

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2001

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**HOUSE BILL 599**  
**Committee Substitute Favorable 4/5/01**  
**Committee Substitute #2 Reported Without Prejudice 4/23/01**

Short Title: Revise Consumer Finance Act.

(Public)

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Sponsors:

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Referred to:

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March 14, 2001

A BILL TO BE ENTITLED

1  
2 AN ACT TO MODIFY THE CONSUMER FINANCE ACT TO INCREASE THE  
3 AMOUNT OF LOANABLE ASSETS REQUIRED BEFORE AN ENTITY IS  
4 LICENSED TO ENGAGE IN BUSINESS IN THE STATE, TO REVISE THE  
5 AMOUNT OF, AND MAXIMUM RATE OF INTEREST FOR, SMALL LOANS,  
6 TO REVISE THE COLLECTION OF INTEREST UNDER CERTAIN  
7 CIRCUMSTANCES, TO ESTABLISH A LOAN PROCESSING FEE, TO ALLOW  
8 LENDERS TO CHARGE A LATE PAYMENT PENALTY UNDER CERTAIN  
9 CIRCUMSTANCES, TO REQUIRE DISCLOSURE ON SOLICITATION OF  
10 LOANS BY FACSIMILE OR NEGOTIABLE CHECKS, TO ALLOW LENDERS  
11 TO MAINTAIN CERTAIN RECORDS IN THE FORM OF OPTICAL IMAGE  
12 DISKS, TO REPEAL OBSOLETE PROVISIONS OF THE GENERAL  
13 STATUTES, AND TO MAKE CONFORMING CHANGES TO THE GENERAL  
14 STATUTES.

15 The General Assembly of North Carolina enacts:

16 **SECTION 1.** G.S. 53-168 reads as rewritten:

17 "**§ 53-168. License required; showing of convenience, advantage and financial**  
18 **responsibility; investigation of applicants; hearings; existing businesses;**  
19 **contents of license; transfer; posting.**

20 (a) Necessity for License; Prerequisites to Issuance. – No person shall engage in  
21 or offer to engage in the business regulated by this Article unless and until a license has  
22 been issued by the Commissioner of Banks, and the Commissioner shall not issue any  
23 such license unless and until ~~he~~ the Commissioner finds:

- 24 (1) That authorizing the applicant to engage in such business will promote  
25 the convenience and advantage of the community in which the  
26 applicant proposes to engage in business; and  
27 (2) That the financial responsibility, experience, character and general  
28 fitness of the applicant are such as to command the confidence of the

1 public and to warrant the belief that the business will be operated  
2 lawfully and fairly, within the purposes of this Article; and

3 (3) That the applicant has available for the operation of such business at  
4 the specified location loanable assets of at least ~~twenty-five thousand~~  
5 ~~dollars (\$25,000).~~ fifty thousand dollars (\$50,000).

6 (b) Investigation of Applicants. – Upon the receipt of an application, the  
7 Commissioner shall investigate the facts. If the Commissioner determines from such  
8 preliminary investigation that the applicant does not satisfy the conditions set forth in  
9 subsection (a), ~~he~~ the Commissioner shall so notify the applicant who shall then be  
10 entitled to an informal hearing thereon provided he so requests in writing within 30 days  
11 after the Commissioner has caused the above-referred to notification to be mailed to the  
12 applicant. In the event of a hearing, to be held in the offices of the Commissioner of  
13 Banks in Raleigh, the Commissioner shall reconsider the application and, after the  
14 hearing, issue a written order granting or denying such application. At the time of  
15 making such application, the applicant shall pay the Banking Department the sum of  
16 two hundred fifty dollars (\$250.00) as a fee for investigating the application, which  
17 shall be retained irrespective of whether or not a license is granted the applicant.

