THE VIRGINIA SMALL LOAN ACT

REPORT OF THE
VIRGINIA ADVISORY LEGISLATIVE COUNCIL
To
THE GOVERNOR
And
THE GENERAL ASSEMBLY OF VIRGINIA

SD 12, 1968

COMMONWEALTH OF VIRGINIA
Department of Purchases and Supply
Richmond
1967

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REPORT OF THE
VIRGINIA ADVISORY LEGISLATIVE COUNCIL
TO
THE GOVERNOR AND THE GENERAL ASSEMBLY OF VRGINIA

Richmond, Virginia, November 27, 1967

TO:

HONORABLE MILLS E. GODWIN, JR., *Governor of Virginia*

and

THE GENERAL ASSEMBLY OF VIRGINIA

The Virginia Small Loan Act was originally adopted in 1918. Some 36 years later, in 1954, the then Governor, Thos. B. Stanley requested the Virginia Advisory Legislative Council to study and report on the laws relating to the operation and supervision of small loan companies in Virginia. After a very thorough study, the Council recommended an increase in the maximum loan limit from $300 to $600; an increase in the required minimum capital for engaging in the small loan business; that licenses should be issued only on the basis of convenience and advantage to the community; and that combinations of loans by any individual licensee totaling more than the single loan maximum to secure higher interest rates be prohibited. All of the above recommendations were adopted by the General Assembly in 1956. Experience since that time has proven these amendments to be a substantial improvement in the overall operation of the Small Loan Act.

The primary objective of the General Assembly in adopting legislation for the supervision and control of any segment of the business community is to provide a balanced means for meeting essential socioeconomic needs in a wholesome and dignified atmosphere. A balanced approach requires that the interests of the individuals providing the service are balanced against the need of and protection required by the consumer of that service.

As with all self-sustaining services in a burgeoning industrial society, the small loan industry exists to fill an essential public need. Any legislation which is intended for supervision and control of such an important financial segment of society influences both the cost of providing the services and the quantity and quality of the services rendered.

Many of Virginia's socioeconomic characteristics which bear directly upon the consumer finance industry are undergoing ever accelerating changes. Since the last study of the Small Loan Industry in 1955, Virginia's population has increased some 27 percent, from 3.6 million in 1955 to approximately 4.6 million in 1966. The cost of living index has increased from 93.3 in 1955 to nearly 115 in mid-1966. The average weekly earnings of factory workers has increased from $59.30 in 1955 to $90.45 in 1966.

An increase in these characteristics in turn reflects the increasing financial needs of the segments of our society dependent upon small loan companies for consumer finance services, as well as the increasing cost of providing these services to the public. A continuing study of the effects of such changes on the industry is essential if we are to maintain an adequate balance of interests and protection.

Recognizing the impact of these factors Governor Mills E. Godwin, Jr., on April 20, 1966, requested the Virginia Advisory Legislative Council to study and report on the Small Loan Act. The text of the Governor's letter to the Virginia Advisory Legislative Council is as follows:

COMMONWEALTH OF VIRGINIA

GOVERNOR'S OFFICE

RICHMOND

April 20, 1966

The Honorable Tom Frost
Chairman
Virginia Advisory Legislative Council
Warrenton, Virginia

Dear Mr. Frost:

The Small Loan Act of Virginia, Chapter 6, Title 6.1-244 through 6.1-309 was amended by the General Assembly in 1956 after a study by the Virginia Advisory Legislative Council, and the ceiling on small loans was increased from $300 to $600. This was done in a period of rising economy and inflation, which still exists today.

Nearly ten years have elapsed since that time and, during that ten-year period (1956-1966), I have been informed that twenty-four states other than Virginia have passed small loan laws increasing the small loan ceiling in those states to $1,000 or more.

I also understand that today the small loan companies in Virginia are serving over 325,000 families with outstanding loans of over $114 million with the use of private capital and that the average size loan has increased from $220.73 to $417.70, which were the figures issued in the 1964 Annual Report of the Bureau of Banking.

I believe this matter is of sufficient importance to merit a new study by the Virginia Advisory Legislative Council, and I respectfully request that such a study be conducted by the Council with particular attention to the ceiling on small loans, and any other aspects of the Small Loan Act which the Council may deem proper and deserving of further consideration of the General Assembly of 1968.

Sincerely yours,

/S/ Mills E. Godwin, Jr.

pf
CC: Secretary of VALC

The Council assigned the study to the Honorable Charles R. Fenwick, member of the Senate of Virginia and member of the Council, as Chairman of the Committee to make the initial study and report to the Council. Selected to serve with Senator Fenwick as members of the Committee were the following: Mrs. Leonard Beck, Housewife, Arlington; Joseph E. Blackburn, General Attorney, Chesapeake and Potomac Telephone Company, Richmond; W. E. Cundiff, Building Contractor and Realtor, Vinton; R. Crockett Gwyn, Jr., Member of the House of Delegates, Marion; Leon C. Hall, President, Norfolk Savings and Loan Corporation, Norfolk; Shirley T. Holland, Banker, former member of the House of Delegates, Windsor; H. H. Mitchell, Dean, School of Business, Virginia Polytechnic Institute, Blacksburg; William F. Parkerson, Jr., member of the Senate of Virginia and Attorney at Law, Henrico County; and Joseph M. Tusing, President, Tusing Finance Company, Portsmouth. Just prior to the completion of the study Mr. Tusing became ill and was thereby forced to resign from the Committee. Mr. John E. McDonald, President, Thrift Small Loan Corporation, and member of the City Council, Petersburg, was selected to serve in Mr. Tusing's stead.

The Committee met and organized and elected R. Crockett Gwyn, Jr., as Vice-Chairman of the Committee. G. M. Lapsley served as secretary and Robert L. Masden served as Staff Attorney to the Committee.

