STATE OF TENNESSEE
DEPARTMENT OF FINANCIAL INSTITUTIONS
TENNESSEE TOWER, 26TH FLOOR
312 ROSA L. PARKS AVENUE
NASHVILLE, TENNESSEE 37243
(615) 741-2236 FAX (615) 253-7794

BILL HASLAM
GOVERNOR

GREG GONZALES
COMMISSIONER

April 23, 2018

The Honorable Bill Haslam
Governor
State of Tennessee

The Honorable Members of the 110th 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

2018 Report on the Title Pledge Industry

Tennessee Department of Financial Institutions | Title Pledge Report | April 2018

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 annual report data submitted by licensees for calendar year 2016, for the purpose of reflecting the general results of operations of the industry. As part of the annual report and renewal 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 audits of reports provided.

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 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, Home Equity Conversion (Reverse) Mortgage Lenders, 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 $625 per location is required at the time of filing for calendar year 2018. 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.

Effective August 1, 2017, the Department began using the Nationwide Multistate Licensing System (NMLS) to manage title pledge lender licenses. Through NMLS, entities can apply for, amend, and renew their Tennessee title pledge lender license authority conveniently and safely online. NMLS is a secure, web-based system created by state regulators to provide efficiencies in the processing of state licenses and to improve supervision of state regulated industries.

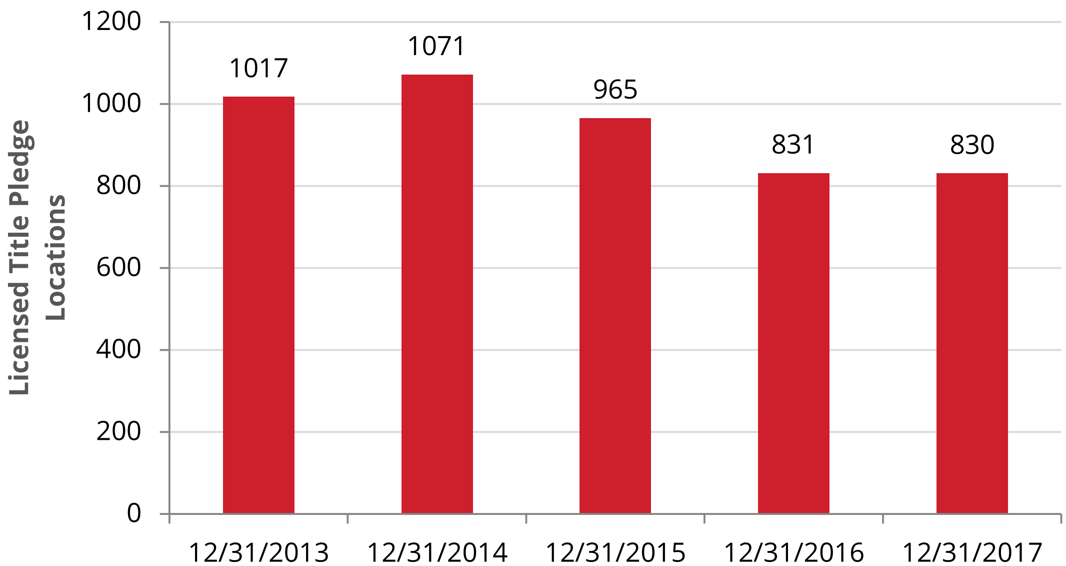

Figure 1. Licensed Title Pledge Locations

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 exam frequency 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 consumers would have an extended exam frequency.

The risk program ensures compliance with governing law, but also considers various risk factors that have been determined to be related 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 allows the Department to focus on licensees that appear to have the greatest risk. The goal of the Compliance Division is to assist licensee management in reducing risk to consumers and helping licensees become more successful in serving consumer needs.

Examinations, Corrective Actions, and Refunds

The regulatory oversight of licensees includes 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. 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 lender to respond in writing to each violation cited in the examination, detailing the actions taken to correct all violations. Most violations are resolved through the response process. However, unresolved issues, systemic problems, significant refunds, unlicensed activity, repeat violations, and/or apparent criminal activity are referred within the Department for further review and action.

The Act permits licensed title pledge lenders to charge an effective rate of interest not to exceed two percent (2%) per month and a customary fee of no more than one fifth (1/5) of the principal amount of the loan. In calendar year 2016, the Department conducted 768 examinations, resulting in consumer refunds of $65,656, as compared to 674 examinations in 2017, resulting in refunds of $149,646. In calendar years 2016 and 2017, the Department initiated 65 enforcement actions against Title Pledge Lenders resulting in civil money penalties totaling $68,970.

