STATE OF TENNESSEE
DEPARTMENT OF FINANCIAL INSTITUTIONS
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BILL HASLAM
GOVERNOR

GREG GONZALES
COMMISSIONER

April 12, 2016

The Honorable Bill Haslam
Governor
State of Tennessee

The Honorable Members of the 109th 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 attached Report will serve to fulfill the Department's reporting obligations under the Act.

Respectfully submitted,

Greg Gonzales

2016 Report on the Title Pledge Industry

Tennessee Department of Financial Institutions| Title Pledge Report| March 2016

Table of Contents

Regulatory Overview

The activities of Title Pledge Lenders are governed by the Tennessee Title Pledge Act ("Act"), codified at Tennessee Code Annotated ("TENN. CODE ANN.") Title 45, Chapter 15. This report is provided pursuant to TENN. CODE ANN. § 45-15-109(c)(5), requiring a biennial analysis and recapitulation of the reports of calendar year 2014, 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 audits 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, Flexible Credit Companies, Industrial Loan and Thrift Companies, Insurance Premium Finance Companies, Money Transmission Companies, Residential Mortgage Lenders, Brokers, Servicers and Mortgage Loan Originators.

Licensing

Each application must meet the licensing eligibility requirements of TENN. CODE ANN. § 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 complete application. Each application for a license must be accompanied by a nonrefundable supervision fee, as provided in TENN. CODE ANN. § 45-1-118(i). A supervision fee of $629 per location is required at the time of filing for calendar year 2016. 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.

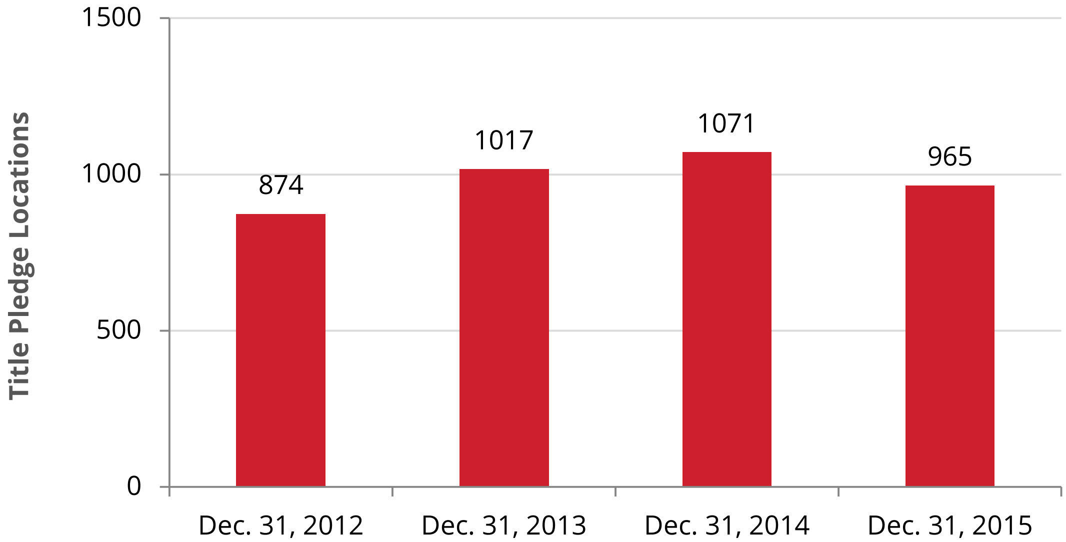

Figure 1. Title Pledge Locations Prior Years' Comparison

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.

Risk Focused Examination Program

The Compliance Division has established a risk focused regulatory program for non-depository financial institutions that bases regulatory scrutiny on compliance benchmarks. The primary focus was to develop a method of identifying characteristics within a licensed entity that would allow for an allocation of exam resources based on the potential risk of harm to the consumer. Companies showing a need for greater regulatory scrutiny would be identified and examined with a greater frequency. Likewise, companies showing a low risk to consumer would need less regulatory scrutiny.

The risk program ensures compliance with governing law, but also considers various risk factors that have been determined are most relative to the potential for consumer harm such as prior exam results, repeat violations, violations leading to refunds, management experience, employee training and whether appropriate risk management systems are in place.

This rating system will allow the Department to focus on licensees that appear to have the greatest risk. The goal of the Compliance Division is to assist management in reducing risk to consumers and helping licensees to be more successful.

