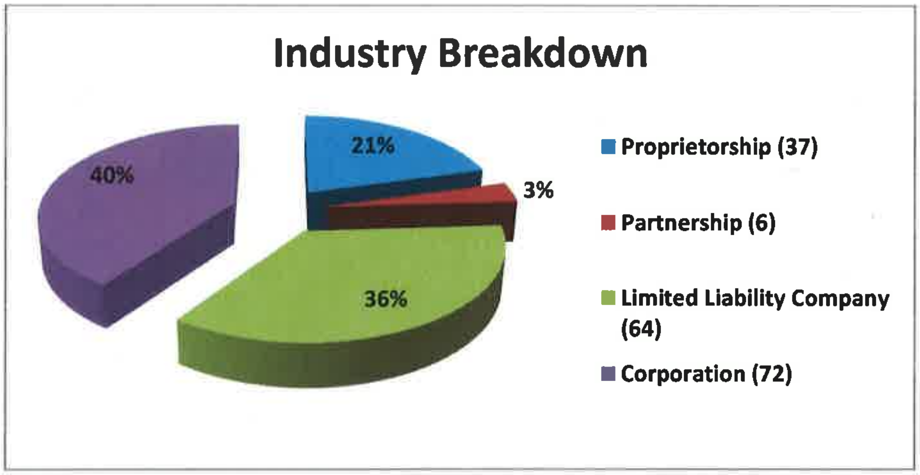
In 2011, the Consumer Resources Section investigated 28 complaints. The more frequent ones (74%) concerned the following issues.

Complaint	Totals
• Repossessions	10
• Customer service issues	4
• Failure to release liens	3
• Alleged overpayments	2
• Account balance discrepancies	2

Generally, complaints about customer service are more subjective than issues involving violations of the Act itself and, as such, difficult to resolve. All of the complaints for 2010 and 2011 were investigated fully, resulting in consumer refunds totaling $11,058 and $1,267, respectively. These refund amounts are in addition to consumer refunds resulting from examinations as noted elsewhere in this report.

ANALYSIS OF OPERATIONS

The data which follows was compiled from information provided by 179 title pledge lenders, representing 762 locations in Tennessee, and reflects the general results of operations for calendar year 2010. All renewing licensees that were required to file annual reports complied with this requirement. A discrepancy arises between the number of licensed locations (837) reported on page one (1), and the number of reporting locations (762) for calendar year 2010. The difference is attributed to locations that were licensed in 2010, but did not begin operations until 2011, and locations that either closed before the filing deadline or failed to renew the license.

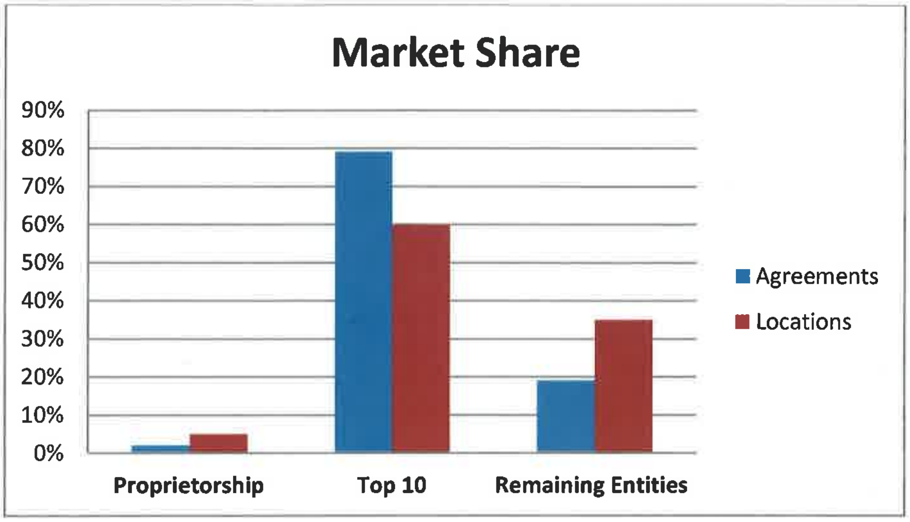


T.C.A. § 45-15-106(i) provides that the licensing year shall end on October 31. The license renewal application must be filed with the Department on or before October 1. Licensees must submit, together with the renewal applications, supplemental financial reports for the preceding calendar year. This information, submitted for 2010, contributed to the data analysis and results of operations presented in the following tables and graphs.