The more prevalent examination findings are noted below:

- Missing Renewal Statements/Disclosures

  Title pledge agreements are structured as 30 day written agreements, but may be renewed for an additional 30 days. However, the number of renewals is limited because the statute requires the borrower to make a five percent (5%) reduction in the original principal amount borrowed beginning with the third renewal period and at 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 or consumer refunds will result if this documentation is missing.

- Unauthorized Charges

  A title pledge lender may contract for and receive an effective interest rate not to exceed two percent (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.

- 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.

- 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 25 months on rejected applications and 24 months on loans paid in full.

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. 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.

For calendar years 2016 and 2017, the Consumer Resources Section processed 23 complaints involving title pledge lenders, as compared to 41 for calendar years 2014 and 2015. In calendar year 2016, 12 complaints were investigated, and in 2017, the Consumer Resources Section investigated 11 complaints. Consumer complaints filed in 2016 resulted in no refunds. Consumer complaints filed in 2017 resulted in refunds to consumers totaling $55. The refunds from consumer complaints are in addition to the refunds required from examinations.

The following is a breakdown of the consumer complaints investigated by the Consumer Resources Section in 2016 and 2017:

Complaints Comparison			
2016		**2017**	
Payment History Disputes	3	Account Balance Discrepancy	3
Repossession Issues	2	Repossession Issues	2
Forged Title Pledge Agreement or Title Issues	2	Customer Service Issues	2
Payoff Request	1	Privacy Issues	1
Unlicensed Company	1	Solicitation Offers	1
Customer Service Issues	1	Unapproved Account Withdrawal	1
Account Balance Discrepancy	1	Fair Debt Collection Practices Violations	1
Fair Debt Collection Practices Violations	1		

Figure 2. Complaints Comparison for 2016 and 2017

Analysis of Operations

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 31. Licensees must submit, together with the renewal applications, supplemental financial reports for the preceding calendar year. The following data presented in this section was compiled from information provided by 97 title pledge lenders, representing 719 locations in Tennessee and reflects the general results of operations for calendar year 2016.

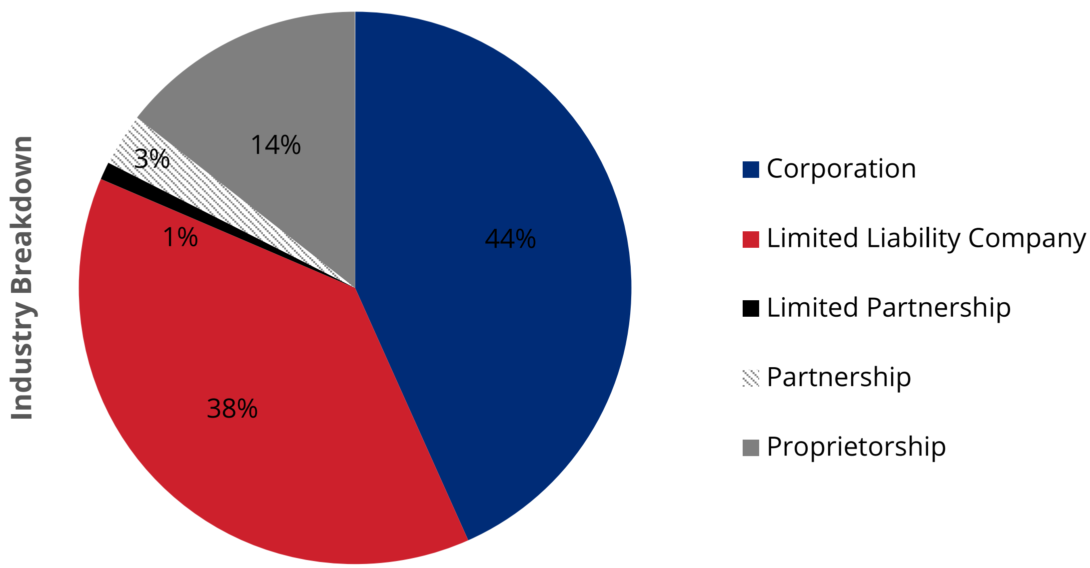

Figure 3. Industry Breakdown by Business Structure

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 non-affiliated CPA or public accounting firm and consistent with generally accepted accounting practices.