Examination, Corrective Actions and Refunds

The regulatory oversight of licensees includes on-site compliance examinations conducted pursuant to TENN. CODE ANN. § 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 document and present the examination findings to the licensee in a written report. The Department requests each licensee 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 of Examinations for appropriate follow-up action.

Based on examinations, lenders are not charging more than the statutory limit of 2% per month of interest, and a customary fee of no more than 1/5 of the principal amount of the loan; however refunds were made due to other violations of the Act. In calendar years 2014 and 2015 the Department conducted 1,674 examinations, resulting in refunds of $271,169.08. During the same period the Department initiated 42 enforcement actions against Title Pledge Lenders resulting in civil money penalties totaling $27,158.79. The more prevalent examination findings are noted below.

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/Disclosures

- 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) Unauthorized Charges

- A title pledge lender may contract for and receive an effective interest rate not to exceed 2% per month plus a customary fee of no more than 1/5 of the original principal amount or of the total unpaid balance due at renewal. 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.

4) 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.

5) Exceeding $2500 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 $2500 when secured by a single certificate of title.

Consumer Complaints

One of the purposes of the Consumer Resources Section is to investigate and attempt 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. The Department will take appropriate action, once the complaint is fully investigated.

For calendar years 2014 and 2015 the Consumer Resources Section processed forty-one (41) complaints involving title pledge lenders, as compared to thirty-one (31) in 2012, and 29 in 2013. Twenty-five (25) complaints were investigated in 2014, of which seventy-two percent (72%) concerned the following issues.

Complaint	Total
• Repossession Issues	5
• Title Pledge Overpayments	5
• Customer Service Issues	3
• Failure to Release Lien	3
• Misrepresentation of Loan Terms	2

In 2015, the Consumer Resources Section investigated 16 complaints. The more frequent ones, sixty – two percent (62%), concerned the following issues.

Complaint	Total
• Repossession Issues	3
• Customer Service Issues	2
• Pay History Disputes	2
• Privacy Issues	2
• Dispute of Verbal Agreement	1

Service complaints, as compared to violations of the Act, are very difficult to substantiate since they are much more subjective. The complaints for 2014 resulted in refunds of $551. There were no refunds in 2015. The refunds from customer complaints are in addition to the refunds required from examinations.

Analysis of Operations

The data which follows was compiled from information provided by 149 title pledge lenders, representing 951 locations in Tennessee, and reflects the general results of operations for calendar year 2014. All renewing licensees that were required to file annual reports complied with this requirement.

TENN. CODE ANN. § 45-15-106(i) provides that the licensing year shall end on December 31. The license renewal application must be filed with the Department on or before December 1. Licensees must submit, together with the renewal applications, supplemental financial reports for the preceding calendar year. This information, submitted for 2014, contributed to the data analysis and results of operations presented in the following tables and graphs.