Companies, engaging in more than one line of business were asked to segment their income and expenses and report such data exclusively for their title pledge business. T.C.A. § 45-15-109(c)(1)(D), requires a licensee to submit financial statements prepared by a non-affiliated CPA, or public accounting firm and consistent with generally accepted accounting practices.

MARKET SHARE

Title pledge lenders entered into 209,155 new agreements with consumers in calendar year 2010, representing $158,647,157 in loan volume. As illustrated by the chart on the following page, the top ten (10) companies, based on the number of locations in Tennessee, accounted for 461 or 60% of the 762 reporting locations. These top ten (10) companies entered into 165,471 new agreements, representing 79% of the market share. In contrast, 37 proprietorships, representing 39 locations or 5% of the total locations, entered into 3,213 agreements, or 2% of the total new agreements. The remaining 132 reporting entities, representing 262 locations or 35% of total locations, entered into 40,471 of the new agreements, accounting for 19%. Based on this analysis, the top ten (10) companies controlled a major portion of the market in 2010.



DEMAND FOR NEW TITLE PLEDGE AGREEMENTS

For calendar year 2010, licensees entered into a total of 209,155 new title pledge agreements which does not include renewals of these initial agreements. Of the new agreements written, 81% were for $1000 or less, whereas only 4.7% 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**
$250 or Less	35,037	16.7%
$251 - $500	75,336	36.0%
$501 - $750	29,806	14.3%
$751 - $1000	28,871	13.8%
$1001 - $1250	9,197	4.4%
$1251 - $1500	8,987	4.3%
$1501 - $1750	3,354	1.6%
$1751 - $2000	7,687	3.7%
$2001 - $2250	987	0.5%
$2251 - $2500	9,893	4.7%
Total Number of Agreements	**209,155**	**100%**

ANALYSIS OF AGREEMENTS RENEWED

From the following analysis, 125,503 agreements were renewed during calendar year 2010. Of these, 16% were renewed only one time. The majority, 68%, were renewed seven times or less. In calendar year 2010, of all new agreements entered into, 24,737, representing 12%, were paid in full at the end of the initial term.

Total Number of Agreements Renewed in 2010						
	Number	% of Total			Number	% of Total
1 Time	20,142	16.00%		7 Times	6,667	5.30%
2 Times	17,086	13.60%		8-10 Times	17,588	14.00%
3 Times	14,075	11.20%		11-13 Times	12,533	10.00%
4 Times	10,595	8.40%		14-16 Times	4,467	3.70%
5 Times	9,569	7.60%		17-19 Times	2,493	2.00%
6 Times	7,743	6.20%		20-22 Times	2,545	2.00%

APPLICATION OF PRINCIPAL REDUCTION REQUIREMENTS

Prior to the 2005 amendments to the Act, a title pledge loan could be renewed indefinitely and the interest and fees charged over the life of the loan were unlimited. With the amendments to the Act, and pursuant to T.C.A. § 45-15-113(d), the borrower is required to make a 5% principal reduction beginning with the third renewal of the title pledge agreement. This enables the consumer to reduce the original loan amount by 5% with each payment, resulting in a decrease in interest and fees with each subsequent renewal. All title pledge loan agreements are written for 30 days and are limited to twenty-two (22) renewals over the life of the loan, based on this statutory requirement of a 5% principal reduction.

