HB 789/SB 421: Virginia Fairness in Lending Act

Strong protections, widespread access, $100+ million in savings statewide

In Virginia, payday and title lenders charge APRs that can top 200 and 300 percent. Hardworking families are being gouged because Virginia has some of the weakest consumer protections in the country. Comprehensive reform that is proven to work in other states would keep affordable credit widely available, level the playing field for responsible lenders, and ***put more than $100 million back in the pockets of Virginia families every year.*** *It would include:*

1. Affordable payments (not a debt trap)

Today, there are no limits on the size of payments payday and title lenders in Virginia can take from borrowers' accounts. These large unaffordable balloon payments lead to a cycle of debt. The typical auto title loan borrower takes a loan of $1,116, but has to repay more than $2,700. Reform would make loans affordable by limiting payments to 5% of each paycheck unless lenders give borrowers at least four months to repay. That would result in affordable payments around $125 per month for a typical borrower, shielding 95% of their income.

2. Enough time to repay (more than 2 weeks, but no endless debt)

Ordinary payday loans are due in just two pay periods— not enough time to repay— so most borrowers take another loan to pay their bills. Payday "lines of credit," like a credit card with 299% interest plus other fees, create long-term problems for consumers, because payments barely pay down loan principal. Reform would give borrowers enough time to repay— a few months for a $400 loan. Reform would curb unaffordable balloon payments and abusive lines of credit.

3. Fair prices (for borrowers and lenders)

Average annual percentage rates in Virginia are 251% for payday loans and 217% for title loans. Payday lenders charge even more for lines of credit. But the same companies charge far less in other states. Reform would limit interest rates to 36 percent and a reasonable monthly fee up to $25 per month and a total of no more than 50% of the loan. This will keep loans widely available but at much lower prices.

4. Widespread access to credit (with better outcomes)

When Colorado and Ohio enacted similar reforms, some payday loan stores closed but the rest took on more customers, and loans were still widely available. People can choose to take out a loan when they want one, but they pay much less and have much stronger consumer protections. Borrowers, faith leaders, and credit counselors report the loans are far less stressful and much safer because they have affordable payments and fair terms.

Virginia has some of the weakest consumer protections in the nation

- Virginia attempted to rein in payday lending in 2008 unsuccessfully;
- Lenders can avoid consumer protections by structuring loans as a “line of credit,” like a credit card with 299% interest plus other fees.
    - Virginia is one of only 6 states where payday lenders are using a line of credit statute with no interest rate limits.
- Lenders can also charge unlimited interest on loans above $2500, a practice prohibited by 40 states.
- As a result, lenders charge Virginia residents three times more than the same companies charge in other states .
- Despite modest efforts to control vehicle title loans in 2010, storefronts have more than doubled since.
- Virginia has among the highest vehicle title loan repossession rates in the nation.
- The typical vehicle title loan borrower takes a loan of $1,116, but has to repay more than $2,700;
- More than $200 million are drained each year from Virginians.