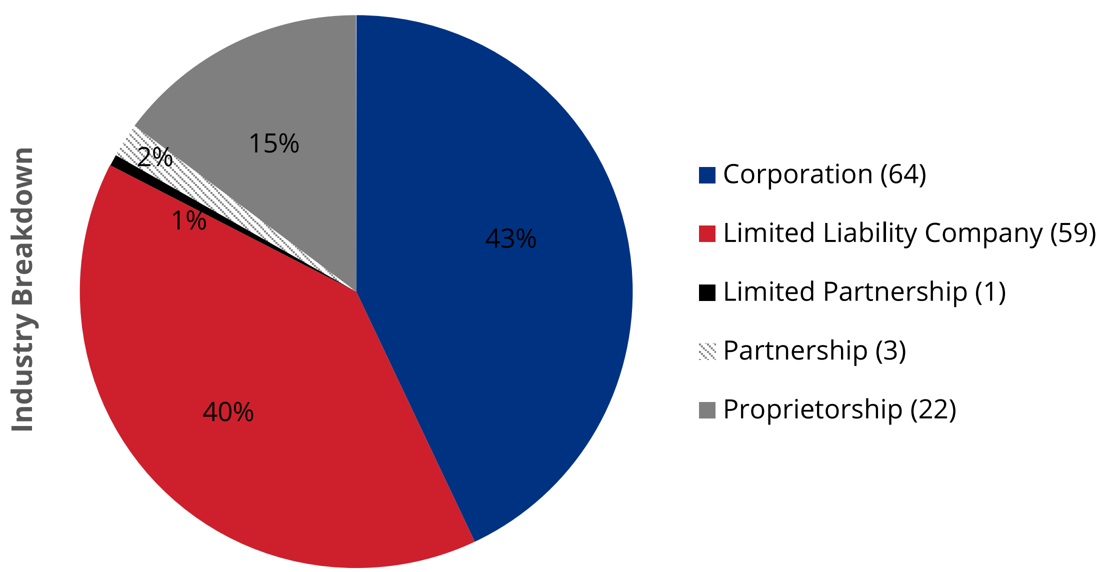

Figure 2. Industry Breakdown by Business Structure

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. TENN. CODE ANN. § 45-15-109(c)(1)(D), requires a licensee to submit financial statements prepared by a nonaffiliated CPA, or public accounting firm and consistent with generally accepted accounting practices.

Market Share

Title pledge lenders entered into 250,257 new agreements with consumers in calendar year 2014, representing $230,652,734 in loan volume. As illustrated in the chart below, the top ten (10) companies, based on the number of locations in Tennessee, accounted for 647 or 68% of the 951 reporting locations. These top ten (10) companies entered into 200,188 new agreements, representing 80% of the market share. The remaining 139 reporting entities, representing 304 locations or 32% of total locations, entered into 50,069 of the new agreements, accounting for 20%. From this analysis, the top ten (10) companies controlled a major portion of the market in 2014.

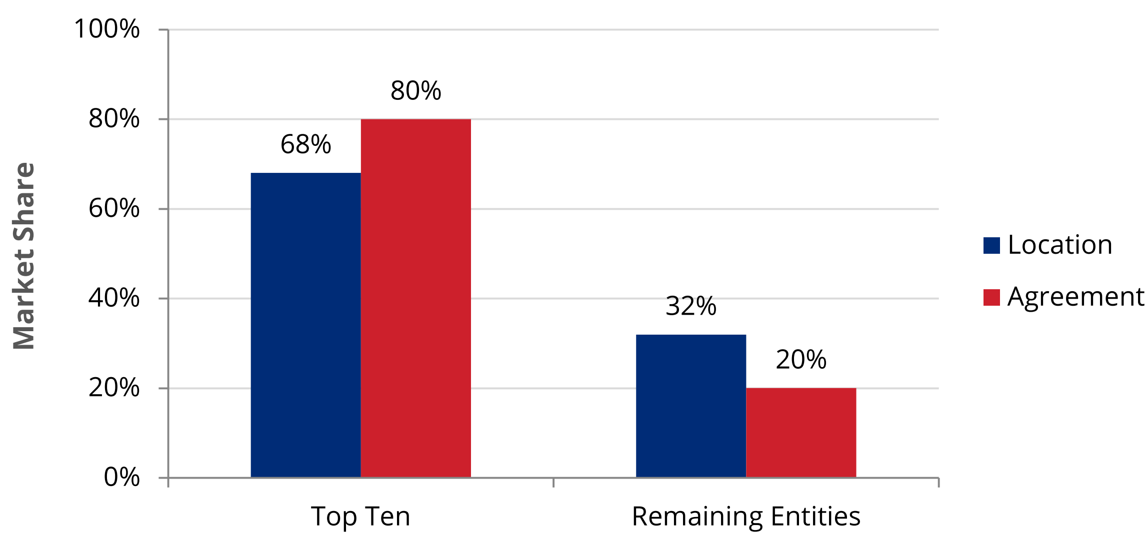

Figure 3. Market Share Breakdown, Comparison of Top Ten Companies & Remaining Entities

Demand for New Title Pledge Agreements

For calendar year 2014, licensees entered into a total of 250,257 new title pledge agreements which does not include renewals of these initial agreements. Of the new agreements written, 74% were for $1000 or less, whereas 6% 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	26,185	10%
$251 - $500	74,420	30%
$501 - $750	39,455	16%
$751 - $1,000	44,195	18%
$1,001 - $1,250	14,544	6%
$1,251 - $1,500	17,401	7%
$1,501 - $1,750	5,584	2%
$1,751 - $2,000	11,476	5%
$2,001 - $2,250	1,573	1%
$2,251 - $2,500	15,424	6%
Total Number of Agreements	**250,257**	**100%**

Figure 4. Breakdown of New Agreements by Loan Amount

Analysis of Agreements Renewed

From the following analysis, 163,040 agreements were renewed during calendar year 2014. Of these, approximately 14% were renewed only one time. The majority, 61%, were renewed seven times or less. Of the total number of agreements entered into in 2014, 27,685, or 15%, were paid in full after 30 days without renewing.