The Committee held several executive sessions and carefully considered all aspects of the Small Loan Act. The Committee also consulted with representatives of the State Corporation Commission and of the Bureau of Banking thereof, which supervises the operation of small loan companies. After due publicity the Committee held a public hearing at which time all interested individuals, groups and organizations throughout the State were afforded an opportunity to present any suggestions or recommendations which they had concerning the matters under study.

After considering the many suggestions and recommendations made to it, the Committee completed its deliberations and made its report to the Council. The Council has reviewed the Report of the Committee and now presents its findings and recommendations with reasons therefor.

RECOMMENDATIONS

I. That the ceiling on small loans be increased from $600 to $1,000.

(There will be no change in the rate of interest authorized under present provisions of the Small Loan Act. Loans from $300 to $1,000 will remain subject to the present 1½% per month rate under the present method of computing charges or its equivalent under the proposed optional method.)

II. That a maximum term of 31 months be authorized for loans in excess of $600.

III. That small loan companies be authorized to precompute charges on loans, as banks are authorized to do, as an optional method to that already established by law.

IV. That small loan companies be prohibited from collecting any further charges other than interest at six percent per year on any loan after the expiration of six months from the date of maturity, as originally scheduled or as deferred, in the event of deferment.

V. That the date for small loan companies to make their annual reports to the State Corporation Commission be changed from March first to April first.

VI. That discipline in the case of multiple loans to any one individual by more than one loan company be left to the small loan industry as a self-policing function.

REASONS FOR RECOMMENDATIONS

I. Increased ceiling on small loans—

When the Virginia Legislature in 1918 enacted the first comprehensive small loan company licensing and regulatory statute, it very carefully set forth in the statute the basic philosophies underlying the adoption of the Act. This reads in part as follows:

> ". . . it is recognized that the business of lending small sums of money upon security that is not acceptable to banks and financial institutions does and will exist . . ."

There were at that time and to some extent continue to be two primary reasons for licensing small loan companies and permitting them to charge a higher rate of interest than is authorized other financial institutions: first, borrowers who are willing to pay these rates of interest are usually unable to obtain credit at lower rates from other financial institutions because of inherently greater financial risk to the lender; second, the expenses of handling these small loans are proportionately higher than in the case of loans for larger amounts to better credit risks.

At the time of the 1918 enactment the phrase "consumer banking" was unknown. The individual who needed a small sum of money for a short period of time was forced to go to family or friends who might be as impecunious as he, or to individuals who engaged in the business of making such loans. The practices of some of these individuals who engaged in this type of money lending were not of the highest order. This fact was recognized by the 1918 Act which stated that it was its purpose to stifle these so-called "loan sharks" by permitting the licensing of legitimate regulated small loan companies.

During the intervening years, and particularly during the past two decades, banks and other lending institutions have entered, to some degree, the consumer credit field. The entry of these financing institutions into the consumer credit field has had the effect of materially changing conditions which existed at the time of the enactment of the first small loan provisions in 1918. Their entry has diminished to some degree the scarcity of available consumer type loanable funds to the higher type credit risks. There remains, however, a strong need for funds by the less preferential credit risks in amounts in excess of that presently available under the $600 ceiling now imposed upon small loan companies.

In spite of the increasing availability of funds in the higher loan limits, there is still a large segment of our society which does not qualify for loans by these other financial institutions. It was the intention of the General Assembly then, and we feel continues to be, that the small loan companies be permitted to serve the needs of the people in this segment of our economy.

As noted in the preface to the report, the cost of living index has risen sharply in the last ten years. The average income of a factory worker in Virginia has also increased in like proportion. Similarly, the cost of the material needs of individuals in this segment has also increased. We believe, therefore, that it may be safely assumed that the purchasing power of the $600 limit established in 1955 is approximately that of $1,000 at the present time.

Figures reported to the Committee indicate that since 1956 the amount of small loans outstanding has increased by more than 150% and the number of loans outstanding per capita has increased by more than 50%. Reports of the State Corporation Commission reveal that more than 65% of Virginia small loan borrowers now secure loans for more than $500 or for slightly less than the present ceiling. It is apparent that substantial numbers of individuals are presently borrowing from more than one small loan company simultaneously, although no information is available as to the exact number of such individuals. If such individuals could meet their needs through a single loan from a single lender they could realize great savings and less stringent repayment schedules.

Thus, we have concluded, based on the above facts, that an increase in the maximum loan limit to $1,000 would not substantially increase or change the clientele served by the small loan companies or cause any serious dislocation of the present competitive structure among the various financial institutions providing consumer financing, but would simply enable the same borrowers to secure adequate consumer credit to meet their needs under present economic conditions.

In recommending the $1,000 limit the Committee sought to carry through on the philosophy underpinning establishment of the Small Loan Act of 1918 by permitting the small loan company to serve fully the needs of these higher credit risks. We believe the natural forces in our economy will prompt persons with higher credit rating to seek out the other financial institutions to secure consumer credit at lower interest rates, especially for sums exceeding the proposed $1,000 limit.

In addition, a review of the loan ceilings for small loan companies in other states shows that Virginia has one of the lowest small loan ceilings in the nation. A compilation of loan ceilings in the several states may be found in Appendix I to this Report. An increase in the small loan ceiling in Virginia to $1,000 is consistent with the limits found appropriate in most states.

II. Maximum term of loans in excess of $600—

The present maximum authorized term for a loan is 21 calendar months from the date of making the contract. Thus, at present, a person may borrow up to $600 with repayments on the loan scheduled over 21 calendar months in substantially equal installments. If the ceiling is increased to $1,000 as we have recommended, we think it only appropriate that the borrower be permitted a longer term in which to repay the larger loan. We feel that it is extremely important that the borrower have sufficient time to make reasonable repayment on such loans so as not to be overburdening to him. We believe that 31 months will provide a reasonable repayment schedule for those who qualify for loans from $600 to $1,000.

