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Car Title Loans

What is a car title loan?

When you take out a car title loan, you are borrowing money and giving the lender the title to your car as collateral. This means that the lender **can repossess and sell your car if you don't pay** according to the terms of the loan agreement.

These are short-term loans (120 days to one year) with extremely high interest rates. They are almost always a bad way to get a loan. You should avoid them because of the high interest, the short time to repay, and the total amount of repayments. More often than not, they will leave you in a worse position than you were in before you took out the loan. It is easy to go “deeper into the hole” by taking out a car title loan.

Although they are generally called “car title loans,” they are actually “motor vehicle title loans.” By law, the term “motor vehicle,” for this purpose, includes cars, motorcycles, mobile homes, trucks, vans, or any other vehicle operated on public highways and streets.

Car Title Loans are not the same as ordinary financing for the purchase of a vehicle. The information in this document does not apply to those transactions. What's being discussed here are loans that are taken out for some other purpose after you already own the vehicle, using the vehicle title as collateral.

How does a car title loan work?

Car title loans are made by businesses that are licensed to do so by the Virginia State Corporation Commission. You need to provide the lender a clear title (showing no other liens) to your vehicle, which serves as collateral for the loan. You will need to show your driver's license or other photo identification. You will also need to provide proof of income.

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You and the lender sign a loan agreement. You turn over your title, which the lender holds onto until the loan is repaid. The lender adds their company to the title as lien holder, within seven days after the loan agreement. The lender has to give you the title back within ten days after the loan is paid in full, showing no more lien against it. If you do not pay back the loan as agreed, the lender may repossess the vehicle and sell it.

The rest of this document contains details as to what must be in the loan agreement, what can't be part of the loan agreement, limits on interest and other charges, what happens if the loan isn't repaid, and other specifics. But first, there are certain general things for you to know.

Are car title loans legal in Virginia?

The business of car title lending is legal in Virginia. However, there are state laws that put restrictions and limits on who can conduct business as a car title lender, what the loan company has to do in order to be licensed, and what happens if they don't meet those requirements. Even after they're properly licensed, lenders must follow laws on how they operate and what terms and conditions they can include in their loans to customers.

So, in short, yes, car title loans are legal, but they are regulated and subject to limits and restrictions. These will be explained below.

Why is it a bad idea to take out a car title loan? 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 tend to put you in a worse position (or at least not a better position) than you were in before.

Depending on the amount of the loan and the time for repayment, your total payments over the life of the loan could be two to three times the amount you borrowed. For example, if you borrow \$700 at 264% annual interest (which is the maximum allowed by law) for four months, your total repayment amount would be \$1,316, almost twice the amount you borrowed. Putting it another way, you will have paid \$616 for the use of \$700 for just four months. If it's stretched over a six-month period, total repayment is \$1,624 (over twice the principal). For a 12-month loan, it would be \$2,548 (over three times the principal).

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.

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- 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 alternatives do I have to taking out a car title loan?

Almost everyone reaches a point where they’re in need of cash in a hurry. There’s no shame in that. If you find yourself in that position, here are some **alternatives** to consider, rather than taking on debt with outrageously high costs:

- A small loan from a loan company, or a credit union if you are a member of one.
- A personal loan from your family or friends.
- An advance on your paycheck from your employer.
- Help from a church or a non-profit community service organization.
- Ask your creditors for an extension of time to pay your bills, or to lower the amount of your payments. Be aware, however, that they will likely charge more for that, such as a late fee or similar charge. Also, this will usually increase the amount of interest you’ll be paying them.

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- Look for a free consumer credit counseling service. They won't give you money to pay your debts, but they will be able to suggest ways to deal with your expenses, including how to make a budget and perhaps build some savings.

What kinds of businesses are allowed to make car title loans?

Virginia law says that any company or any person wanting to make car title loans to anyone in the state, whether the borrower is a resident of Virginia or not, must be licensed by the State Corporation Commission (SCC). The company must file an application with the SCC, with certain information required by law.

As a condition of getting and keeping its license, the car title loan company is required to be bonded. If the company fails to follow the rules and laws, or if they don't live up to their agreement with you as a borrower, then you can go after that bond to recover your losses.