Market Share

Title pledge lenders entered into 181,367 new agreements with consumers in calendar year 2016, representing $167,713,147 in loan volume. As illustrated in the chart below, the top ten (10) companies, based on the number of locations in Tennessee, accounted for 536 or 75% of the 719 reporting locations. These top ten (10) companies entered into 165,464 new agreements, representing 91% of the market share. The remaining 87 reporting entities, representing 183 locations or 25% of total locations, entered into 15,903 of the new agreements, accounting for nine percent (9%) of the market share. From this analysis, the top ten (10) companies controlled a major portion of the market in 2016.

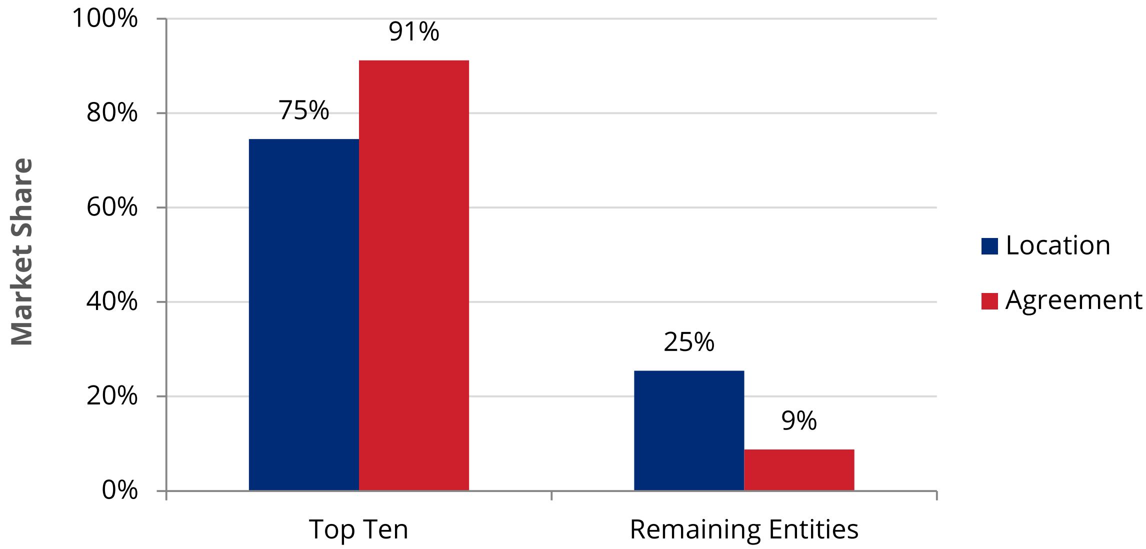

Figure 4. Market Share Breakdown

Demand for New Title Pledge Agreements

For calendar year 2016, licensees entered into a total of 181,367 new title pledge agreements, not including renewals of these initial agreements. Of the new agreements written, 53% were for $1,000 or less, whereas approximately 11% 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	17,408	9.60%
$251 - $500	39,234	21.63%
$501 - $750	22,884	12.62%
$751 - $1,000	16,019	8.83%
$1,001 - $1,250	8,393	4.63%
$1,251 - $1,500	6,192	3.41%
$1,501 - $1,750	10,210	5.63%
$1,751 - $2,000	25,997	14.33%
$2,001 - $2,250	15,673	8.64%
$2,251 - $2,500	19,357	10.67%
Total Number of Agreements	**181,367**	**100%**

Figure 5. Breakdown of New Agreements by Loan Amount

Analysis of Agreements Renewed

From the following analysis, 125,117 agreements were renewed during calendar year 2016. Of these, approximately nine percent (9%) were renewed only one time. The majority, 51%, were renewed eight (8) times or less. Of the total number of agreements entered into in calendar year 2016, 14,859, or 11%, were paid in full after 30 days without renewing.