18 ~~(c) Existing Business.—Notwithstanding the provisions of this section, any~~  
19 ~~person, firm or corporation which, on December 31, 1973, was a licensee under this~~  
20 ~~Article either as a licensee to make loans under the provisions of G.S. 53-173 or as a~~  
21 ~~motor vehicle lender under G.S. 53-176.1, may surrender such license to the~~  
22 ~~Commissioner within 90 days after May 25, 1974, and elect to become a licensee to~~  
23 ~~make loans under either G.S. 53-173 or 53-176.1 but not both. Such license shall be~~  
24 ~~issued by the Commissioner without further application or investigation and the licensee~~  
25 ~~shall be deemed a licensee under the category that it elects upon the surrender of its~~  
26 ~~current license and the election.~~

27 (d) Required Assets Available. – Each licensee shall continue at all times to have  
28 available for the operation of the business at the specified location loanable assets of at  
29 least ~~twenty-five thousand dollars (\$25,000).~~ fifty thousand dollars (\$50,000). The  
30 requirements and standards of this subsection and subsection (a)(2) of this section shall  
31 be maintained throughout the period of the license and failure to maintain such  
32 requirements or standards shall be grounds for the revocation of a license under the  
33 provisions of G.S. 53-171 of this Article.

34 (e) License, Posting, Continuing. – Each license shall state the address at which  
35 the business is to be conducted and shall state fully the name of the licensee, and if the  
36 licensee is a copartnership, or association, the names of the members thereof, and if a  
37 corporation, the date and place of its incorporation. Transfer or assignment of a license  
38 by one person to another by sale or otherwise is prohibited without the prior approval of  
39 the Commissioner. Each license shall be kept posted in the licensed place of business.  
40 Each license shall remain in full force and effect until surrendered, revoked, or  
41 suspended as hereinafter provided."

42 **SECTION 2.** G.S. 53-173 reads as rewritten:

1 **"§ 53-173. Maximum rate of ~~charge~~; interest and fee; computation of ~~charges~~;**  
2 **interest; limitation on interest after judgment; limitation on interest after**  
3 **maturity of the loan.**

4 (a) ~~Maximum Rate of Charge. Interest.~~ – Every licensee hereunder may contract  
5 for, compute, and receive on any loan of money, not exceeding ~~three thousand dollars~~  
6 ~~(\$3,000)~~ six thousand dollars (\$6,000) in amount, ~~charges~~ interest at rates not exceeding  
7 ~~thirty six percent (36%)~~ thirty percent (30%) per annum on that part of the unpaid  
8 principal balance of any loan not in excess of ~~six hundred dollars (\$600.00)~~ and ~~fifteen~~  
9 ~~percent (15%)~~ one thousand eight hundred dollars (\$1,800) and eighteen percent (18%)  
10 per annum on any remainder of such unpaid principal balance. Interest shall be  
11 contracted for and collected at the single simple interest rate applied to the outstanding  
12 balance that would earn the same amount of interest as the above rates for payment  
13 according to schedule.

14 (a1) Maximum Fee. – In addition to the interest authorized in subsection (a) of this  
15 section, a licensee making loans under this section may collect from the borrower a fee  
16 for processing the loan equal to twenty-five dollars (\$25.00), provided that such charges  
17 may not be assessed more than twice in any 12-month period. The Commission may  
18 review charges assessed pursuant to this subsection and may adopt appropriate rules in  
19 accordance with G.S. 53-185.

20 (b) ~~Computation of Charges. Interest.~~ – ~~Charges~~ Interest on loans made pursuant  
21 to this section shall not be paid, deducted, or received in advance. Such ~~charges~~ interest  
22 shall not be compounded but ~~charges~~ interest on loans shall (i) be computed and paid  
23 only as a percentage of the unpaid principal balance or portion thereof and (ii) computed  
24 on the basis of the number of days actually elapsed; provided, however, if part or all of  
25 the consideration for a loan contract is the unpaid principal balance of a prior loan, then  
26 the principal amount payable under the loan contract may include any unpaid ~~charges~~  
27 interest on the prior loan which have accrued within 90 days before the making of the  
28 new loan contract. For the purpose of computing ~~charges, interest,~~ a day shall equal  
29 1/365th of a year. Any payment made on a loan shall be applied first to any accrued  
30 interest and then to principal, and any portion or all of the principal balance may be  
31 prepaid at any time without penalty.

32 (c) Limitation on Interest after Judgment. – If judgment be obtained against any  
33 party on any loan made under the provisions of this section neither the judgment nor the  
34 loan shall carry, from the date of the judgment, any interest in excess of eight percent  
35 (8%) per annum.