III. Optional method of charge—

We believe that most people who buy or borrow on the installment plan like to know in advance what their total obligation will be in terms of dollars. They find percentages confusing and very few are able to calculate interest on the basis of the unpaid principal balance of a loan each month for the exact number of days such balance is outstanding—especially where a sliding rate structure is in effect as is presently required under the Small Loan Act.

Because of the natural tendency to avoid the complicated and confusing, virtually all installment creditors, who are not required by law to do otherwise, compute loan and finance charges in advance and the debtor is given a statement showing his total cost in terms of dollars and a schedule of repayment which liquidates both the principal and charges uniformly. Neither the debtor nor the creditor concerns himself with difficult computations during repayment, and special attention is not required, except when debtors prepay or refinance.

After studying the present required method of computing charges on loans made by small loan companies, we have concluded that a simplified method of computation, both for the understanding of the borrower and for the administrative work load of the lender, should be authorized and adopted. We have concluded that the most appropriate optional method would be the add-on method, similar to that generally prevailing in the banking industry. It is often, and somewhat more descriptively, referred to as the precomputation method.

It has been reported to us that the cost per loan to the lender has steadily increased in Virginia. The add-on method of charge would eliminate the figuring of interest each time a payment is made on a loan. Coupon books could be used and automation with the use of the add-on method of charge will mean less branch office expense and detail.

Under our recommendations, the present percent per month method of computing charges will be continued. The dollar add-on method, expressed in terms of dollars per $100 per year, will be authorized simply as an optional method. The lender will then be able to compute charges under either method depending on which he finds least confusing to the borrower and/or least expensive to himself. The method used, however, will provide no substantial difference in the return to the lender or expense to the borrower.

In summary, the recommended method is primarily a device of convenience to both the borrower and the lender. It produces a close actuarial equivalent of the "per-cent-per-month-on-the-unpaid-principal-balance-method" without the need to use complex time and interest calculators. It is in universal use in connection with installment sales transactions and has been accepted by the federal government both in the area of income taxes and depreciation of assets.

Under the optional method, charges will be computed at the time of making the loan. It should be pointed out that the dollar add-on method which we are recommending creates relatively complicated statutory language which deals with the problems arising from the precomputation of charges. When using this method, provision must be made for adjustments during the term of the loan caused by prepayment, which necessitates rebates, deferment charges and default charges. These provisions have also been designed to be as closely equivalent to the present method of charge as possible. The following table illustrates the equivalence of the two methods of computing charges:

TABLES OF COMPARABLE CHARGES

Term of loan	Amount of Loan	Present Basis		Add-On Basis		
		Monthly Payment	Total Charges	Yield % Mo.	Yr.	Add-On Total Charges
12 Months	100.00	9.77	17.24	2.53	30.36	17.00
	300.00	29.31	51.72	2.53	30.36	54.00
	500.00	48.26	79.12	2.34	28.08	75.00
	600.00	57.58	90.96	2.24	26.88	87.00
	800.00	76.10	113.20	2.10	25.20	111.00
	1000.00	94.56	134.72	2.00	24.00	135.00
24 Months	100.00	5.61	34.64	2.53	30.36	34.00
	300.00	16.83	103.92	2.53	30.36	102.00
	500.00	27.43	158.32	2.33	27.96	150.00
	600.00	32.55	181.20	2.23	26.76	174.00
	800.00	42.71	225.04	2.10	26.20	228.00
	1000.00	52.80	267.20	1.99	23.88	270.00
36 Months	100.00	4.26	53.36	2.53	30.36	51.00
	300.00	12.80	160.80	2.53	30.36	158.00
	500.00	20.62	242.32	2.32	27.84	225.00
	600.00	24.35	276.60	2.22	26.64	261.00
	800.00	31.74	342.64	2.07	24.84	333.00
	1000.00	39.06	406.16	1.99	23.64	405.00

The alternate computation of charges we are proposing involves the direct ratio method, more properly called the sum of the digits method, but almost universally referred to as the "Rule of 78's."

Traditionally, the sum of the digits method has been thought of as a means of calculating rebates only, but it is also adaptable to the other adjustments which may be necessary during the life of the loan such as defaults, deferments, and adjustments of due dates.

The essence of the Rule of 78's (using a 12 month installment transaction, for example) is that the borrower has the use of twelve times as much of the principal during the first month as he has during the last month and, therefore, the only fair and accurate way to determine charges, rebates, and other adjustments would be on the basis of the ratio that the charge bears to total action units of the periodic balances outstanding.

If the number of these installment units outstanding each month is added together (12+11+10+9 . . . 2+1), the total is 78 for this particular loan period of 12 months. Therefore, if the loan runs to maturity, the borrower has had the full use of all 78 monthly installment units.

Following through with an example, the first month he has the use of 12 installment units or 12/78ths of the total units in the entire loan period. At the end of the second month he has had the use of 23 installment units (12+11) or 23/78ths of the total. At the end of three months the number of units would total 33, for example (12+11+10). If the loan were repaid at this point, the total of installment units outstanding in the remaining nine months would be the sum of the remaining numbers 1 through 9. Since the borrower has had the use of 33/78ths of the action of the loan, the refund or credit to the borrower would be 45/78ths of the total charge. In the case of a loan charge of $17 per $100 for one year, the rebate for the nine months which were prepaid would be 45/78ths of $17 or $9.81.

We have also provided that the first installment due date may exceed one month by as much as 15 days. This is necessary so that the payment schedule can be made to mesh with the income schedule of the borrower.