Total Number of Agreements Renewed in 2016					
	Number	% of Total		Number	% of Total
1 Time	10,384	8.30%	12 Times	4,193	3.35%
2 Times	9,480	7.58%	13 Times	4,190	3.35%
3 Times	8,760	7.00%	14 Times	4,308	3.44%
4 Times	8,091	6.47%	15 Times	4,179	3.34%
5 Times	7,413	5.92%	16 Times	4,045	3.23%
6 Times	6,983	5.58%	17 Times	3,830	3.06%
7 Times	6,434	5.14%	18 Times	4,231	3.38%
8 Times	5,834	4.66%	19 Times	4,292	3.43%
9 Times	5,518	4.41%	20 Times	4,906	3.92%
10 Times	5,146	4.11%	21 Times	5,037	4.03%
11 Times	4,468	3.57%	22 Times	3,395	2.71%

Figure 6. Total Number of Agreements Renewed in 2016

Application of Principal Reduction Requirements

Prior to the 2005 amendments to the Act, a title pledge agreement could be renewed indefinitely and 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 five percent (5%) principal reduction beginning with the third renewal of the title pledge agreement. This enables the consumer 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. All title pledge loan agreements are written for 30 days, but 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 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 five percent (5%) per month, beginning with the third renewal and charge interest and fees based on the reduced principal amount. For year-end 2016, the number of deferred principal reduction payments was 24,400, compared to

30,452 deferrals in 2014. 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 calendar year 2016, the industry took possession of 16,417 vehicles due to non-payment, compared to 24,408 in 2014. If the customer fails to redeem the titled property during a twenty-day holding period, the lender then 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 $439,318 to consumers in 2016, compared to $710,595 in 2014.

Bad debt expense is an expense associated with a company'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 calendar year 2016, lenders incurred bad debt expense of $41,999,943, due to non-payment of all or part of the original principal balance, representing 29% 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 more analogous 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 97 companies (719 licensed locations) reporting, was $25,941,413.

In calendar year 2016, the amount of revenue earned was $146,491,993. Of this amount, 31% 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 29% of total revenues. 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 2016

The following tables group the 719 reporting locations into three (3) categories, by number of licensed locations, showing the income and expenses for each.

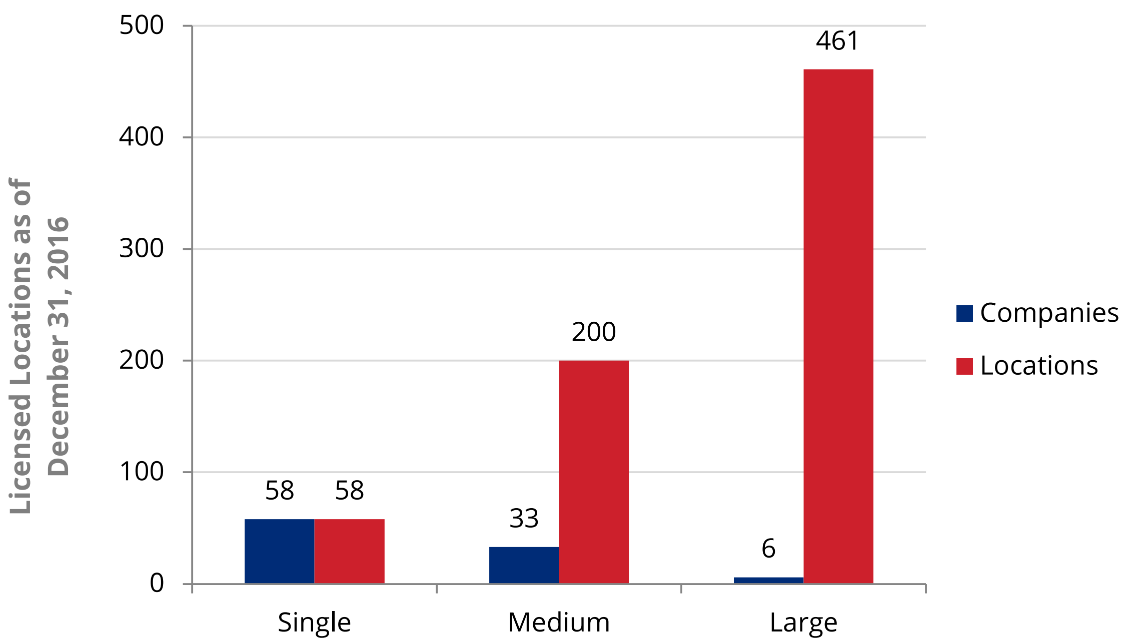

Figure 7. Breakdown of Licensed Location by Size. Medium: 2-25 Licensed Locations, Large: 26 or More Licensed Locations