Total Number of Agreements Renewed in 2014					
	Number	% of Total		Number	% of Total
1 Time	22,049	14%	12 Times	3,995	2%
2 Times	18,609	11%	13 Times	3,841	2%
3 Times	15,652	10%	14 Times	3,678	2%
4 Times	13,051	8%	15 Times	3,468	2%
5 Times	11,343	7%	16 Times	3,102	2%
6 Times	10,153	6%	17 Times	2,928	2%
7 Times	8,854	5%	18 Times	2,667	2%
8 Times	7,633	5%	19 Times	2,641	2%
9 Times	7,942	5%	20 Times	3,008	2%
10 Times	9,155	6%	21 Times	3,313	2%
11 Times	5,107	3%	22 Times	851	1%

Figure 5. Total Number of Agreements Renewed in 2014

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 TENN. CODE ANN. § 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. For year-end 2014, the number of deferred principal reduction payments was 30,452, compared to 25,153 deferrals in 2012. 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

Under the accrual basis of accounting, title pledge lenders record revenue 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 2014, the industry took possession of 24,408 vehicles due to non-payment, compared to 21,947 in 2012. 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 surplus of $710,595 to consumers in 2014, compared to $996,749 in 2012.

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 revenue. In 2014, lenders incurred bad debt expense of $43,099,679, due to non-payment of all or part of the original principal balance, representing 23% 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 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 a more pertinent measure than income after tax. Corporations, limited liability companies, partnerships and sole proprietorships essentially make up the title pledge industry. Although the administrative and operational expenses normally run consistent throughout the industry, the tax treatment from one business type to another may vary significantly. For instance, the income of a corporation is taxed 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 when analyzing profitability. The combined net income before tax, including owner compensation for the 149 companies (951 licensed locations) reporting was $49,616,360.

In 2014, the amount of revenue earned was $188,561,805. Of this amount, 28% 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 bad debt which made up 23% of total revenues. Owner compensation was reported to be $5,617,403, or approximately 11% 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 2014

The following tables group the 951 reporting locations into three categories, by number of licensed locations, showing the income and expenses for each.

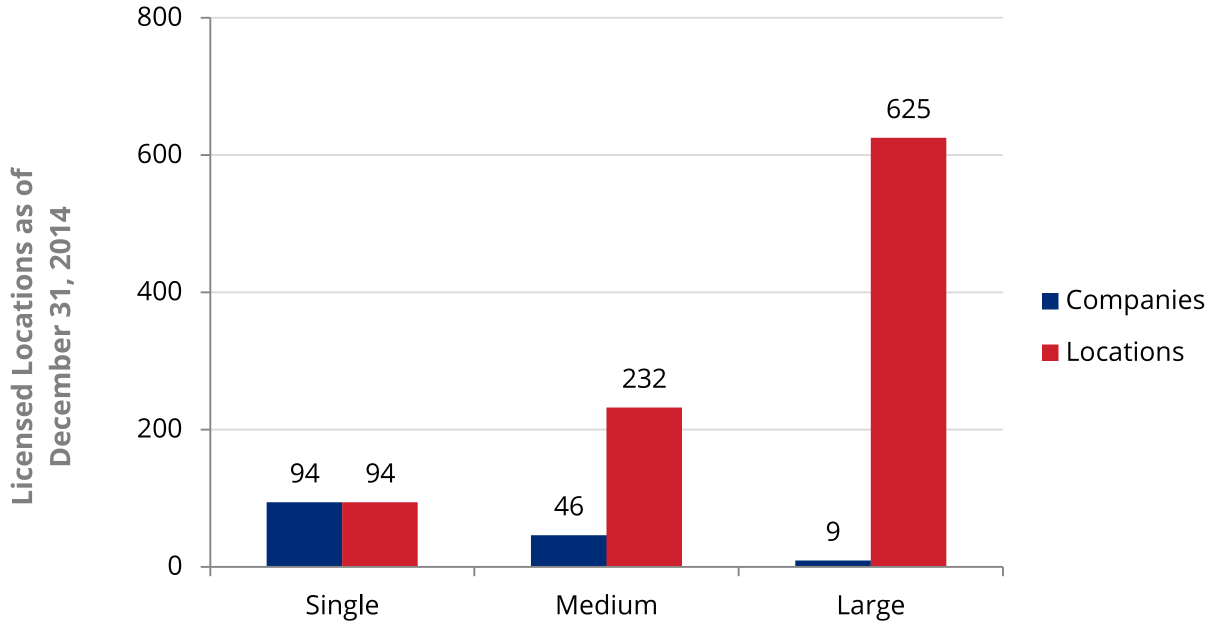

Figure 6. Breakdown of Companies by Number of Licensed Locations. Medium 2-25 Licensed Locations, Large 26 or More Licensed Locations