During the life of a loan, deferments are sometimes necessary. A deferment might be thought of basically as a breathing space or break in the schedule of payments. Many borrowers need a respite from the payment terms as originally scheduled due to unforeseen circumstances such as illness, layoffs, etc. When a deferment is granted, *all* the remaining unpaid installments are extended beyond the original maturity date, and the borrower is not required to make any payment during the period of deferment. The deferment charge is not an extra charge, it is similar to an "interest only" payment for the particular period involved and merely maintains the agreed rate of charge for the additional time the borrower has the use of the money and, at the same time, helps the borrower by avoiding delinquency.

Three special considerations must be made:

(1) The deferment is based upon full months, not parts of months, therefore, any installment in which a partial payment has been made should not be included in the deferment unless the partial payment is refunded to the borrower or credited to the deferment charge.

(2) Since a deferment is an adjustment of the contract, there can be no default charge on the installment being deferred. Therefore, if a default charge has been collected, that default charge should also either be refunded to the borrower or credited to the deferment charge if that installment is to be included in the deferment.

(3) If a borrower should prepay a loan in full during a period of deferment, he would be entitled to a rebate of a portion of the deferment charge applicable to the unexpired full months in the deferment period.

Defaults sometimes occur in spite of the best efforts of all concerned. The whole theory of the precalculated loan is that the payments are to be made exactly according to schedule as originally contracted for, or as modified by reason of a deferment. If the borrower does not make his payments on schedule, the lender will not receive what he contracted to receive. Therefore, some adjustment must be made for this unilateral breach of the contract. The traditional default charge in the United States is five cents per dollar and that is what we have provided. In order to protect the borrower, a grace period of 7 days is provided. Thus, in effect, where the loan charge is precalculated, the borrower can use the lender's money free of charge for up to 6 days in each installment period. Under the present law, the borrower may be charged for each day, since he has no grace period.

We have also included a provision for converting a precalculated loan to an interest bearing loan in the event of serious delinquency. This conversion provision will not come into play until a loan is three months past due. This language would permit the lender, in the event of serious delinquency, to convert a precalculated loan by giving the required rebate and then charging the monthly interest rate. The monthly rate would be the rate that was in effect at the time the loan was made.

IV. Limitation of interest after maturity of loan—

The change proposed here will tie the time limit of charges at the contract rate to maturity rather than to the maximum term of the loan. Basically, the proposed amendment provides that the interest charge should be at the contract rate for no longer than six months after maturity. At present, the law provides that the contract rate should be charged only during the twenty-three months after the date of the making of the note. Consequently, as the law is presently written, a person who executed a note payable in six monthly installments could be charged the contract rate for an additional seventeen months.

As provided in the proposal, this borrower in our example would only be charged the contract rate for six months after the date of maturity or a total of twelve months at the higher rate. Following that period the legal rate of interest would apply. We believe that this proposal should be enacted in light of the proposed changes in the maximum term of loans in excess of $600. This appears to be the fairest and most reasonable method of handling this situation.

V. Annual reports of small loan companies—

We have recommended that annual reports presently required by law of small loan companies to the supervising State agency, the State Corporation Commission, be adjusted from March first to April first of each year. This proposal will give the individual small loan companies an additional month to prepare the report and will allow sufficient time for the various companies to assemble the required information after the closing of the calendar year.

VI. Multiple loans to individual borrowers—

In order to protect the careless borrower from his own irresponsibility, we considered whether or not certain limitations should be made upon small loan companies to prevent any individual from securing, from several different small loan companies simultaneously, loans totalling in excess of the maximum authorized. We were unable to determine to what extent this is occurring in the industry. It appeared that it may be prompted by the $600 limitation presently imposed upon individual small loan companies. In other words, when it occurs, it usually involves an individual who needs more than the $600 maximum presently offered and cannot qualify with other lending institutions. To solve his problem, he may borrow the maximum from two or three different small loan companies. In such cases he frequently is unable to meet the repayment schedules. Various alternatives which might prevent these occurrences were considered. We were advised that the small loan companies in the urban areas are establishing clearing houses whereby such duplication of loans can be discovered and further complications prevented. In the rural areas, however, there are no such clearing houses. People who are seeking such loans are quite often able to conceal the fact of previous loans and thus deceive the loan companies who through the normal investigative procedures are not able to discover their existence.

In order to enforce such restrictions against small loan companies, it would be necessary to establish that they had knowledge or notice of the other oustanding loans. Present methods of reporting and recording credit information on individuals would not be sufficient to give the requisite notice. In addition, we feel that each loan company before making a loan does make every effort to determine the credit potential of each individual customer. A part of this investigation includes a determination of the customer's present obligations. In addition, while the individual customer may suffer from borrowing too much money in this fashion, the small loan company making the loans to people who obviously do not have the potential of meeting all of their outstanding obligations is bound to be the economic loser. This very fact is a highly motivating factor on the part of the individual small loan company to prevent such duplication. Also, an individual whose potential would qualify him to secure amounts in excess of $1,000 would not seek a small loan company for a loan since he could secure such a loan from other financial institutions at a lower rate of interest.

As in our previous study of the Small Loan Act (1955), concerning the problem of a borrower securing more than one loan with different small loan companies, we have concluded that legislative prohibitions in this area would be meaningless since they would be virtually impossible to enforce. We feel it is best to leave the discipline in this area to the small loan industry. This is consistent with our general philosophy in Virginia of relying as far as possible upon self-discipline and enacting laws to impose discipline only when the more positive approach fails to be effective.

CONCLUSION

We desire to thank the members of the Committee for the time and effort given by them in carefully and thoroughly studying this crucial problem. We also express our appreciation to the many individuals, officials and organizations who afforded the Committee the benefit of their experience, research and suggestions.

Proposed legislation necessary to effectuate the Council's recommendations is included in Appendix II of this Report.