If you want to find out if a particular company is properly licensed and bonded, you can contact the Bureau of Financial Institutions, which is a division of the State Corporation Commission. You can go to their website (<http://www.scc.virginia.gov/bfi>), or call toll-free 1-800-552-7945. Their website includes a list of names and addresses of those who are currently licensed. You can also find more information about your rights on that site, including how to file a complaint about a car title lender.

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 Virginia State Corporation Commission, even if they don't have a physical office or address in Virginia. If they want to make payday 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.

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What does the law say about what car title lenders *must* do, and what they *cannot* do?

The lender *cannot*:

- Take payments from you by automatic electronic withdrawals from your account. Do not agree to let them do so if they ask you to.
- Take a title that already has a lien against it on the date of the loan. This also means that the lender can't make a car title loan to you on the same day you repay another one, even if it's with another company.
- Require you to put up any collateral other than one motor vehicle.
- Make a car title loan to you if the lender knows you already have a car title loan, whether it's with the same or a different lender, and whether it's for the same vehicle or not.
- Make a title loan to enable you to repay any amount on another obligation to the lender.
- Make a car title loan to an active member of the military or a dependent of a member of the military, including those in the National Guard or Reserves who are on active duty for at least 30 days.
- Threaten or start criminal proceedings against you for failure to pay.
- Engage in unfair, misleading, deceptive, or fraudulent acts or practices.
- Extend, renew, or refinance a car title loan agreement.

The lender *must*:

- Put all loan agreements in writing, which must include:
 - The loan amount and the schedule and amount of monthly payments, which must be in substantially equal amounts.
 - The interest rate and fees charged.
 - The annual percentage rate.
 - Your mailing address.
 - The make, model, year, and vehicle identification number (VIN) of the vehicle.
 - A notice that you may cancel before the close of business on the next business day.
 - The date when the loan ends, which must be at least 120 days but not more than 12 months from the date the loan agreement is signed.
 - A warning and notices required by statute in 14-point bold type. See the next section of this document for the contents of that notice.
- Give you a pamphlet titled Motor Vehicle Title Lending in the Commonwealth of Virginia – Borrower Rights and Responsibilities. You can find this pamphlet online at http://www.scc.virginia.gov/bfi/files/mvl_va.pdf.
- Post a notice at its place of business that shows an example of the finance charges, using as an example a \$1,000 loan that is repaid over a 12-month period.
- Allow you to prepay the entire balance before it's due, without penalty. Also, they must allow you to make early partial payments beyond the minimum required.

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What notices and warnings does the lender have to put in my agreement?

Every car title loan agreement must include the notice below, in 14-point bold type, which is the same appearance as the questions that start each section of this document. The notice must be right above your signature. You should read this very carefully now and before you sign a loan agreement.

THE INTEREST RATE ON THIS LOAN IS HIGH. YOU SHOULD CONSIDER WHETHER THERE ARE OTHER LOWER COST LOANS AVAILABLE TO YOU.

THIS IS A MOTOR VEHICLE TITLE LOAN AGREEMENT. IT ALLOWS YOU TO RECEIVE LOAN PROCEEDS TO MEET YOUR IMMEDIATE CASH NEEDS. IT IS NOT INTENDED TO MEET YOUR LONG-TERM FINANCIAL NEEDS.

WHEN USING THIS LOAN, YOU SHOULD REQUEST THE MINIMUM AMOUNT REQUIRED TO MEET YOUR IMMEDIATE NEEDS AND YOU SHOULD REPAY THE LOAN AS QUICKLY AS POSSIBLE TO REDUCE THE AMOUNT OF INTEREST YOU ARE CHARGED.

YOU SHOULD TRY TO REPAY THIS LOAN AS QUICKLY AS POSSIBLE. YOU WILL BE REQUIRED TO PAY THE PRINCIPAL AND INTEREST ON THE LOAN IN MONTHLY SUBSTANTIALLY EQUAL INSTALLMENTS. YOU SHOULD TRY TO PAY EVEN MORE TOWARDS YOUR PRINCIPAL BALANCE EACH MONTH. DOING SO WILL SAVE YOU MONEY.

