

Banking Commissioner's Study Just Released on Modernizing North Carolina's Consumer Finance Act

The Office of the Commissioner of Banks has just released its findings of a study it conducted on the state's consumer loan companies. The General Assembly requested the Commissioner, who has supervised these loan offices since the 1940's, to look at what changes should be made to modernize the existing law. This law, the North Carolina Consumer Finance Act, was last revised in 1983.

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The NC Credit and Personal Finance Council (NCCPFC), a group representing North Carolina's licensed and regulated non-depository personal loan industry, will be immediately reviewing the results of the Commissioner's report and conducting a review of the findings.

During the Banking Commissioner's study in 2010, the NCCPFC provided important fact-based data from expert sources and federal government agencies to the Commissioner. This data revealed that the existing interest rates fixed in law over 28 years ago are unsustainable for today's business conditions. The NCCPFC demonstrated that the 1983 fixed price schedule is shrinking loan access for NC citizens. The goal of the NCCPFC is to assure that NC borrowers continue to have safe and appropriate access to responsible and affordable personal loans.

Committees of the NC General Assembly determined in both 2008 and 2010 that consumer installment loans have value and are needed by North Carolinians. In May 2010, NC Legislators requested recommendations for modifications to update the Consumer Finance Act. These recommendations contained all appropriate consumer protections—and also recognize the requirements for potential profitability for the lender. These modifications will help guarantee transparent, effective and fair installment credit in NC through private enterprise.

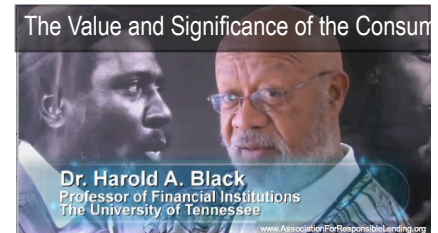
"There is a vital need and a strong demand for traditional installment loans to help NC families manage their household and personal financial matters. In two statewide surveys, over 98% of our industry's customers have clearly communicated that they trust the service in our local offices and they rely on our personal one-on-one service and the responsible, affordable loans we provide." —Larry Heckner, President of the NC statewide credit group

The Center for Financial Services Innovation (CFSI), a consumer advocacy group, told *American Banker*, Oct. 10, "Demand for small amounts of credit is high. We need to increase access to responsible, scalable, and ... profitable forms of credit for households that can benefit from it."

The CFSI report concluded that primary cost drivers of the installment lending model arise from the genuine expense of physical offices, underwriting costs, and "high-touch" management of the loans. "We based our presentation to legislators and the Commissioner on two critical elements: customer demand for and satisfaction with the consumer finance product, and also operating under a price freeze for 28 years. NC installment loans meet benchmarks for quality credit set by consumer advocacy groups—it's marketed transparently, affordable for consumers, structured to support repayment, and customer's repayment is reported to credit bureaus to build a financial future.

"The economics of this business have now become clear to consumer advocates and federal financial regulatory agencies and we hope the NC Commissioner has recognized them as well," stated C. Everett Wallace, Policy Advisor and Counsel to the NC Credit and Personal Finance Council. "The FDIC and the Federal Credit Union Administration last year also found that costs and risks for small dollar installment loans are higher than other consumer loans and acknowledged that these rates were necessary to reasonably attract deposit-taking lenders to the business. Still, the profitability results alone were not sufficient for most banks to stay active in making loans and other inducements would be necessary." Wallace also indicated that the non-bank installment lending industry provides the most viable and responsible option for consumers. "The Commissioner's report is something we hope will lead to a productive and positive discussion of this important responsible loan product for North Carolinians. It is important that this industry's story of customer satisfaction and service be heard. It is also vital that we help policy makers adopt a contemporary law which can assure there is access to safe, fair, and affordable personal loans for the financial needs of responsible individuals and families in North Carolina."

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North Carolina Personal Loan Industry

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