Respectfully submitted,

TOM FROST, *Chairman*
CHARLES R. FENWICK, *Vice-Chairman*
C. W. CLEATON
JOHN WARREN COOKE
JOHN H. DANIEL
J. D. HAGOOD
CHARLES K. HUTCHENS
J. C. HUTCHESON
GARNETT S. MOORE
LEWIS A. McMURRAN, JR.
SAM E. POPE
ARTHUR H. RICHARDSON
WILLIAM F. STONE
EDWARD E. WILLEY

APPENDIX I

*LOAN CEILINGS UNDER SMALL LOAN ACT & OTHER LAWS**

$2,500 CEILING & OVER

1. Alabama	—$300 under Small Loan Act; No ceiling under General Interest Law.
2. Arizona	—$1,000 under Small Loan Act; $5,000 under Installment Loan Act.
3. California	
4. Colorado	—$1,500 under Small Loan Act; No ceiling under Money Lenders Act.
5. Delaware	—Loan size based on capital and surplus.
6. Georgia	
7. Hawaii	—$300 under Small Loan Act; No ceiling under Industrial Loan Act.
8. Illinois	—$800 under Small Loan Act; $5,000 under Installment Loan Act.
9. Indiana	—$1,000 under Small Loan Act; Ceiling 10% of capital under Industrial Loan Act.
10. Iowa	—$1,000 under Small Loan Act; Ceiling 20% of capital and surplus under Industrial Loan Act.
11. Kansas	—$2,100 under Small Loan Act; No ceiling under Installment Loan Act.
12. Kentucky	—$800 under Small Loan Act; $5,000 under Industrial Loan Act.
13. Louisiana	—$300 under Small Loan Act; No ceiling under Usury Law.
14. Maine	
15. Massachusetts	
16. Minnesota	—$600 under Small Loan Act; Ceiling 10% of net worth under Industrial Loan Act.
17. Mississippi	
18. Missouri	
19. Nebraska	
20. Nevada	
21. New Hampshire	—$1,500 under Small Loan Act; No ceiling under General Interest Law.
22. Oklahoma	—$300 under Small Loan Act; No ceiling under Usury Law.
23. Oregon	—$1,500 under Small Loan Act; Ceiling 5% of net worth under Industrial Loan Co. Act.
24. Pennsylvania	—$600 under Small Loan Act; $3,500 under Consumer Discount Company Act.
25. Rhode Island	
26. South Carolina	
27. South Dakota	

* States have been ranked according to loan ceiling where a dual business or joint operation is permitted in the same office. For example, in a Maryland office loans are permitted up to $300 under the Small Loan Act and up to $1,500 under the Industrial Finance Law.

Arkansas has no operable loan laws.

28. Tennessee
29. Utah —$600 under Small Loan Act; $5,000 under Industrial Loan Act.
30. Washington —$1,000 under Small Loan Act; No ceiling under Industrial Loan Co. Law.

$2,000 CEILING

1. Ohio
2. Wisconsin —$300 under Small Loan Act; $2,000 under Sec. 115.09.

$1,500 CEILING

1. Maryland —$300 under Small Loan Act; $1,500 under Industrial Finance Law.
2. Texas

$1,000 CEILING

1. Alaska
2. Connecticut
3. Idaho
4. Michigan
5. Montana
6. New Mexico
7. North Dakota
8. Wyoming

$800 CEILING

1. New York
2. West Virginia

$600 CEILING

1. Florida
2. North Carolina
3. Vermont
4. Virginia

$500 CEILING

1. New Jersey

DIGEST OF LOAN CEILING INCREASES BY STATE
JANUARY 1, 1955 THROUGH SEPTEMBER 1, 1966

Alabama:	1960—New Small Loan Law enacted with $300 ceiling; loans permitted over $300 (no ceiling) under General Interest Law.
Arizona:	1956—Small loan ceiling increased from $300 to $600.
	1957—Industrial loan ceiling increased from $1,000 to $3,500.
	1963—Small loan ceiling increased from $600 to $1,000.
Colorado:	1955—Small loan ceiling increased from $300 to $1,500.
Connecticut:	1957—Small loan ceiling increased from $500 to $600.
	1963—Small loan ceiling increased from $600 to $1,000.
Florida:	1957—Small loan ceiling increased from $300 to $600.
Georgia:	1955—New law enacted with $2,500 ceiling.
Illinois:	1957—Small loan ceiling increased from $500 to $800.
	1963—New Installment Loan Law enacted with $5,000 ceiling.
Indiana:	1963—Small loan ceiling increased from $500 to $1,000.
Iowa:	1965—Small loan ceiling increased from $500 to $1,000.
	1965—New Industrial Loan Law enacted with $5,000 ceiling.
Kansas:	1955—New Small Loan Law enacted with $2,100 ceiling.
	1965—New Industrial Loan Law enacted with $3,000.
Kentucky:	1960—New Small Loan Law enacted with $800 ceiling.
Massachusetts:	1962—Small loan ceiling increased from $1,500 to $3,000.
Michigan:	1963—Small loan ceiling increased from $500 to $1,000.
Missouri:	1959—Consumer Finance Act ceiling increased from $1,500 to no maximum.
Montana:	1959—New Small Loan Law enacted with $1,000 ceiling.
Nebraska:	1957—Small loan ceiling increased to $3,000.
Nevada:	1959—New Installment Loan Law enacted with $2,500 ceiling.
New Hampshire:	1961—Small loan ceiling increased to $1,500.
New Mexico:	1955—New Small Loan Law enacted with $1,000 ceiling.

