



Bulletin C-8-1

To: All Title Pledge Lenders

Subject: Automatic Renewals and Grace Periods

Date: January 24, 2008

The Department has recently received requests from the title pledge lending industry to clarify the Department's position concerning the relationship between the automatic renewal requirements of the Tennessee Title Pledge Act (hereinafter "Act"), Tennessee Code Annotated Sections (hereinafter "Tenn. Code Ann. §§") 45-15-101, et seq., and grace period provisions in title pledge agreements. The purpose of this Bulletin is to clarify the Department's position.

Tenn. Code Ann. § 45-15-113(a) specifies that title pledge agreements shall not exceed thirty (30) days in length. However, title pledge agreements may be renewed for additional thirty (30) day periods. Such renewals may occur automatically unless one (1) of the following occurs: 1) the pledgor has redeemed the certificate of title by paying all of the principal, interest, and customary fees due in accordance with the title pledge agreement; 2) the pledgor has surrendered possession, title, and all other interest in the pledged property to the title pledge lender; 3) the title pledge lender has notified the pledgor in writing that the title pledge agreement will not be renewed; or 4) the pledgor defaults in accordance with the title pledge agreement.

Tenn. Code Ann. § 45-15-113(b) requires a title pledge lender to furnish a pledgor with a renewal statement: 1) via first class mail, postage prepaid, at least five (5) days prior to the effective date of any renewal period; or 2) via hand delivery at the time of renewal. In addition to other requirements, a renewal statement furnished to a pledgor must specify the effective date of any renewal period.

It has come to the Department's attention that title pledge lenders are incorporating grace period provisions in title pledge agreements on an increasing basis. It's the Department's understanding that grace period provisions are being utilized by title pledge lenders to permit pledgors an additional, specified amount of time following the maturity date to pay the amount due as specified in the title pledge agreement. If a pledgor pays the amount due prior to the expiration of the grace period, it's the Department's understanding that the pledgor would not be in "default" of the title pledge agreement

for nonpayment. In contrast, if a pledgor fails to pay the amount due prior to the expiration of the grace period, it's the Department's understanding that, pursuant to the specific terms of the title pledge agreement, the title pledge lender could declare "default" for nonpayment, and consequently, exercise its remedy to repossess the pledgor's motor vehicle.

If a title pledge lender furnishes a pledgor with a renewal statement via first class mail, postage prepaid, at least five (5) days prior to the effective date of any renewal period, and one (1) of the disqualifying events outlined in Tenn. Code Ann. § 45-15-113(a) has not occurred prior to the effective date of the renewal period, please be advised that it is the Department's position that the title pledge agreement has been "automatically renewed" for an additional thirty (30) day period effective the first day following the maturity date.

Accordingly, if a title pledge agreement has been "automatically renewed" pursuant to Tenn. Code Ann. § 45-15-113(a), and the pledgor fails to pay the amount due prior to the expiration of the grace period, please be advised that it is the Department's position that a title pledge lender could, pursuant to the specific terms of the title pledge agreement, declare "default" for nonpayment. However, given the fact that the title pledge agreement has been "automatically renewed" effective the first day following the maturity date, please be advised that it is the Department's position that a title pledge lender may not exercise its remedy to repossess the pledgor's motor vehicle until the expiration of the thirty (30) day renewal period. Within the specific context of the preceding circumstances, the Department considers the repossession of the pledgor's motor vehicle, prior to the expiration of the thirty (30) day renewal period, to be a violation of the Act.

Please be advised that, pursuant to Tenn. Code Ann. § 45-15-118(a), if, after notice and opportunity for a hearing, the Commissioner finds that a person has violated the Act, or any administrative regulation issued pursuant to the Act, the Commissioner may take any or all of the following actions:

1. Order the person to cease and desist violating the Act or any administrative rules issued pursuant to the Act;
2. Require the refund of any fees collected by the person in violation of the Act; and
3. Order the person to pay the Commissioner a civil penalty of not more than one thousand dollars (\$1,000.00) for each transaction in violation of the Act or each day that a violation has occurred and continues.

Any questions regarding this Bulletin may be directed to the Department's Compliance Division at telephone number (615) 741-3186.

Greg Gonzales
Commissioner