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COMMISSIONER OF
FINANCIAL INSTITUTIONS



**STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS**

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Consumer Alert Online Personal Loans

The State Corporation Commission's, Bureau of Financial Institutions ("Bureau") warns borrowers to **ALWAYS CHECK BEFORE YOU BORROW!**

A payday loan can offer quick and easy access to money for consumers who may be having temporary cash flow problems or are facing a financial emergency and need to borrow funds for a short length of time. Although these loans are convenient to obtain, consumers are strongly advised to be sure you know who you are dealing with and check to see if the entity is licensed.

A payday loan, under Virginia law, is limited to a maximum of \$500 and is due to be paid in full on a specific date which is at least twice as long as a borrower's pay cycle. For example, if you are paid weekly or more frequently, the loan must have a term of at least 14 days. If you are paid monthly, the loan term must be at least 62 days. The law allows the borrower only one payday loan at a time, and there is a database that the licensed payday lender must check to determine if the borrower is eligible for a payday loan. At the present time there are no Internet payday lenders licensed with the Bureau.

Increasingly, consumers will see and hear advertisements for online personal loans that offer the consumer money with repayment in installments over a stated period of time (such as every two weeks for several months or once a month for several months) or an open end line of credit (the consumer draws the amount of money they are approved for and then repays the money over a period of time - in theory once the payment is made in full, the consumer is able to draw again on the line of credit). **These types of loans are not payday loans as that term is specifically defined in the Code of Virginia.** Borrowers using the Internet to obtain these types of loans are typically asked to provide their bank account information. Once the borrower provides their bank account information on the Internet application, the lender will electronically transfer funds into a consumer's bank account and deduct payments directly from the consumer's bank account. Many consumers find the interest rates on these types of loans to be very high which means the consumer will repay significantly more money than they borrowed. Consumers also report they are often not able to repay the loan.

In addition to bank account information, other personal information the consumer provides could be misused. Further, some of the companies offering such services may be difficult to contact as they provide very little if any identifying information; in fact, they may be operating out of state or overseas to avoid licensing and regulations. **Unlike a bank, credit union, or a Virginia licensed lender, the consumer may have little to no recourse if they run into trouble doing business with a company who is operating over the Internet but is not licensed or not required to be licensed.**

A listing of licensed payday lenders can be found at
http://www.scc.virginia.gov/bfi/reg_inst/pay.aspx

or by calling the Bureau of Financial Institutions at 804-371-9657

or toll free at 1-800-552-7945 (ask for the Bureau of Financial Institutions)

Payday Loan Example

This example is based on the maximum fees permitted by Virginia law for a “payday loan” as defined under Virginia law. In this example the consumer is paid twice a month.

A lender signs a contract with a borrower, agreeing to take the borrower’s personal check as collateral for a cash advance. The lender agrees to not deposit the check until the date the loan is due, yet pays cash immediately to the borrower. Let’s say you want to borrow \$300 until you get your next paycheck. The payday loan term must be at least twice as long as your pay cycle, so assuming you are paid on a semimonthly basis, the loan term would be 31 days. You write a check to the payday lender for \$374.30 (36% interest for 31 days = \$9.30 interest, plus a loan fee of 20% of \$300 = \$60 loan fee, plus \$5.00 verification fee = \$374.30) and you get \$300 cash in return. The \$74.30 interest and fees that you pay on the loan calculates to an Annual Percentage Rate (APR) of 287.61%.