YOU MAY RESCIND THIS LOAN WITHOUT COST OR FURTHER OBLIGATION IF YOU RETURN THE LOAN PROCEEDS, IN CASH OR THE ORIGINAL LOAN CHECK, PRIOR TO THE CLOSE OF BUSINESS ON THE BUSINESS DAY IMMEDIATELY FOLLOWING THE EXECUTION OF THIS AGREEMENT.

YOU ARE PLEDGING YOUR MOTOR VEHICLE AS COLLATERAL FOR THIS LOAN. IF YOU FAIL TO REPAY THE LOAN PURSUANT TO THIS AGREEMENT, WE MAY REPOSSESS YOUR MOTOR VEHICLE.

UNLESS YOU CONCEAL OR INTENTIONALLY DAMAGE THE MOTOR VEHICLE, OR OTHERWISE IMPAIR OUR SECURITY INTEREST BY PLEDGING THE MOTOR VEHICLE TO A THIRD PARTY OR PLEDGING A MOTOR VEHICLE TO US THAT IS ALREADY SUBJECT TO AN UNDISCLOSED EXISTING LIEN, YOUR LIABILITY FOR DEFAULTING UNDER THIS LOAN IS LIMITED TO THE LOSS OF THE MOTOR VEHICLE.

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IF YOUR MOTOR VEHICLE IS SOLD DUE TO YOUR DEFAULT, YOU ARE ENTITLED TO ANY SURPLUS OBTAINED AT SUCH SALE BEYOND WHAT IS OWED PURSUANT TO THIS AGREEMENT ALONG WITH ANY REASONABLE COSTS OF RECOVERY AND SALE.

How much interest and other fees can I be charged on a car title loan?

The amount of interest depends on the amount of the loan. Here is the breakdown of annual interest rates:

- 264% for the portion of the loan under \$700
- 216% for the portion between \$700 and \$1400
- 180% for the portion over \$1400

As you can see, these are very high interest rates, which make these loans something to be avoided.

The lender is allowed to use a single “blended” interest rate instead of the above breakdown, but only if the loan is for more than \$700.

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 the interest, the lender is allowed to charge other fees, including a late fee not greater than 5% of the installment payment that is late.

How much can I borrow against my car title?

The principal amount of the loan can’t exceed 50% of the loan value of your vehicle. A car title loan company would be in violation of the law if they try to loan you more than that.

How much time do I get to repay the loan?

Car title loan agreements must be for a period of at least 120 days, but not more than 12 months. The loan agreement must provide for substantially equal monthly installments.

What if I change my mind after I take out the 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.

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What can the car title lender do to me if I can't pay off my loan?

The general rule is: the lender can only repossess your vehicle and sell it to try to get their money back if you default on the loan. They cannot sue you for what's left to be paid on the loan. They can't sue you for the difference between what you owe and what they get by selling it after repossession (that's called a "deficiency"). The lender's "remedy" is limited to repossession and what they get from the sale.

There are some exceptions to this general rule. The lender is not limited to repossession and resale, and can in fact sue you, if you: a) intentionally damage or destroy the vehicle, b) intentionally hide the vehicle, c) give the lender a title that already has a lien against it that you don't tell the lender about, or d) give the lender a clear title, but then later give a lien or sell the vehicle to someone else without the lender's consent.

What happens when the car title lender wants to repossess my car if I can't pay off the loan?

The car title loan company can repossess your vehicle if you don't pay on time as required by the loan agreement. In fact, as stated above, repossession is the only remedy the lender can seek, with the exceptions already mentioned.

The loan company has to give you at least 10 days advance written notice of their intention to repossess the vehicle. The notice must state the principal and interest due. It must also inform you that you can avoid repossession by paying that amount before the date of repossession.

After repossession, the company must give you at least 15 days notice before the sale of the vehicle. The notice has to include: 1) the date and time after which it might be sold; 2) the principal balance due; 3) interest accrued through the date of repossession (interest can't be charged after the date of repossession); and 4) reasonable expenses of repossession, preparing for sale, and selling the vehicle. The law does not allow a car title loan company to make you pay for storage fees after repossession.