In the event the consumer 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 must still reduce the outstanding principal balance by 5% per month, beginning with the third renewal, and charge interest and fees based on the reduced principal amount. At year-end 2010, of the 149,908 agreements outstanding, the number of deferred principal reduction payments was 21,378, compared to the number of deferrals reflected in the prior report, which were 16,847. Again, a deferral of the principal reduction indicates the consumer cannot make the scheduled payment. *(Refer to Exhibit A - Title Pledge Amortization Schedule)*

CONSUMER DEFAULT AND BAD DEBT EXPENSE

Title pledge lenders record revenues, under the accrual basis of accounting, when the customer enters into an agreement to borrow money. The customer is legally obligated to pay back the principal, interest and fees. If the customer defaults, the lender's recourse is limited to taking possession of the pledged collateral. In 2010, the industry repossessed 17,140 vehicles due to non-payment. This compares to 14,832 repossessions reflected in the prior report. If the customer fails to redeem the titled property during a twenty-day holding period, the lender has 60 days to sell it. Proceeds from the sale must be applied against the outstanding loan balance and any surplus returned to the borrower. The industry returned a total of $996,982 in surplus to consumers in 2010.

Bad debt expense is an expense associated with a firm's inability to collect accounts receivable, classified usually as an administrative or selling expense. 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. This amount is classified as bad debt expense on the income statement. Sometimes, the lender cannot locate the collateral and, therefore, the entire debt is deemed uncollectible and charged-off against accounts receivable. In 2010, lenders incurred bad debt expense of $18,488,686, due to non-payment of all or part of the original principal balance, representing 14% of total revenues.

ANALYSIS OF PROFITABILITY

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 the company's revenues from operations less business expenses. In the industry, the revenues are made up of interest and customary fees, not to exceed 22% per month by law. Company expenses include, but are not limited to, salaries, repossessions, bad debt expense, and other general expenses, such as rent, utilities, insurance, supplies, and regulation.

When comparing income between entities within the title pledge industry, net income before tax is more comparable than income after tax. The industry is comprised of corporations, limited liability companies, partnerships and sole proprietorships. Although the administrative and operational expenses generally run consistent from one business structure to another, income tax differs because the tax treatment for each business organization varies significantly. For instance, the income of a corporation is taxed first at the corporate level before it is distributed to shareholders whereas proprietorships pay tax on income at the individual tax rate; therefore, "income before tax" is a more appropriate comparative measure. The combined net income before tax for the 179 companies (762 licensed locations) reporting was approximately $26.7 million.

Overall, the title pledge industry earned $127,369,178 in revenues during 2010. Of revenues earned, 39% was paid toward general expenses including, but not limited to, rent, utilities, advertising, regulation and supplies. The next largest expense category for the industry was employee salaries which made up 23% of total revenues. Bad debt and repossession expenses accounted for 17% of revenues with net income making up 21%. Owner compensation was reported to be $9.2 million, or approximately 34% of net income. Although the industry as a whole was profitable, there was a wide disparity in the level of profitability within the industry.

INDUSTRY REVENUES AND EXPENSES FOR 2010

The following tables group the 762 reporting locations into three categories, by number of licensed locations, showing the income and expenses for each. *(Refer to Exhibit B – Industry Revenues and Expenses for Prior Years' Comparison)*

December 31, 2010		
	Companies	**Locations**
Single Location	126	126
Medium 2-25 Licensed Locations	48	262
Large: 26 or More Licensed Locations	5	374
Total	**179**	**762**

Income Statement Summary				
	Industry	**Single Location**	**Medium: 2-25 Locations**	**Large: 26 or More Locations**
Revenues	**$127,369,178**	$ 10,997,491	$ 26,275,596	$ 90,096,091
Employee Salaries	**$ 29,058,158**	$ 2,022,668	$ 6,685,773	$ 20,349,717
Bad Debts	**$ 18,488,686**	$ 1,212,840	$ 2,385,673	$ 14,890,173
Repossession Expense	**$ 3,317,938**	$ 377,711	$ 1,099,740	$ 1,840,487
General Expenses	**$ 49,795,472**	$ 4,292,055	$ 9,907,370	$ 35,596,047
Total Expenses	**$100,660,254**	$ 7,905,274	$ 20,078,556	$ 72,676,424
Net Income Before Tax*	**$ 26,708,924**	$ 3,092,217	$ 6,197,040	$ 17,419,667

*Net income includes the officer/owner compensation total.