36 (d) Limitation of Interest after Maturity of Loan. – After the maturity date of any  
37 loan contract made under the provisions of this section and until the loan contract is  
38 paid in full by cash, new loan, refinancing or otherwise, no charges other than interest at  
39 eight percent (8%) per annum shall be computed or collected from any party to the loan  
40 upon the unpaid principal balance of the loan.

41 (e) Repealed by Session Laws 1989, c. 17, s. 3.

1 (f) Subject to the limitations contained in this Article as to maximum rates, the  
2 Commission may from time to time, upon the basis of changed conditions or facts,  
3 redetermine and refix any such maximum rates of charge, but, before determining or  
4 redetermining any such maximum rates, the Commission shall give reasonable notice of  
5 its intention to consider doing so to all licensees and a reasonable opportunity to be  
6 heard and introduce evidence with respect thereto. The notice herein required may be  
7 given by mailing such notice to the offices of the licensees as shown in the records of  
8 the Commissioner of Banks. Any such changed maximum rates of charge shall not  
9 affect preexisting loan contracts lawfully entered into between any licensee and any  
10 borrower."

11 **SECTION 3.** G.S. 53-165(a) reads as rewritten:

12 "(a) "Amount of the loan" shall mean the aggregate of the cash advance and the  
13 charges interest authorized by G.S. 53-173."

14 **SECTION 4.** G.S. 53-176 reads as rewritten:

15 "**§ 53-176. Optional rates, maturities and amounts.**

16 (a) In lieu of making loans in the amount and at the ~~charges~~ interest stated in  
17 G.S. 53-173 and for the terms stated in G.S. 53-180, a licensee may at any time elect to  
18 make loans in installments not exceeding ten thousand dollars (\$10,000) and which  
19 shall not be repayable in less than six months or more than 84 months and which shall  
20 not be secured by deeds of trust or mortgages on real estate and which are repayable in  
21 substantially equal consecutive monthly payments and to charge and collect interest in  
22 connection therewith which shall not exceed ~~the following actuarial rates:~~

23 (1) ~~With respect to a loan not exceeding seven thousand five hundred~~  
24 ~~dollars (\$7,500), thirty percent (30%) per annum on that part of the~~  
25 ~~unpaid principal balance not exceeding one thousand dollars (\$1,000)~~  
26 the actuarial rates of twenty-eight percent (28%) per annum on that  
27 part of the unpaid principal balance not exceeding two thousand  
28 dollars (\$2,000) and eighteen percent (18%) per annum on the  
29 remainder of the unpaid principal balance. Interest shall be contracted  
30 for and collected at the single simple interest rate applied to the  
31 outstanding balance that would earn the same amount of interest as the  
32 above rates for payment according to schedule.

33 (2) ~~With respect to a loan exceeding seven thousand five hundred dollars~~  
34 ~~(\$7,500), eighteen percent (18%) per annum on the outstanding~~  
35 ~~principal balance.~~

36 (b) In addition to the interest permitted in this section, a licensee may assess at  
37 closing a ~~reasonable credit investigation charge as agreed upon by the parties,~~ fee for  
38 processing the loan equal to not to exceed the actual cost of the credit investigation;  
39 forty dollars (\$40.00), provided that such charges may not be assessed more than twice  
40 in any 12-month period. The ~~Commissioner of Banks~~ Commission may review charges  
41 assessed pursuant to this ~~section~~ subsection and may adopt appropriate rules in  
42 accordance with G.S. 53-185.

1 (c) The provisions of G.S. 53-173(b), (c) and (d) and G.S. 53-180(b), (c), (d), (e),  
2 (f), (g), (h) and (i) shall apply to loans made pursuant to this section.

3 (d) Any licensee under this Article shall have the right to elect to make loans in  
4 accordance with this section by the filing of a written statement to that effect with the  
5 Commissioner and on date of such notification begin making loans regulated by this  
6 section for the following 12 months. Annually after such election a licensee may elect to  
7 make loans in accordance with this section unless the licensee notifies in writing the  
8 Commissioner of its intention to terminate such election.

9 (e) The due date of the first monthly payment shall not be more than 45 days  
10 following the disbursement of funds under any such installment loan. A borrower under  
11 this section may prepay all or any part of a loan made under this section without  
12 penalty.