Income Statement Summary				
	Industry	Single	Medium	Large
Revenue	$ 146,491,993	$ 4,614,882	$ 33,338,796	$ 108,538,315
Employee Salary	$ 27,835,390	$ 877,235	$ 6,856,858	$ 20,101,297
Bad Debt Expense	$ 41,999,943	$ 581,055	$ 10,189,388	$ 31,229,500
Repossession Expense	$ 4,619,397	$ 210,636	$ 1,628,193	$ 2,780,568
General Expense	$ 46,095,850	$ 1,971,704	$ 11,727,647	$ 32,396,499
Total Expense	$ 120,550,580	$ 3,640,630	$ 30,402,086	$ 86,507,864
Net Income Before Tax*	$ 25,941,413	$ 974,252	$ 2,936,710	$ 22,030,451

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

Percentage of Revenue				
	Industry	Single	Medium	Large
Employee Salary	19%	19%	21%	19%
Bad Debt Expense	29%	13%	31%	29%
Repossession Expense	3%	5%	5%	3%
General Expense	31%	43%	35%	30%
Total Expense	82%	79%	91%	80%
Net Income Before Tax*	18%	21%	9%	20%

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

Figure 8. 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, 2016:

Industry Net Income		
Revenue	$ 146,491,993	100%
- Expense	$ 120,550,580	82%
Net Income	$ 25,941,413	18%

In calendar year 2016, the title pledge industry had a profit margin ratio of 18%, calculated as net income of $25,941,413 divided by revenues of $146,491,993. This means that, on average, for every dollar of revenue earned, $.18 went to net income; whereas, $.82 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 the maximum amount allowable by law, versus a lower amount. The Act permits licensed title pledge lenders to charge an effective rate of interest not to exceed two percent (2%) per month, and a customary fee of no more than one fifth (1/5) of the principal amount of the loan. It was determined that 30 companies, with a total of 79 locations, or 11% of all licensed locations, charged the maximum of 22% on all agreements. The following amounts were compiled from their income statements.

Companies Charging 22% Net Income			
Revenue	$	19,685,236	100%
- Expense	$	18,031,934	92%
Net Income	$	1,653,302	8%

Lenders who charged 22% exclusively on their loans reported $19,685,236 in interest and customary fees resulting in a profit margin ratio of eight percent (8%). The profit margin ratio of eight percent (8%) means that for every dollar earned $.08 went to net income. Therefore, a $100 loan at 22% would earn $22, of which $1.76 ($22 x 8% profit margin ratio) went to net income, and $20.24 ($22 x 92% expense ratio) covered expenses. In 2016, it appears that the break-even for lenders charging 22% exclusively was 20% (expenses of $18,031,934 divided by revenues of $19,685,236 which equals 92% multiplied by 22%).

Companies Not Charging 22% Exclusively

Rates for the remaining 67 companies, 640 locations or 89% varied from four percent (4%) to 22%. As shown in the following table, $.81 of every dollar was used to offset expenses; whereas, $.19 went to profit.

Companies Charging 22% or Less Net Income			
Revenue	$	126,806,757	100%
- Expense	$	102,518,646	81%
Net Income	$	24,288,111	19%

Lenders who did not charge 22% exclusively on their loans reported $126,806,757 in interest and customary fees, resulting in a profit margin ratio of 19%. The profit margin ratio of 19% means that for every dollar earned $.19 went to net income. Therefore, a $100 loan at 22%, would earn $22, of which $4.18 ($22 x 19% profit margin ratio) went to net income, and $17.82 ($22 x 81% expense ratio) covered expenses. In calendar year 2016, it appears that the break-even for lenders not charging 22% exclusively was 19% (expenses of $102,518,646 divided by revenues of $126,806,757 which equals 81% multiplied by 22%).

Comparison of Companies Charging 22% or Less

According to the following charts, it appears that companies charging 22% exclusively had a lower profit margin than those averaging lower rates. Companies charging 22% exclusively averaged 92 new agreements per store; whereas, the remaining companies averaged 272 agreements per store.