New York:	1960—Small loan ceiling increased from $500 to
North Carolina:	1961—New Small Loan Law enacted with $600 ceiling.
North Dakota:	1960—New Small Loan Law enacted with $1,000 ceiling.
Ohio:	1961—Small loan ceiling increased from $1,000 to $2,000.
Oregon:	1955—New Small Loan Law enacted with $1,500
Pennsylvania:	1963—Consumer Discount Law ceiling increased from $2,000 to $3,500.
Rhode Island:	1966—Small loan ceiling increased from $300 to $2,500.
South Carolina:	1966—New Small Loan Law enacted with $7,500 ceiling.
Texas:	1963—New Small Loan Law enacted with $1,500 ceiling.
Utah:	1955—New Small Loan Law enacted with $600 ceiling.
	1955—New Industrial Loan Law enacted with $5,000 ceiling.
Virginia:	1956—Small loan ceiling increased from $300 to $600.
West Virginia:	1963—Small loan ceiling increased from $300 to $800.

APPENDIX II

A BILL To amend and reenact §§ 6.1-249, 6.1-271, 6.1-272, 6.1-276, 6.1-277, 6.1-280, 6.1-282, 6.1-285, 6.1-286, 6.1-287, 6.1-291, 6.1-294 and 6.1-301, as severally amended, of the Code of Virginia relating to the Small Loan Act.

Be it enacted by the General Assembly of Virginia:

1. That §§ 6.1-249, 6.1-271, 6.1-272, 6.1-276, 6.1-277, 6.1-280, 6.1-282, 6.1-285, 6.1-286, 6.1-287, 6.1-291, 6.1-294 and 6.1-301, as severally amended, of the Code of Virginia be amended and reenacted as follows:

§ **6.1-249. Compliance with chapter; license required.**—No person shall engage in the business of lending in amounts of * *one thousand* dollars or less, and charge, contract for, or receive, directly or indirectly, on or in connection with any loan, any interest, charges, compensation, consideration or expense which in the aggregate are greater than the rate otherwise permitted by law except as provided in and authorized by this chapter and without first having obtained a license from the Commission.

§ **6.1-271. Maximum rates of charge set by Commission.**—*(1)* The Commission shall investigate from time to time the economic conditions and other factors relating to and affecting the business of making loans under this chapter, and shall ascertain all pertinent facts necessary to determine what maximum rates of charge should be permitted. Upon the basis of such ascertained facts, and subject to the restrictions, provisions and limitations imposed by this chapter, the Commission shall determine and fix by regulation or order the maximum rates of charge in connection with such loans which will induce efficiently managed commercial capital to be invested in such business in sufficient amounts to make available adequate credit facilities to individuals seeking such loans, and which will afford those engaged in such business a fair and reasonable return upon the assets; provided, however, that the Commission shall not fix any such rates of charge in excess of two and one-half per centum a month on that part of the unpaid principal balance of any loan not in excess of three hundred dollars, and one and one-half per centum a month on any remainder of such unpaid principal balance. Subject to such limitation as to maximum rates, the Commission may from time to time, upon the basis of changed conditions or facts, redetermine and refix any such maximum rates of charge, but, before determining or redetermining any such maximum rates, the Commission shall give reasonable notice of its intention to consider doing so to all licensees and a reasonable opportunity to be heard and introduce evidence with respect thereto and such notice shall also be published once each week for two consecutive weeks in some newspaper published in or having a general circulation in the county, city or town in which any small loan licensee has an office. Any such changed maximum rates of charge shall not affect preexisting loan contracts lawfully entered into between any licensee and any borrower.

(2) Optional Method of Computing Charges—In lieu of computing charges at the monthly rate upon unpaid principal balances from time to time outstanding, a licensee may, when the loan contract is repayable in substantially equal installments of principal and charges combined, compute charges in terms of dollars per one hundred dollars per year and proportionately for longer or shorter periods of time, on the original principal at the time the loan is made for the full term of the loan contract from the date of making to the date of maturity without regard

to any requirement for installment payments, and such charges so computed shall be added to the principal of the loan. Whenever the Commission shall redetermine and refix the maximum monthly rate of charge, it shall also redetermine and refix the rate of charge in terms of dollars per one hundred dollars per year which shall be the approximate equivalent when calculated to maturity, rounded off to the nearest whole dollar, of the maximum monthly rates of charge redetermined and refixed pursuant to subsection (1) above based on a loan repayable in twelve substantially equal consecutive monthly installments of principal and charges combined; provided, however, that the Commission shall not fix any such rates of charge stated in terms of dollars per one hundred dollars per year in excess of seventeen dollars per one hundred dollars per year on that part of the original principal balance of any loan not in excess of three hundred dollars; and twelve dollars per one hundred dollars per year on that part of the original principal balance exceeding three hundred dollars but not exceeding one thousand dollars.

Where the charges contracted for are in terms of dollars per one hundred dollars per year, the provisions of the following subsections (a) through (g) shall apply:

(a) The charge shall be computed on the original principal at the time the loan is made for the full term of the contract from the date of making to the scheduled due date of the final installment without regard to any requirement for installment payments. When so computed, the charges shall be added to the principal of the loan and the face amount of any note or contract may, notwithstanding any other provision, exceed one thousand dollars by the amount of charges so added to the original principal amount, but if such loan contract is prepaid in full prior to maturity by cash, a new loan or otherwise, the portion of the charges originally added to the principal of the loan attributable to the installments following the date of prepayment in full shall be rebated.

(b) All payments made on account, except those applied to default or deferment charges, shall be deemed to be applied to the unpaid installments in the order in which they are due and the acceptance or payment of charges where such charges are added to principal as authorized herein shall not be deemed to constitute payment, deduction or receipt thereof in advance nor compounding under § 6.1-277.

(c) The amount of charges originally added to the principal of the loan applicable to any particular monthly installment period shall be that proportion of such charges, excluding any adjustment for a first installment period of more than one month, which the balance of the contract scheduled to be outstanding during such monthly period bears to the sum of all the monthly balances originally scheduled to be outstanding.

