

**When LoanMax loans cash to individuals with a 25% monthly interest rate, does it have a receivable or a payable AND is it an ethical practice?**

Car title lenders are considered to be predatory lenders, since they charge high rates of interest to those individuals who can least afford it. Various laws in recent years have attempted to curb the high interest rates and these practices. Car title lenders still operate and some would argue that they fill a need in society. Individuals using car title lender services typically are quite poor and have no other ways to borrow funds. An LA Times report in 2015 stated that about 1 out of 9 car title loans end in the borrower's car being repossessed.

An NBC report found that the average car title loan is \$950 and borrowers take an average of 10 months to repay the loan. Typically, consumers can borrow up to 26% of the value of their cars and the lender charges 25% per month. This interest rate means for this average consumer borrowing \$950, he/she would pay about \$238 per month in interest, or \$2,375 over the ten-month period that the \$950 was borrowed.

One consumer lender is [LoanMax](#), which loans cash in exchange for a car title. The potential borrower brings in a free and clear car title (i.e., has no liens on it), the vehicle, and his/her photo ID to a LoanMax location. LoanMax determines how much cash it will loan the person based on the value of the vehicle. The borrower will sign paperwork and depart LoanMax with cash in hand. No credit check is performed. Loans range from \$100 to \$10,000. Cars can be repossessed if the borrower does not pay.

**Questions**

1. Let's say an individual borrows \$500 cash from a LoanMax. Does LoanMax have a receivable or a payable when it hands over the cash to the borrower?
2. When LoanMax disburses the cash at the time of borrowing, how are its assets, liabilities, and equity impacted?
3. What approximate annual interest rate is LoanMax charging if it charges 25% per month?
4. Do you think the car title loan process is ethical? Explain your point of view.