Charging 22% Exclusively			
30 Companies / 79 Locations			
Revenue	$	19,685,236	100%
- Expense	$	18,031,934	92%
Net Income	**$**	**1,653,302**	**8%**

Not Charging 22% Exclusively			
67 Companies / 640 Locations			
Revenue	$	126,806,757	100%
- Expense	$	102,518,646	81%
Net Income	**$**	**24,288,111**	**19%**

Figure 9. Comparison of Companies Charging 22% Exclusively to Companies Not Charging 22% Exclusively

Conclusion

Title Pledge Lending in Tennessee continues to be a significant but perhaps declining segment of the financial services sector. Based on reported information covering calendar year 2016, there were 181,367 new title pledge agreements entered into during the reporting period. This compares to 250,257 new agreements for calendar year 2014 and 233,424 new agreements for calendar year 2012. The total dollar loan volume of these new agreements in 2016 amounted to $167,713,147, compared to $230,652,734 in 2014, and $202,547,916 in 2012. From calendar year 2014 to 2016, the percentage decrease in dollar loan volume was 27%, and from calendar year 2012 to 2014, the percentage decrease was 17%. We speculate that federal rules scheduled to take effect next year and a move by some licensees to other loan products may be causing this decline in title pledge transactions in Tennessee.

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 91% of new agreements during 2016. The number of locations for the top ten (10) companies decreased from 647 in 2014 to 536 in 2016; whereas, the number of single location licensees decreased from 94 to 59. We believe that the largest companies frequently offer rates less than 22%, often significantly less. A lowering of rates could be a consideration that might still permit a segment of the industry to operate profitably, depending on the level of rate reduction. Bad debt expense, as a percentage of revenues, ranged from 13% to 29%; whereas, the industry average for employee salaries was 19%. 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 fewer licensees. Currently, 41% 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 amounted to 29% of revenues for calendar year 2016, 23% of revenues for calendar year 2014, and 15% of revenues for calendar year 2012. As a percentage of revenues, total expenses increased from 74% in 2014 to 82% in 2016. This compares to 75% in 2012 and 79% in 2010.

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 hindered 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 previously 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 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.

We are awaiting the finalization and implementation 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. Secondly, continued efforts 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. Finally, the Department has created a Risk Focus Exam program that allows us to risk profile over 4,000 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.

The Department will continue to ensure, through the licensing process, that all licensed title pledge lenders meet the qualifications for a license, and through the examination process, including enforcement actions when appropriate, that all licensed title pledge lenders comply with applicable law. While these traditional areas of operation are very important, we realize that more focus needs to be placed on educating consumers about the responsible use of credit. The risk focus program is intended to, among other things, help lenders 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
1/1/2016	Initial Loan				$1,000.00		$220.00	$220.00	1/31/2016
	(1) Payment	$220.00	$220.00	$0.00	$1,000.00				
1/31/2016	Renewal				$1,000.00		$220.00		3/1/2016
	(2) Payment	$220.00	$220.00	$0.00	$1,000.00				
3/1/2016	Renewal				$1,000.00		$220.00		3/31/2016
	(3) Payment	$220.00	$220.00	$0.00	$1,000.00				
3/31/2016	Renewal				$1,000.00	$50.00	$220.00	$270.00	4/30/2016
	(4) Payment	$270.00	$220.00	$50.00	$950.00				
4/30/2016	Renewal				$950.00	$50.00	$209.00	$259.00	5/30/2016
	(5) Payment	$259.00	$209.00	$50.00	$900.00				
5/30/2016	Renewal				$900.00	$50.00	$198.00	$248.00	6/29/2016
	(6) Payment	$248.00	$198.00	$50.00	$850.00				
6/29/2016	Renewal				$850.00	$50.00	$187.00	$237.00	7/29/2016
	(7) Payment	$237.00	$187.00	$50.00	$800.00				
7/29/2016	Renewal				$800.00	$50.00	$176.00	$226.00	8/28/2016
	(8) Payment	$226.00	$176.00	$50.00	$750.00				
8/28/2016	Renewal				$750.00	$50.00	$165.00	$215.00	9/27/2016
	(9) Payment	$215.00	$165.00	$50.00	$700.00				
9/27/2016	Renewal				$700.00	$50.00	$154.00	$204.00	10/27/2016
	(10) Payment	$204.00	$154.00	$50.00	$650.00				
10/27/2016	Renewal				$650.00	$50.00	$143.00	$193.00	11/26/2016
	(11) Payment	$193.00	$143.00	$50.00	$600.00				
11/26/2016	Renewal				$600.00	$50.00	$132.00	$182.00	12/26/2016
	(12) Payment	$182.00	$132.00	$50.00	$550.00				
12/26/2016	Renewal				$550.00	$50.00	$121.00	$171.00	1/25/2017
	(13) Payment	$171.00	$121.00	$50.00	$500.00				
1/25/2017	Renewal				$500.00	$50.00	$110.00	$160.00	2/24/2017
	(14) Payment	$160.00	$110.00	$50.00	$450.00				
2/24/2017	Renewal				$450.00	$50.00	$99.00	$149.00	3/26/2017
	(15) Payment	$149.00	$99.00	$50.00	$400.00				
3/26/2017	Renewal				$400.00	$50.00	$88.00	$138.00	4/25/2017
	(16) Payment	$138.00	$88.00	$50.00	$350.00				
4/25/2017	Renewal				$350.00	$50.00	$77.00	$127.00	5/25/2017
	(17) Payment	$127.00	$77.00	$50.00	$300.00				
5/25/2017	Renewal				$300.00	$50.00	$66.00	$116.00	6/24/2017
	(18) Payment	$116.00	$66.00	$50.00	$250.00				
6/24/2017	Renewal				$250.00	$50.00	$55.00	$105.00	7/24/2017
	(19) Payment	$105.00	$55.00	$50.00	$200.00				
7/24/2017	Renewal				$200.00	$50.00	$44.00	$94.00	8/23/2017
	(20) Payment	$94.00	$44.00	$50.00	$150.00				
8/23/2017	Renewal				$150.00	$50.00	$33.00	$83.00	9/22/2017
	(21) Payment	$83.00	$33.00	$50.00	$100.00				
9/22/2017	Renewal				$100.00	$50.00	$22.00	$72.00	10/22/2017
	(22) Payment	$72.00	$22.00	$50.00	$50.00				
10/22/2017	Renewal				$50.00	$50.00	$11.00	$61.00	11/21/2017
	(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 2012		Calendar 2014		Calendar 2016	
	171 Companies	957 Locations	149 Companies	951 Locations	97 Companies	719 Locations
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenue	$ 168,521,593		$ 188,561,805		$ 146,491,993	
Employee Salary	$ 37,990,528	23%	$ 37,383,923	20%	$ 27,835,390	19%
Bad Debt Expense	$ 25,564,822	15%	$ 43,099,679	23%	$ 41,999,943	29%
Repossession Expense	$ 5,833,787	3%	$ 6,134,853	3%	$ 4,619,398	3%
General Expense	$ 56,823,234	34%	$ 52,326,990	28%	$ 46,095,850	31%
Total Expense	$ 126,212,371	75%	$ 138,945,445	74%	$ 120,550,580	82%
Net Income Before Tax*	$ 42,309,222	25%	$ 49,616,360	26%	$ 25,941,413	18%