(d) Notwithstanding the requirement for substantially equal consecutive monthly installments, a first installment period may exceed one month by as much as fifteen days and the charges for each day exceeding one month shall be one-thirtieth of the charges which would be attributable to a first installment period of one month. The charges for such extra days in a first installment period may be added to the first installment and shall be excluded in computing any required rebate.

(e) If, as of an installment due date, the payment dates of all wholly unpaid installments are deferred for one or more full months and the maturity of the contract is extended for a corresponding period, the licensee may charge and collect a deferment charge which shall not exceed the amount of the charges originally added to principal attribut-

able to the first of the deferred installments multiplied by the number of months in the deferment period. The deferment period is that period of time in which no scheduled payment has been made or in which no payment is required by reason of the deferment. No installment on which a default charge has been collected or on account of which any partial payment has been made, shall be deferred or included in the computation of a deferment charge unless the default charge or partial payment is refunded to the borrower or credited to the deferment charge. Any payment received at the time of deferment may be applied first to the deferment charge and the remainder, if any, applied to the unpaid balance of the contract; provided, however, that if such payment is sufficient to pay, in addition to the appropriate deferment charge, any installment which is in default and the applicable default charge, it shall be first so applied, and any such installment shall not then be deferred or subject to the deferment charge. The deferment charge shall be excluded in computing any required rebate; however, if a rebate of charges originally added to the principal of the loan is required during a deferment period, then the borrower shall receive a rebate of the portion of the deferment charge applicable to any unexpired full months of the deferment period. The deferment charge may be collected at the time of deferment or at any time thereafter. After a deferment has been made the installments so deferred shall fall due in the same order as provided for by the contract originally and the portion of the charges originally added to the principal of the loan attributable to any such deferred installment shall be the same as was attributable to such installment originally. The deferment agreement may also provide for the payment by the borrower of any additional cost for continuing in force the deferred maturity insurance given as security for a loan.

(f) If any installment is not paid in full within seven days, Sundays and holidays included, after it is due, the licensee may charge and collect at that time, or at any time thereafter, a default charge not to exceed five cents for each one dollar of such installment, but such default charge may be collected only once on any installment.

(g) If two or more full installments are in default for one full month or more at any installment due date, and if the contract so provides, the licensee may reduce the contract balance by the rebate which would be required for prepayment in full on such installment due date. The amount remaining shall be deemed the unpaid principal balance. Thereafter the licensee may charge, collect and receive charges at monthly per centum rates not in excess of those in effect at the time the loan was made. Said charges shall be computed on the unpaid principal balances from time to time outstanding, applying all payments first to charges and the remainder, if any, to principal, until the loan is paid in full. When a contract has been adjusted as provided in this subsection, the charges shall not be subject to further rebate requirement nor shall any further default or deferment charges be made on such contract.

Nothing in this chapter shall be construed to prohibit a licensee from charging and collecting from the borrower the fees paid or payable for recording a lien on a certificate of title to a motor vehicle.

§ **6.1-272. Maximum rates prior to Commission action.**—Until such time as different rates are fixed by the Commission in accordance with the preceding section (§ 6.1-271), every licensee may contract for and receive on any loan of money, not exceeding * *one thousand* dollars in amount, charges at rates not exceeding two and one-half per centum a month on that part of the unpaid principal balance of any loan not in excess of three hundred dollars, and one and one half per centum a month on any remainder of such unpaid principal *or, in lieu thereof, when the loan contract is repayable in substantially equal installments of principal and charges combined, charges at a rate not exceeding seventeen dollars per one hundred dollars per year on that part of the original principal not exceeding three hundred dollars; twelve dollars per one hundred dollars per year on that part of the original principal balance exceeding three hundred dollars but not exceeding one thousand dollars. Such charges shall be computed on the original principal of the loan for the full term of the loan contract from the date of making to the date of scheduled maturity without regard to any requirement for installment repayments, and when so computed shall be added to the principal of the loan. When the charges contracted for are in terms of dollars per one hundred dollars per year, the provisions of subsection (2) of § 6.1-271 shall be applicable.*

§ **6.1-276. Limitation of interest after maturity of loan.**—For the period beginning * *six* months after the date of * *maturity, as originally scheduled or as deferred in the event of deferment, of* any loan contract under the provisions of this chapter, no further charges than interest at six per centum per annum shall be computed or collected from any party to the loan upon the unpaid * balance of the loan.

§ **6.1-277. Method of computing charges.**—*When* charges on loans * *are calcuated under the per-centum-per-month method authorized by subsection (1) of § 6.1-271, they* * shall not be paid, deducted, or received in advance, nor compounded. If part or all of the consideration for a loan contract is the unpaid principal balance of a prior loan, then the principal amount payable under the loan contract * *shall not* include any unpaid charges on the prior loan *except such charges* which have accrued within sixty days before the making of the new loan contract *but may include any unpaid balance remaining after giving any required rebate.* The inclusion of these charges shall not be made oftener than once each six months, the six months' period to be computed from the date of entering into the new loan contract; and the foregoing privilege is intended for the convenience of the borrower and is not to be construed or applied to validate a general course of dealings by a licensee with the intent and for the purpose of profit. *Except where the charges are expressed and computed on a dollar-add-on basis,* charges on loans shall (1) be computed and paid only as a percentage per month of the unpaid principal balance or portion thereof; (2) be so expressed in every obligation signed by the borrower, and (3) be computed on the basis of the number of days actually elapsed. For the purpose of computing charges, whether at the maximum rate or less, a month shall be * *that period of time from one date in a month to the corresponding date in the following month but if there is no corresponding date then to the last day of such following month and a day shall be one-thirtieth of a month where computation is made for a fraction of a month.*

§ **6.1-280. Advertising.**—No licensee or other person subject to this chapter shall advertise, display, distribute or broadcast, or cause or permit to be advertised, displayed, distributed or broadcast, in any manner, whatsoever, any false, misleading or deceptive statement or representation with regard to the rates, terms or conditions for loans in the amount or of the value of * *one thousand* dollars or less. The Commission may require that charges or rates of charge, if stated by a licensee, be stated fully and clearly in such manner as it deems necessary to prevent misunderstanding by prospective borrowers, and it may permit or require licensees to refer in their advertising to the fact that their business is under State supervision, subject to conditions imposed by it to prevent false, misleading or deceptive impression as to the scope or degree of protection provided by this chapter.