Officer/Owner Compensation	**$ 9,207,673**	$ 1,550,275	$ 3,348,166	$ 4,309,232

Percentage of Revenue				
	Industry	**Single Location**	**Medium: 2-25 Locations**	**Large: 26 or More Locations**
Employee Salaries	**23%**	18%	25%	23%
Bad Debts	**14%**	11%	9%	16%
Repossession Expense	**3%**	3%	4%	2%
General Expenses	**39%**	40%	38%	40%
Total Expenses	**79%**	72%	76%	81%
Net Income Before Tax*	**21%**	28%	24%	19%

*Net income before tax (21%) includes the officer/owner compensation. (7%)

Officer/Owner Compensation	**7%**	14%	13%	5%

BREAK-EVEN ANALYSIS

A break-even analysis provides an approximate level of price, or interest and fees in this case, at which there is neither a profit nor a loss. A major component of the break-even analysis is the profit margin. Profit margin illustrates how much of every dollar of gross revenues a company retains in earnings after expenses. The profit margin is calculated by dividing net income by total revenues. Total revenues and expenses reported by the industry as a whole on their financial reports as of December 31, 2010 are noted below. Net income includes compensation for the owners and officers.

Revenues	$127,369,178	100%	
Expenses	$100,660,254	79%	
Net Income	$26,708,924	21%	Profit Margin Ratio

By dividing net income of $26,708,924 by total revenues of $127,369,178 the profit margin ratio of the title pledge industry as a whole was 21%. This means that, on average, for every dollar of revenues made, $.21 went to net income. Net income, often referred to as "the bottom line," is equal to the income a business has after subtracting total expenses from total revenues. It can be distributed among the owners or held by the entity as retained earnings. Of every dollar earned in 2010, $.79 was used to offset business expenses.

COMPANIES CHARGING 22% EXCLUSIVELY

Since the break-even analysis is designed to determine an approximate level of interest and fees necessary to be profitable, it is appropriate to look at those title pledge lenders charging 22% (2% interest/20% customary fee) the maximum amount allowable by law, versus a lower amount. It was determined that 126 companies, (352 locations/46%) charged 22% on all agreements. The following amounts were compiled from their income statements.

Revenues	$28,285,410	100%	
Expenses	$18,561,032	66%	
Net Income	**$ 9,724,378**	**34%**	**Profit Margin Ratio**

Lenders who charged 22% exclusively on their loans reported $28,285,410 in interest and customary fees resulting in a profit margin ratio of 34%. The profit margin ratio of 34% means that for every dollar earned $.34 went to net income. Therefore, a $100 loan at 22%, would earn $22, of which $7.50 ($22 x 34% profit margin ratio) went to net income, and $14.50 ($22 x 66% expense ratio) covered expenses. The following analysis translates the profit margin into the actual amount of interest and fees necessary for the company to break even assuming that costs remain the same as reported.

Revenues	$ 28,285,410	**100%**			22.0%	Rate Cap
Expenses	$ 18,561,032 ÷ $28,285,410 =	**66%**	**x 22%**	=	**14.5%**	**Break Even**
Net Income	$ 9,724,378 ÷ $28,285,410 =	**34%**	**x 22%**	=	7.5%	

On average, it appears that these lenders, charging the maximum allowable rate of 22%, break even at approximately 14.5%.

COMPANIES NOT CHARGING 22% EXCLUSIVELY

Rates for the remaining 53 companies (410 locations/54%) varied from 5% to 22%, and from the following table, \$.83 of every dollar was used to offset expenses; whereas, \$.17 went to profit.

Revenues	\$ 99,083,768	100%	
Expenses	\$ 82,099,222	83%	
Net Income	\$ 16,984,546	17%	Profit Margin Ratio

According to the following charts, it appears that companies charging 22%, exclusively, had a higher profit margin than those averaging lower rates.

