



CENTRAL VIRGINIA LEGAL AID SOCIETY

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Car Title Loans

What is a car title loan?

A car title loan is a short term, high interest loan secured by the borrower's car title as collateral. If the borrower defaults on the loan, the car title lender has the right to repossess and sell the vehicle. Nearly 150,000 Virginia households reported using an auto title loan between 2005 and 2009.

How does a car title loan work?

To receive an auto title loan, borrowers are required to provide a driver's license or photo identification, a clear vehicle title, the car (to be inspected), and proof of income. Loans may range from a minimum term of four months to a maximum loan term of one year. The borrower remains sole owner of the car until the point at which the car is legally repossessed. The loan issued can be no more than half of the market value of the car. Loans must have a clear due date and repayment must be in substantially equal monthly installments of principal and interest.

Interest rates on loans are capped at:

- 22% per month (264% APR) for that portion of the loan under \$700
- 18% per month (216% APR) for that portion of the loan between \$700 and \$1,400
- 15% per month (180% APR) for that portion of the loan over \$1,400

Lenders are prohibited from:

- making more than one loan at a time per borrower
- refinancing, renewing or rolling over loans
- electronically debiting of a borrower's deposit account
- making loans to members of the military or their direct dependents

Why is a car title loan a bad idea?

These loans are a bad deal and you can lose your car. You could end up paying over \$5,000 for a \$1,500 loan and this amount does not even include potential late fees! The chart below shows examples of car title loans and the amount that borrowers can expect to pay over the course of the loan.

	<u>\$700 loan</u>	<u>\$1,500 loan</u>
<u>4 month loan</u>		
Total Repayment	\$1,316	\$2,680
Monthly Payment	\$ 329	\$ 670
Rough APR (annual percentage rate)	268%	239%
<u>6 month loan</u>		
Total Repayment	\$1,624	\$3,270
Monthly Payment	\$ 271	\$ 545
Rough APR (annual percentage rate)	268%	239%
<u>12 month loan</u>		
Total Repayment	\$2,548	\$5,040
Monthly Payment	\$ 212	\$ 420
Rough APR annual percentage rate)	264%	236%

What are some steps to pursuing alternatives to car title loans?

1. Make a realistic budget based on past expenses. Your budget is a financial action plan that you can use to track your finances to spend responsibly. Make sure that you understand your credit score and financial standing.
2. After you have created your budget, call your creditors. Ask for more time to pay your bills, and make sure to ask what they will charge for that service.
3. If you still need supplemental income, contact your local credit union or small loan company to discuss your eligibility to borrow a small loan with manageable interest rates.
4. Other alternatives include asking for a pay advance from your employer, taking a cash advance on a credit card, and researching your eligibility for third party assistance.

If the loan is not paid, will my car be repossessed and what happens if my car is repossessed?

The lender can repossess and sell your vehicle if you fail to repay your loan. Unless you impair the lender's ability to repossess the car, the lender cannot file a lawsuit against you.

Prior to repossession, the lender must send you notice and may not repossess the vehicle before the date stated in the notice. The notice must be sent via first class mail ten days before repossession and advise you that your title loan is in default and that the vehicle may be repossessed unless the principal and interest owed is paid. No interest may be charged after repossession and after the vehicle is in default, unless the borrower hides the vehicle.

Once the car has been repossessed, the lender must give 15 days' notice before selling the car notifying you of the date and time of the sale. The notice must also state that the borrower

may redeem the car at any time prior to the sale by paying the specified amount due, interest accrued and any other reasonable expenses incurred during repossession and preparing the vehicle for sale. You are entitled to receive any proceeds from the sale in excess of the amount due to the lender.

What must a car title loan agreement say?

A car title loan must have a written loan agreement that is signed and dated by both the borrower and lender. The written loan agreement **MUST** contain the following information:

- the loan amount and the schedule and amount of monthly payments
- the interest rate and fees charged
- the annual percentage rate, which is the rate of interest per year
- the borrower's mailing address
- the make, model, year and vehicle identification number of the vehicle
- notice that the borrower may cancel the loan agreement at any time before the close of business on the next business day by returning the original loan amount
- the loan's maturity date, which must be between 120 days and one year
- contain a standard statutory warning notice in 14-point bold type font explaining that the interest rate on the loan is high and that you should consider whether there are other lower cost options available to you.

The lender must also give you a pamphlet titled "Motor Vehicle Title Lending in the Commonwealth of Virginia - Borrower Rights and Responsibilities." This pamphlet must contain exact language and can be found at http://www.scc.virginia.gov/bfi/files/mvl_va.pdf.

What are the rules that govern car title lenders?

As of October 1, 2010, all car title lenders must be licensed, bonded and regulated by the State Corporation Commission's Bureau of Financial Institutions. Banks, credit unions, purchase-money lenders and consumer finance companies are exempt from licensing requirements.

Car title lenders are enforced by the Virginia Consumer Protection Act. Lenders also must comply with the Fair Debt Collection Practices Act. Lenders may not threaten, or cause to be instigated, criminal proceedings against you arising from your failure to pay any sum due under a loan agreement.

Who do I contact for assistance or to file a complaint?

Contact the Bureau of Financial Assistance toll-free at (800) 552-7945 or online at <http://www.scc.virginia.gov/bfi>. For assistance, you may also contact the Virginia Partnership to Encourage Responsible Lending's Car title Hotline at (866) 830-4501.