§ **6.1-282. Requirements for making and payment of loans.**—Every licensee shall:

(1) At the time any loan is made, deliver to the borrower, or if there are two or more borrowers to one of them, a * statement which * shall disclose in clear and distinct terms the amount and date of the loan, a clear description of the payments required, the type of security, if any, for the loan, *a notice that where the charges have been computed in terms of dollars per one hundred dollars per year that default and deferment charges may be added and if such loan is prepaid in full that a rebate of unearned charges will be made,* the names and addresses of the licensee and of the principal debtor on the loan contract and the agreed *charges or* rate of charge;

(2) *** *Give the borrower a plain receipt for all cash payments. The Commission may specify the form and content of such receipts in keeping with the intent and purpose of this chapter.*

(3) Permit payment to be made in advance * *in whole, or in part equal to one or more full installments,* but the licensee may apply the payment first to * *any amounts which are due and unpaid at the time of such* payment;

(4) Upon repayment of the loan in full, mark plainly every obligation and security other than a security agreement executed by the borrower with the word "Paid" or "Cancelled," mark satisfied any judgment, restore any pledge, cancel and return any note and any assignment given by the borrower to the licensee and release any security agreement or other form of security instrument which no longer secures an outstanding loan between the borrower and the licensee;

(5) In the event of collection by foreclosure sale or otherwise, pay and return to the borrower or to whomsoever is entitled thereto any surplus arising after the payment of the expenses of collection, sale or foreclosure and satisfaction of the debt.

§ **6.1-285. Installment payments.**—No licensee shall enter into any contract of loan under this chapter providing for installment payments extending more than twenty-one calendar months from the *scheduled* date of making the contract, *for loans of six hundred dollars or less in principal amount, and thirty-one calendar months from the date of making the contract for loans in excess of six hundred dollars in principal amount,* and every contract shall provide for repayment of the amount loaned in substantially equal installments, either of principal or of principal and charges in the aggregate, at approximately equal periodic intervals of time. But nothing contained in this chapter shall prevent a loan being considered a new loan because the proceeds of the loan are used to pay an existing contract.

§ **6.1-286. Limitation on borrower's or surety's indebtedness.**—No licensee shall permit any person, as borrower, or as endorser, guarantor or surety for any borrower, or otherwise, or any husband and wife, jointly or severally, to become obligated, directly or contingently, or both, (a) to the licensee at any time in a sum of more than * *one thousand* dollars in principal, nor (b) under more than one contract of loan at the same time for the purpose of obtaining a higher rate of charge than would otherwise be permitted by this chapter; provided, however, if a licensee purchases all, or substantially all, the loan contracts of another licensee and has at the time of the purchase loan contracts with one or more of the borrowers whose loans are purchased, the purchaser shall be entitled to collect the principal and charges according to the terms of each loan contract, but the purchaser shall not refinance or make a new loan to any such borrower except in accordance with the provisions of this chapter.

If two or more licensees are under the same ownership, or under common control, then such of their offices as are located in the same political subdivision of the State, or within five miles of each other, shall be treated as one licensee for the purpose of this section.

§ **6.1-287. Combining to obtain higher rate than permitted a single borrower.**—No licensee shall combine or conspire with another licensee to cause the same person, or a husband and wife, to borrow less than * *one thousand* dollars from each of them for the purpose of requiring the payment of a higher rate of charge than would be permitted if one of said licensees had loaned all, or as much as * *one thousand* dollars of, the amounts borrowed from both licensees.

§ **6.1-291. Collection of loan made outside State.**—No loan made outside this State in the amount of * *one thousand dollars* or less for which the greater rates of interest, consideration or charges, than is permitted by the law applicable to such loan in the state in which the loan was made, has been charged, contracted for, or received shall be collected in this State and every person in anywise participating in an effort to enforce the collection of such loan in this State shall be subject to the provisions of this chapter.

§ **6.1-294. Investigations generally.**—For the purpose of discovering violations of this chapter or securing information lawfully required under it, the Commission or its duly authorized representative may at any time investigate the loans, books and records of any person who is engaged, or appears to the Commission to be engaged, in the business of making small loans as defined and described in, and required to be licensed and supervised under, this chapter, particularly in § 6.1-249, or who advertises for, solicits, or holds himself out as willing to make, loans in amounts of * *one thousand* dollars or less, or who the Commission has reason to believe is violating any provision of this chapter, whether such person shall act or claim to act under or without the authority of this chapter, or as principal, agent, broker or otherwise. In furtherance of the investigation the Commission through its duly authorized representatives shall have and be given free access to the offices, places of business, books, papers, accounts, records, files, safes, and vaults of all such persons, and shall have authority to require attendance of witnesses and to examine under oath any person whose testimony may be required relative to any such loans or business or to the subject matter of the investigation, examination or hearing.

§ **6.1-301. Annual reports.**—Each licensee shall annually, on or before the first day of * *April,* file a report with the Commission giving such relevant information as may reasonably be required concerning his business and operations during the preceding calendar year as to each licensed place of business conducted by him within the State. Reports shall be made under oath and shall be in the form prescribed by the Commission which shall make and publish annually an analysis and recapitulation of the reports.