COMPARISON OF COMPANIES CHARGING 22% OR LESS

Charging 22% Exclusively		
126 Companies / 352 Locations		
Revenues	\$28,285,410	100%
Expenses	\$18,561,032	66%
Net Income	**\$ 9,724,378**	34%

Not Charging 22% Exclusively		
53 Companies / 410 Locations		
Revenues	\$ 99,083,768	100%
Expenses	\$ 82,099,222	83%
Net Income	**\$ 16,984,546**	17%

A table with the distribution of all Title pledge lenders, throughout the State of Tennessee, is provided at the end of this Report. *(Refer to Exhibit C – Number of Title Pledge Locations by County)*

CONCLUSION

Title pledge lending in Tennessee continues to be a significant segment of the financial services sector. Based on reported information covering calendar year 2010, there were 209,155 new title pledge agreements entered into during the reporting period. This compares to 161,417 new agreements for calendar year 2008, the prior reporting period, and 139,319 new agreements for calendar year 2006. This represents a 30% increase in the number of new agreements since 2008 and a 50% increase since 2006. The total dollar loan volume of these new agreements in 2010 amounted to $158,647,157, compared to $103,074,433 in 2008 and $77,698,729 in 2006. From calendar year 2008 to 2010, the percentage increase in dollar loan volume was 54%, and 104% since 2006.

The largest companies, by number of licensed locations, appear to continue to dominate the industry, as measured by the number of new agreements entered into, accounting for 79% of new agreements during calendar year 2010. However, the 2012 report also reflects that the number of single locations actually increased over the prior reporting period. If it is still the case, as we believe, that the largest companies sometimes offer rates less than 22%, and at times significantly less, then some borrowers may benefit by receiving a lower rate. A lowering of rates could be a consideration that might still permit a segment of the industry to operate, depending on the level of rate reduction. Bad debt expense, as a percentage of revenues, ranges from 9% to 16% according to company size. The industry average for employee salaries is 23% of revenues, and is significantly less for single locations. There appears to be little variance in other expense categories among companies of various size. It may be the case that competitive market forces influence rates and fees in urban areas, where there is a high concentration of title pledge lenders, versus rural areas, where there are comparatively few licensees. Approximately 45% of title pledge lender locations are in five counties (Knox, Hamilton, Davidson, Rutherford, and Shelby). In those areas of the state where there is little or no competition, rates are not likely to move downward by market pressure.

This report cannot make a judgment on the efficiency of licensee operations. Employee salaries and other expenses, including utilities, rent, advertising, and office supplies, have been generally consistent from year-to-year. Bad debt expense has also been generally consistent for the industry as a whole, comprising 16% of revenues for calendar year 2006, 15% of revenues for calendar year 2008 and 14% of revenues for calendar year 2010. As a percentage of revenues, general expenses decreased in 2010 to 79%. This compares to 88% in 2008 and 87% in 2006.

While attention, deservedly so, 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 serious concern and we believe it is often a root problem for some of the ills we see in the financial services sector.

We understand that some individuals are hampered by circumstances outside of their control such as a serious illness that may force a short term need for immediate credit, but we also know anecdotally of individuals who do not understand that title pledge transactions are not meant for long-term financing of basic necessities. Ironically, we have received complaints from borrowers who do not like the principal reduction feature of the Act because it interferes with their desire or need to enter into long term transactions, even though principal reduction helps to prevent such borrowers from being mired in long term debt.

With the exception of 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 and has created an environment that perhaps supports some of the numbers reported herein.

But there is some progress being made. We are certainly glad to see that a personal finance class has become mandatory in Tennessee schools. Financial literacy continues to be an important segment of our core operations, and the Department has reached out with workshops and partnerships with other public and private entities. The Department has worked for many years with organizations such as Smart Tennessee, the Tennessee Jumpstart Coalition, and others that have done much to promote financial literacy. The Department also supports the Tennessee Financial Literacy Commission, the mission of which is to equip Tennesseans to make sound financial decisions when it comes to planning, saving and investing.

