Virginia's Payday and Title Lending Markets Among the Nation's Riskiest

Policymakers can look to other states' experiences to modernize small-loan laws

Overview

Americans from all walks of life use payday and vehicle title loans, and they do so typically to cover recurring expenses such as rent, mortgage payments, groceries, and utilities, rather than for unexpected expenses.[1] Only a checking account and verifiable income are needed to get a payday loan;[2] a clear title to a vehicle is usually required to get a title loan.

Lenders issue these loans to hundreds of thousands of Virginians each year. And this high-cost credit carries some of the most lax borrower protections in the country because lenders operating in the state can make loans according to any of four statutes, two of which allow unlimited interest rates.[3] (See Table 1.) As a result, Virginia residents pay up to three times more for this type of credit than borrowers in other states, even those who get loans from the same companies.[4]

Other states, such as Colorado and Ohio, have modernized small-loan laws to make credit more affordable while keeping it widely available.[5] Virginia could follow their lead to better protect borrowers from harmful loan terms. (See Table 2.)

Table 1

Virginia Borrowers Face High Prices and Weak Consumer Protections

Terms by loan type

Payday loans	Vehicle title loans	Open-end lines of credit
• Average payday loan annual percentage rate: **251 percent** • Companies charge three times in Virginia what they do in other states	• Average title loan: $1,116 • Average repayment: **$2,700** • Repossession rates among highest in the country • **130 percent** increase in storefronts since 2010	• No license required • No interest rate limits • Storefront and online lenders often charge annual interest rates of **299 percent or more**

Sources: Pew's analysis of lenders' advertised terms and Virginia Bureau of Financial Institutions, "The 2018 Annual Report of the Bureau of Financial Institutions" (2019), https://www.scc.virginia.gov/bfi/annual.aspx; The Pew Charitable Trusts, "Auto Title Loans: Market Practices and Borrowers' Experiences" (2015), https://www.pewtrusts.org/en/research-and-analysis/reports/2015/03/auto-title-loans

Payday and title loans harm Virginians

Virginia's small-loan statutes have unusually weak consumer protections, compared with most other laws around the nation. As a result, Virginia borrowers often pay more than residents of other states for loans and suffer harmful outcomes, such as vehicle repossession and fees and interest that exceed the amount they received in credit.

- 1 in 8 title loan borrowers in Virginia has a vehicle repossessed each year, one of the nation's highest rates.[6]
- Lenders sell 79 percent of repossessed vehicles in the state because borrowers cannot afford to reclaim them.[7]
- Many lenders operate stores and online in Virginia without licenses, issuing lines of credit similar to credit cards, but with interest rates that are often 299 percent or higher, plus fees.[8]
- Virginia is one of only 11 states with no cap on interest rates for installment loans over $2,500.[9]
- Virginia has no interest rate limit for lines of credit and is one of only six states where payday lenders use such an unrestricted line-of-credit statute.[10]
- Virginia laws enable lenders to charge Virginians up to three times as much as customers in other states for the same type of loans.[11]
- More than 90 percent of the state's more than 650 payday and title loan stores are owned by out-of-state companies.[12]

9 in 10 payday and title loan stores in Virginia are owned by out-of-state companies that take their profits out of Virginia.

Virginia can balance affordability and access to credit by modernizing its small-loan laws

In 2018, Ohio lawmakers replaced harmful payday and title loans with affordable installment credit at lower prices. Estimates of the resulting savings to Ohio families top $75 million annually, which goes back into the state's economy.[13] And access to credit remains widely available in Ohio from hundreds of licensed providers, with new competition from lower-cost lenders.[14]

Ohio's Fairness in Lending Act of 2018 requires lenders to give borrowers sufficient time to repay in equal installments, with payments taking up only a small share of borrowers' paychecks.[15] Under the act, any loan issued in violation of state law, whether originating online or in stores, is null, void, and uncollectible, and the attorney general is empowered to enforce this provision.

In Colorado similar reforms, enacted in 2010, yielded commensurate results, with lower prices, affordable payments, and reasonable times to repay.[16] Stores in the state doubled their efficiency, to about 1,100 unique borrowers per year.[17]

Borrowers in these and other states with sensible small-lending laws have not turned in great numbers to unlicensed lenders.[18]

With prudent reforms like those in Ohio and Colorado, Virginia policymakers can reduce costs for their constituents, creating affordability for borrowers and a viable market for lenders, including lower-cost providers that currently avoid operating in the state because of its outdated laws,[19] and saving families more than $100 million annually.[20]

Table 2

Small-Dollar Loan Prices in Virginia Are About 3 Times Those in Ohio

Costs for sample loans, by state

	Virginia	Ohio
Cost to borrow $500 for four months	$480	$160
Cost to borrow $1,000 for one year	$1,512	$538
Rate limit for lines of credit	Unlimited	28 percent
Rate limit for loans above $2,500	Unlimited	25 percent
Do payday loan chains operate in the state?	Yes	Yes

Notes: The $500 example is based on a loan made under Virginia and Ohio's payday loan statutes. In Virginia, $1,000 loans such as the example shown are made under the state's title loan or open-ended credit statutes.

Sources: Pew's analysis of Ohio Revised Code Chapter 1321, Ohio House Bill 123 (2018), https://www.legislature.ohio.gov/legislation/legislation-documents?id=GA132-HB-123; Virginia Bureau of Financial Institutions, "The 2018 Annual Report of the Bureau of Financial Institutions" (2019), https://www.scc.virginia.gov/bfi/annual.aspx

Endnotes

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5 Colorado Deferred Deposit Loan Act, C.R.S. § 5-3.1-101 (2010), https://coag.gov/office-sections/consumer-protection/consumer-credit-unit/uniform-consumer-credit-code/; Colorado Supervised Loans and Supervised Lenders Act, C.R.S. § 5-2.3-301, https://coag.gov/office-sections/consumer-protection/consumer-credit-unit/uniform-consumer-credit-code/. Payday lenders in Colorado operated under the Deferred Deposit Loan Act from 2010 through January 2019, when a ballot initiative amended the act. Since then, they have been regulated by the Supervised Loans and Supervised Lenders Act. Both laws have rate limits, which result in loan prices that are generally about three times lower than those in Virginia and require that loans be repaid in installments.

6 The Pew Charitable Trusts, "Auto Title Loans: Market Practices and Borrowers' Experiences" (2015), https://www.pewtrusts.org/en/research-and-analysis/reports/2015/03/auto-title-loans; Virginia Bureau of Financial Institutions, "The 2018 Annual Report."

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For further information, please visit:

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