Income Statement Summary				
	Industry	Single	Medium	Large
Revenue	$ 188,561,805	$ 7,696,631	$ 25,525,861	$ 155,339,313
Employee Salary	$ 37,383,923	$ 1,571,130	$ 7,629,650	$ 28,183,143
Bad Debt	$ 43,099,679	$ 1,031,742	$ 4,385,799	$ 37,682,138
Repossession Expense	$ 6,134,853	$ 308,986	$ 1,090,014	$ 4,735,853
General Expense	$ 52,326,990	$ 2,982,754	$ 8,406,425	$ 40,937,811
Total Expense	$ 138,945,445	$ 5,894,612	$ 21,511,888	$ 111,538,945
Net Income Before Tax*	$ 49,616,360	$ 1,802,019	$ 4,013,973	$ 43,800,368
*Net Income Before Tax **Includes** Officer/Owner Compensation				
Officer/Owner Compensation	$ 5,617,403	$ 1,464,874	$ 1,622,105	$ 2,530,424

Percentage of Revenue				
	Industry	Single	Medium	Large
Employee Salary	20%	20%	30%	18%
Bad Debt	23%	13%	17%	24%
Repossession Expense	3%	4%	4%	3%
General Expense	28%	39%	33%	26%
Total Expense	74%	77%	84%	72%
Net Income Before Tax*	26%	23%	16%	28%
*Net Income Before Tax **Includes** Officer/Owner Compensation				
Officer/Owner Compensation	3%	19%	6%	2%

Figure 7. Income Statement Summary by Number of Licensed Locations.

Break-Even Analysis

A break-even analysis provides an approximate level of price, or, for this report, interest and fees, at which there is neither a profit nor a loss. A major component of the break-even analysis is the profit margin. The profit margin ratio measures how much of every dollar of revenues a company keeps after expenses. The industry, as a whole, reported the following amounts on their financial reports as of December 31, 2014:

Revenue	$	188,561,805	100%	
Expense	$	138,945,445	74%	
Net Income	$	49,616,360	26%	Profit Margin Ratio

In 2014, the title pledge industry had a profit margin ratio of 26%, calculated as net income of $49,616,360 divided by revenues of $188,561,805. This means that, on average, for every dollar of revenue earned, $.26 went to net income; whereas, $.74 was used to offset business expenses. Net income, often referred to as the “bottom line”, can be distributed among the owners or held as retained earnings.

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 80 companies, (331 locations/35%) charged 22% on all agreements. The following amounts were compiled from their income statements.

Revenue	$	21,154,785	100%	
Expense	$	12,468,725	59%	
Net Income	$	8,686,060	41%	Profit Margin Ratio

Lenders who charged 22% exclusively on their loans reported $21,154,785 in interest and customary fees resulting in a profit margin ratio of 41%. The profit margin ratio of 41% means that for every dollar earned $.41 went to net income. Therefore, a $100 loan at 22%, would earn $22, of which $9.02 ($22 x 41% profit margin ratio) went to net income, and $12.98 ($22 x 59% 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.

Revenue	$	21,154,785									22%	Rate Cap.
Expense	$	12,468,725	÷	$	21,154,785	=	59%	x	22%	=	13%	Break-Even
Net Income	$	8,686,060	÷	$	21,154,785	=	41%	x	22%	=	9%	

In 2014, it appears, on average, that the break-even for lenders charging 22% exclusively was 13%.

Companies Not Charging 22% Exclusively

Rates for the remaining 69 companies (620 locations/65%) varied from 4% to 22%, and from the following table, $.76 of every dollar was used to offset expenses; whereas, $.24 went to profit.