As we have for many years, this Department will continue to concentrate on the licensee-focused areas of applications, examinations and enforcement actions. While these three traditional areas of operation are very important, we realize that more attention needs to be placed directly on consumers before the receipt of consumer complaints. Not only is financial literacy a key 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.

Exhibit A

Title Pledge Amortization Schedule

Principal Reduction: $50.00
Amount Financed: $1,000.00
Interest Rate/Customary Fee: 22%

					A	B	C	D	
Transaction Date	Payment or Renewal	Total Paid	To Interest	To Principal	Principal Balance	5% Principal Reduction	Renewal Fee Due Ax22% = C	Minimum Amount Due B+C = D	Renewal Date
1/1/2010	Initial Loan				$1,000.00		$220.00	$220.00	1/31/2010
	(1) Payment	$220.00	$220.00	$0.00	$1,000.00				
1/31/2010	Renewal				$1,000.00		$220.00	$220.00	3/2/2010
	(2) Payment	$220.00	$220.00	$0.00	$1,000.00				
3/2/2010	Renewal				$1,000.00		$220.00	$220.00	4/1/2010
	(3) Payment	$220.00	$220.00	$0.00	$1,000.00				
4/1/2010	Renewal				$1,000.00	$50.00	$220.00	$270.00	5/1/2010
	(4) Payment	$270.00	$220.00	$50.00	$950.00				
5/1/2010	Renewal				$950.00	$50.00	$209.00	$259.00	5/31/2010
	(5) Payment	$259.00	$209.00	$50.00	$900.00				
5/31/2010	Renewal				$900.00	$50.00	$198.00	$248.00	6/30/2010
	(6) Payment	$248.00	$198.00	$50.00	$850.00				
6/30/2010	Renewal				$850.00	$50.00	$187.00	$237.00	7/30/2010
	(7) Payment	$237.00	$187.00	$50.00	$800.00				
7/30/2010	Renewal				$800.00	$50.00	$176.00	$226.00	8/29/2010
	(8) Payment	$226.00	$176.00	$50.00	$750.00				
8/29/2010	Renewal				$750.00	$50.00	$165.00	$215.00	9/28/2010
	(9) Payment	$215.00	$165.00	$50.00	$700.00				
9/28/2010	Renewal				$700.00	$50.00	$154.00	$204.00	10/28/2010
	(10) Payment	$204.00	$154.00	$50.00	$650.00				
10/28/2010	Renewal				$650.00	$50.00	$143.00	$193.00	11/27/2010
	(11) Payment	$193.00	$143.00	$50.00	$600.00				
11/27/2010	Renewal				$600.00	$50.00	$132.00	$182.00	12/27/2010
	(12) Payment	$182.00	$132.00	$50.00	$550.00				
12/27/2010	Renewal				$550.00	$50.00	$121.00	$171.00	1/26/2011
	(13) Payment	$171.00	$121.00	$50.00	$500.00				
1/26/2010	Renewal				$500.00	$50.00	$110.00	$160.00	2/25/2011
	(14) Payment	$160.00	$110.00	$50.00	$450.00				
2/25/2011	Renewal				$450.00	$50.00	$99.00	$149.00	3/27/2011
	(15) Payment	$149.00	$99.00	$50.00	$400.00				
3/27/2010	Renewal				$400.00	$50.00	$88.00	$138.00	4/26/2011
	(16) Payment	$138.00	$88.00	$50.00	$350.00				
4/26/2010	Renewal				$350.00	$50.00	$77.00	$127.00	5/26/2011
	(17) Payment	$127.00	$77.00	$50.00	$300.00				
5/26/2010	Renewal				$300.00	$50.00	$66.00	$116.00	6/25/2011
	(18) Payment	$116.00	$66.00	$50.00	$250.00				
6/25/2010	Renewal				$250.00	$50.00	$55.00	$105.00	7/25/2011
	(19) Payment	$105.00	$55.00	$50.00	$200.00				
7/25/2011	Renewal				$200.00	$50.00	$44.00	$94.00	8/24/2011
	(20) Payment	$94.00	$44.00	$50.00	$150.00				
8/24/2011	Renewal				$150.00	$50.00	$33.00	$83.00	9/23/2011
	(21) Payment	$83.00	$33.00	$50.00	$100.00				
9/23/2011	Renewal				$100.00	$50.00	$22.00	$72.00	10/23/2011
	(22) Payment	$72.00	$22.00	$50.00	$50.00				
10/23/2011	Renewal				$50.00	$50.00	$11.00	$61.00	11/23/2011
	(23) Payment	$61.00	$11.00	$50.00					
	TOTAL	$3,970.00	$2,970.00	$1,000.00					