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

Exhibits

Exhibit C

Number of Title Pledge Locations by County for 2017					
County	Licensed Locations	County	Licensed Locations	County	Licensed Locations
Anderson	6	Hamilton	46	Morgan	2
Bedford	9	Hancock	1	Obion	5
Benton	2	Hardeman	3	Overton	4
Bledsoe	1	Hardin	4	Perry	1
Blount	10	Hawkins	4	Pickett	1
Bradley	15	Haywood	2	Polk	2
Campbell	5	Henderson	4	Putnam	14
Cannon	2	Henry	3	Rhea	5
Carroll	3	Hickman	1	Roane	8
Carter	6	Houston	1	Robertson	9
Cheatham	3	Humphreys	3	Rutherford	34
Chester	2	Jackson	1	Scott	2
Claiborne	3	Jefferson	8	Sequatchie	5
Clay	1	Johnson	2	Sevier	10
Cocke	7	Knox	37	Shelby	143
Coffee	8	Lake	0	Smith	2
Crockett	0	Lauderdale	2	Stewart	1
Cumberland	7	Lawrence	10	Sullivan	22
Davidson	80	Lewis	3	Sumner	17
Decatur	2	Lincoln	6	Tipton	7
Dekalb	3	Loudon	5	Trousdale	2
Dickson	10	Macon	3	Unicoi	2
Dyer	7	Madison	19	Union	1
Fayette	4	Marion	7	Van Buren	0
Fentress	1	Marshall	4	Warren	6
Franklin	4	Maury	14	Washington	18
Gibson	11	McMinn	14	Wayne	2
Giles	4	McNairy	2	Weakley	3
Grainger	0	Meigs	1	White	6
Greene	11	Monroe	11	Williamson	5
Grundy	1	Montgomery	21	Wilson	13
Hamblen	7	Moore	0	Out of State	1