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Car Title Loans - 2023

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.

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 120 days 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 36 percent per year. The lender is not allowed to charge interest after your car has been repossessed, or after 60 days since you missed a payment. In addition to interest, the lender is allowed to charge other fees, including a late fee not greater than 5% of the installment payment that is late.

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? Why should you avoid them?

Even though car title loans are legal, taking out a car title loan is usually a bad idea. You should avoid them because they put you in a worse position (or at least not a better position) than you were in before. There are some things to consider before you take out a car title loan:

- First, it is very important to ask yourself: "do I NEED the money for something that I or my family absolutely cannot do without, or do I WANT the money for something that I or my

family would like to have (or maybe have already bought and now need to pay for)?” Be honest with yourself when answering such questions. This is about being a good and wise consumer.

- Second, if you can honestly answer with “yes, I NEED the money,” then look first for alternatives to a car title loan. (see below for suggestions). These should be alternatives that don’t put you in a deeper hole, and that make it easier for you to repay.

- Third, car title lenders make it look easy and attractive to take out a loan and repay it without difficulty. Do not be lured in by such offers and advertisements. Looks can be deceiving. It’s not as hassle-free as they make it seem. Do your own research and questioning.

Here are some reasons to avoid taking out a car title loan:

- It is a very expensive way to borrow money.
- The interest rates are extremely high for a very short time period.
- You will need to have the money to repay the loan in a very short time. If you don’t have the money now, it’s not likely you’ll have it when it’s time to make payments, and still be able to meet all your other financial obligations and household budget needs.
- The high interest rate will mean that most of your monthly payment is going toward payment of the interest, at least for the first few payments. The unpaid balance will go down very slowly, and may go up. If you miss any scheduled payments or pay less than the monthly amount due, it will be even worse.
- That means you’re just digging yourself a deeper hole, and you will become caught in a downward spiral of mounting debt that you can’t pay off.
- In short, you are set up to fail and to fall further behind, while the company makes money off of your troubles. It is very likely that you will never be able to pay off the loan.
- If you don’t pay it when due, the company can repossess and sell your car. That means you will most likely have no transportation to get to work or to do other things that are necessary to take care of yourself and your family. You’ll be faced with having to buy another vehicle, once again going deeper in debt.

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.

What if I change my mind after I take out the car title loan?

You have the right to cancel (rescind) the loan agreement any time before the close of business on the next business day. This is a limited amount of time, so you would have to act quickly. If you cancel, you will have to repay any amount you got

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 –

https://scc.virginia.gov/getattachment/441574c2-2fc9-4802-a434-fd62c587045e/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.

What about getting a car title loan through the internet? Is that legal?

It is legal, but only if the company is licensed by the State Corporation Commission, even if they don't have a physical office or address in Virginia. If they want to make car title loans to anyone in Virginia, whether a resident or not, they have to be licensed in Virginia.

But if taking out a car title loan from a local office is a bad idea, getting one through the internet is an even worse idea. Here are some reasons to seriously avoid internet loans, or at least to use extreme caution:

- You don't know who you're dealing with. It's much better to have face-to-face dealings, and a location where you can actually go to transact business and deal with follow-up problems.
- You don't always know where the online lender is. You don't know if they have an actual business office space, or if they're just working from a call center site, like a telemarketing company. Thus, you're not able to see and judge for yourself whether it appears to be a reputable and trustworthy business.
- If legal problems develop that would require a lawsuit, there are difficult issues of court jurisdiction over the company. That means the Virginia courts where you live may not have authority to make a ruling that binds that out-of-state company. There are many complicated factors that need to be considered. The point is, this is just another obstacle for you to overcome if problems arise.

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>, or
- Contact the Virginia Partnership to Encourage Responsible Lending's Car Title Loan Hotline at (866) 830-4551, or online at <http://www.virginiafairloans.org>, or
- Contact the Consumer Financial Protection Bureau (CFPB) toll-free at (855) 411-2372 or online at <http://consumerfinance.gov/contact-us>.

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