Exhibit B - Industry Revenues and Expenses for Prior Years' Comparison

	175 Companies 672 Locations		173 Companies 700 Locations		179 Companies 762 Locations	
	Calendar 2006	**Percentage of Revenue**	**Calendar 2008**	**Percentage of Revenue**	**Calendar 2010**	**Percentage of Revenue**
Revenues	$72,125,249		$93,399,478		$127,369,178	
Employee Salaries	$15,891,949	22%	$23,771,821	25%	$29,058,158	23%
Bad Debts	$11,394,220	16%	$13,619,798	15%	$18,488,686	14%
Repossession Expense	$3,227,022	4%	$2,538,526	3%	$3,317,938	3%
General Expenses	$32,291,558	45%	$42,000,449	45%	$49,795,472	39%
Total Expenses	$62,804,749	87%	$81,930,594	88%	$100,660,254	79%
Net Income Before Tax*	$9,320,500	13%	$11,468,884	12%	$26,708,924	21%
* This number includes officer/owner compensation						
Officer/Owner Compensation	**$5,164,888**	**7%**	**$7,418,578**	**8%**	**$9,207,673**	**7%**

Exhibit C - Number of Title Pledge Locations by County

COUNTY	Title Pledge Locations	COUNTY	Title Pledge Locations
ANDERSON	5	LAUDERDALE	2
BEDFORD	9	LAWRENCE	8
BENTON	2	LEWIS	3
BLEDSOE	1	LINCOLN	4
BLOUNT	11	LOUDON	7
BRADLEY	12	MACON	4
CAMPBELL	6	MADISON	20
CANNON	3	MARION	4
CARROLL	6	MARSHALL	5
CARTER	4	MAURY	16
CHEATHAM	4	MCMINN	12
CHESTER	3	MCNAIRY	5
CLAIBORNE	6	MEIGS	0
CLAY	0	MONROE	6
COCKE	6	MONTGOMERY	16
COFFEE	11	MOORE	0
CROCKETT	0	MORGAN	3
CUMBERLAND	8	OBION	7
DAVIDSON	82	OVERTON	3
DECATUR	2	PERRY	1
DEKALB	3	PICKETT	1
DICKSON	14	POLK	1
DYER	6	PUTNAM	14
FAYETTE	4	RHEA	5
FENTRESS	1	ROANE	5
FRANKLIN	8	ROBERTSON	11
GIBSON	13	RUTHERFORD	34
GILES	4	SCOTT	2
GRAINGER	0	SEQUATCHIE	4
GREENE	12	SEVIER	6
GRUNDY	2	SHELBY	154
HAMBLEN	7	SMITH	2
HAMILTON	45	STEWART	1
HANCOCK	0	SULLIVAN	21
HARDEMAN	3	SUMNER	24
HARDIN	4	TIPTON	6
HAWKINS	2	TROUSDALE	2
HAYWOOD	4	UNICOI	1
HENDERSON	7	UNION	0
HENRY	4	VAN BUREN	0
HICKMAN	1	WARREN	9
HOUSTON	2	WASHINGTON	11
HUMPHREYS	4	WAYNE	1
JACKSON	1	WEAKLEY	5
JEFFERSON	5	WHITE	5
JOHNSON	2	WILLIAMSON	4
KNOX	32	WILSON	16
LAKE	0		