You have the right to get the vehicle back any time before the sale by paying the loan company all the money listed in the preceding paragraph. This is called your "right of redemption."

Within 30 days after the company gets its money from the sale of the vehicle, if they sold the vehicle for more than what you owed, they have to give you any money left over after they deduct the principal and interest due, as well as reasonable expenses of repossession, preparing for sale, and selling the vehicle.

On the other hand, the vehicle may sell for less than the total balance, interest, and costs owed. This is called a "deficiency." The lender is not allowed to collect that deficiency from you, nor can they sue you for it. The exceptions to this are if you: 1) intentionally destroyed, damaged,

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or hid the vehicle; 2) gave the lender a title that already had a lien against it that you didn't disclose; or 3) gave someone else a lien or sold the same vehicle after you took out the car title loan, without the lender's permission.

What should I do if the car title lender sues me?

First, pay very careful attention to any hearing dates or deadlines to respond to the lawsuit. If you do not properly answer on time, or if you miss a hearing, you will most likely lose and the judge will rule against you.

Second, you are strongly encouraged to call legal aid or a private attorney as soon as you are served with papers.

Third, remember that the general rule is that the car title lender is not allowed to sue you even if you're in default, but is limited to repossessing and selling your vehicle. (see above) You should raise this defense in your response to the lawsuit.

Fourth, if the car title lender has a legitimate suit against you and gets a court judgment, and if you do not pay the judgment, then the lender may try to garnish your wages or bank accounts. Or the lender may try to take some of your property to satisfy the judgment. If that happens, you may be able to claim part or all of your wages, bank accounts, or property as exempt under the law. You should contact legal aid or a private attorney if you receive notice of garnishment or other attempts to collect on the judgment.

What happens if a car title lender breaks the laws that govern how they can operate?

The State Corporation Commission licenses certain companies to make car title loans in Virginia. The SCC sets the rules and regulations under which they operate. The SCC can also take away their license if they show a pattern of violating those rules.

You also have the right to sue the car title loan company if they violate the law. If you are successful, the court may order the company to reimburse you for your attorney's fees, expert witness fees, and court costs.

It is a class 1 misdemeanor for anyone to engage in car title lending without being properly licensed by the State Corporation Commission. The possible penalty is up to one year in jail, a \$2,500 fine, or both.

If you have a complaint against a car title loan company, contact the Bureau of Financial Institutions toll free, at (800)552-7945. For more information, see <http://www.scc.virginia.gov/bfi>.

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You can also file a complaint with the Consumer Financial Protection Bureau in Washington, D.C., by calling 855-411-2372. For more information, see <http://www.consumerfinance.gov/contact-us/>

When trying to collect the debt from me, how is the car title lender limited by the federal Fair Debt Collection Practices Act?

The federal Fair Debt Collection Practices Act (FDCPA) puts limits on what debt collectors are allowed to do. The Act usually applies only to companies or individuals who are trying to collect a debt on behalf of another lender or creditor. The easiest example is when a debt you owe is turned over to a collection agency to try to get payment from you.

But the Virginia laws regarding car title loans say that car title lenders must follow the restrictions and prohibitions contained in the FDCPA regarding harassment or abuse, false or misleading misrepresentations, and unfair practices, even though they're trying to collect on their own loans and have not turned it over to a collection agency.

Some of the prohibited acts include: (these are examples and are not intended as a complete list)

- Using obscene or profane language.
- Threatening harm to you or someone else.
- Threatening to harm your property or your reputation.
- Threatening to have you arrested or saying you've committed a crime by not paying your debt. (You can't be arrested or charged with a crime for failure to pay a debt.)
- Contacting you at your workplace, unless you've agreed to allow this.
- Calling you before 8:00 a.m. or after 9:00 p.m.
- Giving false information about you to anyone.
- Misrepresenting themselves as an attorney or a law enforcement official.
- Talking to other people about your debt without your permission, except that they can contact others to try to find out your address or phone number.

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Free Legal information by Web and Phone: www.vlas.org and
1-866-LegalAid (534-5243)

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