Revenue	$	167,407,020	100%	
Expense	$	126,476,720	76%	
Net Income	$	40,930,300	24%	Profit Margin Ratio

Lenders who did not charge 22% exclusively on their loans reported $167,407,020 in interest and customary fees resulting in a profit margin ratio of 24%. The profit margin ratio of 24% means that for every dollar earned $.24 went to net income. Therefore, a $100 loan at 22%, would earn $22, of which $5.28 ($22 x 24% profit margin ratio) went to net income, and $16.72 ($22 x 76% 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.

Revenue	$	167,407,020									22%	Rate Cap.
Expense	$	126,476,720	÷	$	167,407,020	=	76%	x	22%	=	17%	Break-Even
Net Income	$	40,930,300	÷	$	167,407,020	=	24%	x	22%	=	5%	

Comparison of Companies Charging 22% or Less

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

Charging 22% Exclusively			
80 Companies / 331 Locations			
Revenue	$	21,154,785	100%
Expense	$	12,468,725	59%
Net Income	**$**	**8,686,060**	**41%**

Not Charging 22% Exclusively			
69 Companies / 620 Locations			
Revenue	$	167,407,020	100%
Expense	$	126,476,720	76%
Net Income	**$**	**40,930,300**	**24%**

Figure 8. Comparison of Companies Charging 22% Exclusively to Companies Not Charging 22% Exclusively.

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 For 2015).

Conclusion

Title Pledge lending in Tennessee continues to be a significant segment of the financial services sector. Based on reported information covering calendar year 2014, there were 250,257 new title pledge agreements entered into during the reporting period. This compares to 233,424 new agreements for calendar year 2012 and 209,155 new agreements for calendar year 2010. This represents a 7% increase in the number of new agreements since 2012 and a 20% increase since 2010. The total dollar loan volume of these new agreements in 2014 amounted to $230,652,734, compared to $202,547,916 in 2012 and $158,647,157 in 2010. From calendar year 2012 to 2014, the percentage increase in dollar loan volume was 14% and 45% since 2010.

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 80% of new agreements during 2014. The number of locations for the top ten companies increased from 602, in 2012, to 647, in 2014; whereas, the number of single location licensees decreased from 111 to 94, respectively. We believe that the largest companies frequently offer rates less than 22%, often at times significantly less. 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, ranged from 13% to 24%, whereas, the industry average for employee salaries was 20%. There appears to be little variance in the other expense categories among companies of various sizes. 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. Currently, 42% of title pledge lender locations are in five counties (Knox, Hamilton, Davidson, Rutherford, and Shelby). Please refer to Exhibit C for a complete list of the counties and the corresponding number of locations. 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, are generally consistent from year-to-year. Bad debt expense for the industry as a whole, comprising 23% of revenues for calendar year 2014, 15% of revenues for calendar year 2012 and 14% of revenues for calendar year 2010. As a percentage of revenues, total expenses decreased from 75% in 2012, to 74% in 2014. This compares to 79% in 2010 and 88% in 2008.

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.

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 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 and is a member of 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. The Tennessee Financial Literacy Commission reports that a number of teachers and children have been reached through their efforts to train Tennessee teachers. 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.

At the writing of this report, we are awaiting the release of rules by the Consumer Financial Protection Bureau that according to the Bureau's own economic impact study could affect the ability of the title pledge and other industries to survive in large part.

In light of this the Department is focused on a three (3) part response. First, we are working with depository institutions in Tennessee to determine if some might be in a position to increase small dollar loans to the public. Second, more efforts should be placed on financial literacy and we will work with the Tennessee Financial Literacy Commission to determine what could be done in that regard. Finally, the Department has created a new Risk Focus Exam program that allows us to risk profile over 5,000 non-bank licensees as to potential consumer risk. This program is giving us the data to expedite examinations of high risk companies by deferring exams to an extent on low risk licensees. Examining high risk licensees more often helps consumers and the industry alike. Over time, the goal is to demonstrate improvement in the risk profile of entire industries.

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. The risk focus program is intended to help provide fair and appropriate access to credit for all citizens.