13 (f) No individual, partnership, or corporate licensee and no corporation which is  
14 the parent, subsidiary or affiliate of a corporate licensee that is making loans under this  
15 Article except as authorized in this section, shall be permitted to make loans under the  
16 provisions of this section. Any corporate licensee or individual or partnership licensee  
17 that elects to make loans in accordance with the provisions of this section shall be  
18 bound by that election with respect to all of its offices and locations in this State and all  
19 offices and locations in this State of its parent, subsidiary or affiliated corporate  
20 licensee, or with respect to all of his or their offices and locations in this State.

21 (g) A lender may charge a party to a loan or extension of credit governed by this  
22 section a late payment charge not to exceed five percent (5%) of the payment due or  
23 seven dollars (\$7.00), whichever is greater, for any payment past due for 10 days or  
24 more; provided, in no case shall the late charge exceed the outstanding principal  
25 balance. If a late payment charge has been once imposed with respect to a late payment,  
26 no late charge shall be imposed with respect to any future payment which would have  
27 been timely and sufficient but for the previous default."

28 **SECTION 5.** G.S. 53-181(a) is amended by adding a new subdivision to  
29 read:

30 "(10) In addition to any disclosures otherwise provided by law, a licensee  
31 soliciting loans using a facsimile or negotiable check shall disclose the  
32 following:

33 'THIS IS A SOLICITATION FOR A LOAN. READ THE  
34 ENCLOSED DISCLOSURES BEFORE SIGNING THIS  
35 AGREEMENT.'

36 This notice shall be printed in not less than 12-point bold type and  
37 shall appear conspicuously on the offer."

38 **SECTION 6.** G.S. 53-182(b) reads as rewritten:

39 "(b) Upon payment of any loan in full, a licensee shall cancel and return to the  
40 borrower, within a reasonable length of time, originals or copies of any note,  
41 assignment, mortgage, deed of trust, or other instrument securing such loan, which no  
42 longer secures any indebtedness of the borrower to the licensee."

1           **SECTION 7.** G.S. 53-184(a) reads as rewritten:

2           "(a) Each licensee shall maintain all books and records relating to loans made  
3 under this Article required by the Commissioner of Banks to be kept, and the  
4 Commissioner, his deputy, or duly authorized examiner or agent or employee is  
5 authorized and empowered to examine such records at any reasonable time. Such books  
6 and records may be maintained in the form of magnetic tape, magnetic ~~disk~~ disk, optical  
7 disk, or other form of computer, electronic or microfilm media available for  
8 examination on the basis of computer printed reproduction, video display or other  
9 medium acceptable to the Commissioner of Banks; provided, however, that such books  
10 and records so kept must be convertible into clearly legible tangible documents within a  
11 reasonable time. Any licensee having more than one licensed office may maintain such  
12 books and records at a location other than the licensed office location if such location is  
13 approved by the Commissioner; provided that, upon such requirements as may be  
14 imposed by the Commissioner of Banks, there shall be available to the borrower at each  
15 licensed location or such other location convenient to the borrower, as designated by the  
16 licensee, complete loan information; and provided further that such books and records  
17 of each licensed office shall be clearly segregated. When a licensee maintains its books  
18 and records outside of North Carolina, the licensee shall make them available for  
19 examination at the place where they are maintained and shall pay for all reasonable and  
20 necessary expenses incurred by the Commissioner in conducting such examination.  
21 Where the data processing for any licensee is performed by a person other than the  
22 licensee, the licensee shall provide to the Commissioner of Banks a copy of a binding  
23 agreement between the licensee and the data processor which allows the Commissioner  
24 of Banks, his deputy, or duly authorized examiner or agent or employee to examine that  
25 particular data processor's activities pertaining to the licensee to the same extent as if  
26 such services were being performed by the licensee on its own premises; and,  
27 notwithstanding the provisions of G.S. 53-167 and 53-122, when billed by the  
28 Commissioner of Banks, the licensee shall reimburse the Commissioner of Banks for all  
29 costs and expenses incurred by ~~him~~ the Commissioner in such examination."

30           **SECTION 8.** This act becomes effective July 1, 2001, and applies to loans  
31 made on or after that date.