



Title Loan Expansion

Effect

Title lenders require a vehicle title as collateral for a consumer loan. While regulations vary from state to state, most title lenders will lend up to 70% of the vehicle's value. While not required by law, they then typically then place a lien on the title with the Secretary of State to perfect their title position and will then remove this lien once the loan is paid back. If a loan is not paid back within 30 days, they then renegotiate the terms with the borrower to further extend the term. Earlier this year, Michigan's financial industry worked closely with the Secretary of State (SOS) to enact legislation that would transition Michigan to a centralized title holding state while also transitioning to an electronic title system. Transitioning away from the paper title system will decrease title washing and other prevalent fraudulent activity associated with titles.

As introduced, the bills would have permitted title loans on any titles, including those with liens from financial institutions. At a minimum, the following changes should be made to the legislation:

- **Restrict title lending to only vehicles with a clear title**
- **Tie the effective date of these bills to the SOS implementation date to protect lenders from additional fraud related to the paper title system**
- **Cap the amount title lenders can lend to 70% of the current appraised value of a vehicle**
- **Require title lenders to place a lien on the title once the loan is made**

Status

While there were two identical bills introduced last session, neither bill ever came up for a vote. The Senate version was discharged from committee to the Senate floor, but when it came to a vote, the support was not there for it to be taken up. The MCUL communicated our concerns and provided a list of suggested amendments to the bill's supporters and sponsors.

There hasn't been a bill introduced this session, however, we believe there will be another bill introduced and that will be the legislation which moves. We will continue to monitor introductions to ensure that traditional lenders are not adversely impacted from this legislation.

Background

Last session, two identical bills were introduced in the legislature. The way the bills were written they would have significantly increased the monthly usage fee that a pawnbroker can charge for unencumbered personal property from \$1 to 20% per month, or a fraction of a month, for a usage fee for pawned or pledged property used by the pawner during the term of the pawn or pledge.

Credit unions secure their position on titles by placing liens with the Secretary of State. If title loans are permitted with vehicle titles that have a lien, lenders will likely incur losses through title fraud.