Exhibits

Exhibit A

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

Title Pledge Amortization Schedule									
					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
1/1/2014	Initial Loan				$1,000.00		$220.00	$220.00	1/31/2014
	(1) Payment	$220.00	$220.00	$0.00	$1,000.00				
1/31/2014	Renewal				$1,000.00		$220.00		3/2/2014
	(2) Payment	$220.00	$220.00	$0.00	$1,000.00				
3/2/2014	Renewal				$1,000.00		$220.00		4/1/2014
	(3) Payment	$220.00	$220.00	$0.00	$1,000.00				
4/1/2014	Renewal				$1,000.00	$50.00	$220.00	$270.00	5/1/2014
	(4) Payment	$270.00	$220.00	$50.00	$950.00				
5/1/2014	Renewal				$950.00	$50.00	$209.00	$259.00	5/31/2014
	(5) Payment	$259.00	$209.00	$50.00	$900.00				
5/31/2014	Renewal				$900.00	$50.00	$198.00	$248.00	6/30/2014
	(6) Payment	$248.00	$198.00	$50.00	$850.00				
6/30/2014	Renewal				$850.00	$50.00	$187.00	$237.00	7/30/2014
	(7) Payment	$237.00	$187.00	$50.00	$800.00				
7/30/2014	Renewal				$800.00	$50.00	$176.00	$226.00	8/29/2014
	(8) Payment	$226.00	$176.00	$50.00	$750.00				
8/29/2014	Renewal				$750.00	$50.00	$165.00	$215.00	9/28/2014
	(9) Payment	$215.00	$165.00	$50.00	$700.00				
9/28/2014	Renewal				$700.00	$50.00	$154.00	$204.00	10/28/2014
	(10) Payment	$204.00	$154.00	$50.00	$650.00				
10/28/2014	Renewal				$650.00	$50.00	$143.00	$193.00	11/27/2014
	(11) Payment	$193.00	$143.00	$50.00	$600.00				
11/27/2014	Renewal				$600.00	$50.00	$132.00	$182.00	12/27/2014
	(12) Payment	$182.00	$132.00	$50.00	$550.00				
12/27/2014	Renewal				$550.00	$50.00	$121.00	$171.00	1/26/2015
	(13) Payment	$171.00	$121.00	$50.00	$500.00				
1/26/2015	Renewal				$500.00	$50.00	$110.00	$160.00	2/25/2015
	(14) Payment	$160.00	$110.00	$50.00	$450.00				
2/25/2015	Renewal				$450.00	$50.00	$99.00	$149.00	3/27/2015
	(15) Payment	$149.00	$99.00	$50.00	$400.00				
3/27/2015	Renewal				$400.00	$50.00	$88.00	$138.00	4/26/2015
	(16) Payment	$138.00	$88.00	$50.00	$350.00				
4/26/2015	Renewal				$350.00	$50.00	$77.00	$127.00	5/26/2015
	(17) Payment	$127.00	$77.00	$50.00	$300.00				
5/26/2015	Renewal				$300.00	$50.00	$66.00	$116.00	6/25/2015
	(18) Payment	$116.00	$66.00	$50.00	$250.00				
6/25/2015	Renewal				$250.00	$50.00	$55.00	$105.00	7/25/2015
	(19) Payment	$105.00	$55.00	$50.00	$200.00				
7/25/2015	Renewal				$200.00	$50.00	$44.00	$94.00	8/24/2015
	(20) Payment	$94.00	$44.00	$50.00	$150.00				
8/24/2015	Renewal				$150.00	$50.00	$33.00	$83.00	9/23/2015
	(21) Payment	$83.00	$33.00	$50.00	$100.00				
9/23/2015	Renewal				$100.00	$50.00	$22.00	$72.00	10/23/2015
	(22) Payment	$72.00	$22.00	$50.00	$50.00				
10/23/2015	Renewal				$50.00	$50.00	$11.00	$61.00	11/22/2015
	(23) Payment	$61.00	$11.00	$50.00					
	Total	**$3,970.00**	**$2,970.00**	**$1,000.00**					

Exhibits

Exhibit B

Income Statement Summary for Prior Years' Comparison						
	Calendar 2010		Calendar 2012		Calendar 2014	
	179 Companies	762 Locations	171 Companies	957 Locations	149 Companies	951 Locations
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenue	$ 127,369,178		$ 168,521,593		$ 188,561,805	
Employee Salary	$ 29,058,158	23%	$ 37,990,528	23%	$ 37,383,923	20%
Bad Debt	$ 18,488,686	14%	$ 25,564,822	15%	$ 43,099,679	23%
Repossession Expense	$ 3,317,938	3%	$ 5,833,787	3%	$ 6,134,853	3%
General Expense	$ 49,795,472	39%	$ 56,823,234	34%	$ 52,326,990	28%
Total Expense	$ 10,060,254	79%	$ 126,212,371	75%	$ 138,945,445	74%
Net Income Before Tax*	$ 26,708,924	21%	$ 42,309,222	25%	$ 49,616,360	26%

