Legislative BULLETIN

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HOUSE BILL 810: Don't endanger North Carolina families with even higher-cost loans

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EXECUTIVE SUMMARY:

- House Bill 810 would significantly increase the cost of consumer finance loans in North Carolina by injecting new fees, higher rates and other troubling provisions into the law that governs these loans.
- There is no need to change the law. According to a Feb. 2011 report from the state Commissioner of Banks, these lenders are profitable (even during the depths of the recession), and no changes of this kind are needed in consumer finance laws.
- This industry, which is dominated by six out-of-state lenders like Citi-Financial and American General, control the vast majority of the North Carolina market. These six big companies dominate 80 percent of our state's consumer lending, and can already charge interest rates as high as 54 percent APR.
- With families struggling to make ends meet, the last thing North Carolina should do is make these high cost loans even more expensive. That's why groups like AARP North Carolina and the NC NAACP oppose the bill.

WHEN NORTH CAROLINA FAMILIES are struggling to make ends meet, state leaders should do all they can to help. That starts with maintaining critical safeguards that protect consumers – particularly on products like high-cost loans that risk taking families into a spiral of debt.

For decades, North Carolina's laws regulating consumer loans have proven to be a necessary and wise consumer protection policy. By all credible accounts, the lending industry remains widely profitable.

Despite this, there is now a push to weaken these crucial protections, allowing consumer finance companies to charge much higher interest rates and fees. Since these companies, dominated by six large out-of-state lenders, almost always charge the maximum rates allowed under the law, changes in this bill will become the price consumers pay. House Bill 810 would significantly increase costs to the consumer during a time when those consumers are already facing economic pressure, layoffs, and stagnant wages.

That's why North Carolina consumer organizations are joining together to oppose this push to make consumer loans more expensive for struggling families.

HIGH RATES HARM CONSUMERS

Currently, state law limits the annual percentage rate (APR) for consumer loans to an effective annual rate as high as 54 percent. This is already a significant interest rate, and it allows lenders to make a profit. A study by the NC Commissioner of Banks found that the consumer lending industry has remained profitable – even during the lowest points of the recession when other financial institutions were struggling and failing.

These profits are mostly concentrated in the hands of out-of-state corporations. About 80 percent of the consumer lending market is dominated by six large national companies, including Citigroup-owned Citi-Financial and American General, which is owned by AIG and a New York hedge fund.

This legislation would take money directly out of the pockets of everyday working families in order to enrich already profitable lenders, some of whom have already received bailout funds from the federal government.

Making loans more expensive at a time when North Carolinians are struggling to make ends meet is wrong for the economy and wrong for North Carolina.

BROAD COALITION OPPOSES

The Coalition for Responsible Lending, a collection of organizations which represents more than 3 million North Carolinians, is opposed to the legislation.

The Justice Center is a proud member of this coalition. Other organizations signed on to oppose the bill include AARP of North Carolina, the NC NAACP, and the Center for Responsible Lending.

North Carolina has a tradition of wise regulation on abusive lending practices. This tradition has enabled our state to protect families while also allowing business to thrive. It's one of the reasons many average North Carolina families are better off than their peers in other states.

Gutting these common-sense protections would always be troubling. But to do so at this time, when families are struggling but lenders are profitable, is particularly ill-advised. State leaders should maintain these essential consumer protections.

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