*Net Income Before Tax **Includes** Officer/Owner Compensation

Officer/Owner Compensation	$ 9,207,673	7%	$ 9,091,223	5%	$ 5,617,403	3%

Exhibits

Exhibit C

Number Of Title Pledge Licensed Locations by County for 2015							
County	Licensed Locations	County Population	Ratio of Locations to Population	County	Licensed Locations	County Population	Ratio of Locations to Population
Anderson	8	75,129	0.011%	Lauderdale	2	27,815	0.007%
Bedford	10	45,058	0.022%	Lawrence	11	41,869	0.026%
Benton	2	16,489	0.012%	Lewis	4	12,161	0.033%
Bledsoe	1	12,876	0.008%	Lincoln	8	33,361	0.024%
Blount	12	123,010	0.010%	Loudon	7	48,556	0.014%
Bradley	17	98,963	0.017%	Macon	4	22,248	0.018%
Campbell	7	40,716	0.017%	Madison	20	98,294	0.020%
Cannon	3	13,801	0.022%	Marion	7	28,237	0.025%
Carroll	3	28,522	0.011%	Marshall	6	30,617	0.020%
Carter	6	57,424	0.010%	Maury	21	80,956	0.026%
Cheatham	4	39,105	0.010%	McMinn	14	52,266	0.027%
Chester	2	17,131	0.012%	McNairy	3	26,075	0.012%
Claiborne	5	32,213	0.016%	Meigs	1	11,753	0.009%
Clay	1	7,861	0.013%	Monroe	11	44,519	0.025%
Cocke	7	35,662	0.020%	Montgomery	27	172,331	0.016%
Coffee	13	52,796	0.025%	Moore	0	6,362	0.000%
Crockett	0	14,586	0.000%	Morgan	3	21,987	0.014%
Cumberland	9	56,053	0.016%	Obion	7	31,807	0.022%
Davidson	108	626,681	0.017%	Overton	4	22,083	0.018%
Decatur	2	11,757	0.017%	Perry	1	7,915	0.013%
Dekalb	3	18,723	0.016%	Pickett	1	5,077	0.020%
Dickson	12	49,666	0.024%	Polk	2	16,825	0.012%
Dyer	7	38,335	0.018%	Putnam	17	72,321	0.024%
Fayette	4	38,413	0.010%	Rhea	7	31,809	0.022%
Fentress	1	17,959	0.006%	Roane	10	54,181	0.018%
Franklin	6	41,052	0.015%	Robertson	12	66,283	0.018%
Gibson	11	49,683	0.022%	Rutherford	44	262,604	0.017%
Giles	5	29,485	0.017%	Scott	3	22,228	0.013%
Grainger	0	22,657	0.000%	Sequatchie	5	14,112	0.035%
Greene	12	68,831	0.017%	Sevier	11	89,889	0.012%
Grundy	1	13,703	0.007%	Shelby	146	927,644	0.016%
Hamblen	8	62,544	0.013%	Smith	2	19,166	0.010%
Hamilton	59	336,463	0.018%	Stewart	1	13,324	0.008%
Hancock	1	6,819	0.015%	Sullivan	22	156,823	0.014%
Hardeman	3	27,253	0.011%	Sumner	19	160,645	0.012%
Hardin	4	26,026	0.015%	Tipton	7	61,081	0.011%
Hawkins	5	56,833	0.009%	Trousdale	2	7,870	0.025%
Haywood	3	18,787	0.016%	Unicoi	3	18,313	0.016%
Henderson	4	27,769	0.014%	Union	0	19,109	0.000%
Henry	3	32,330	0.009%	Van Buren	0	5,548	0.000%
Hickman	1	24,690	0.004%	Warren	8	39,839	0.020%
Houston	1	8,426	0.012%	Washington	18	122,979	0.015%
Humphreys	3	18,538	0.016%	Wayne	2	17,021	0.012%
Jackson	1	11,638	0.009%	Weakley	3	35,021	0.009%
Jefferson	8	51,407	0.016%	White	5	25,841	0.019%
Johnson	2	18,244	0.011%	Williamson	5	183,182	0.003%
Knox	45	432,226	0.010%	Wilson	16	113,993	0.014%
Lake	0	7,832	0.000%				