



# SENATE BILL 331: Consumer Finance Act Amendments.

2023-2024 General Assembly

<b>Committee:</b>	House Rules, Calendar, and Operations of the House	<b>Date:</b>	June 7, 2023
<b>Introduced by:</b>	Sens. Perry, Britt	<b>Prepared by:</b>	Trina Griffin Staff Attorney
<b>Analysis of:</b>	Second Edition		

**OVERVIEW:** *Senate Bill 331 would make various changes to the Consumer Finance Act.*

### CURRENT LAW/BILL ANALYSIS:

Senate Bill 331 would change the following statutes in the Consumer Finance Act (Article 15 of Chapter 53):

GENERAL STATUTE	CURRENT LAW/BILL ANALYSIS
<b>G.S. 53-165</b>	The bill would remove the definition of "cash advance" and expand the list of definitions to include definitions for "amount financed," "electronic payment," "loan amount," and "servicing loans."
<b>G.S. 53-166</b>	Requires any person engaging in the business of lending amounts of \$15,000 or less to consumers at interest rates higher than those allowed under the usury laws of North Carolina (Chapter 24 of the General Statutes) to be licensed under the Consumer Finance Act.  Senate Bill 331 would increase the amount a person could lend under the Consumer Finance Act to \$25,000 and require the servicers of those loans to be licensed.
<b>G.S. 53-167</b>	Requires licensees to pay an annual assessment to the Commissioner of Banks ("Commissioner"). The annual assessment is \$18 per \$100,000 of assets plus a fee of \$300 per office. The minimum annual assessment is currently \$500.  Senate Bill 331 would increase the minimum annual assessment to \$1,000.
<b>G.S. 53-168</b>	Outlines the requirements of a person seeking to apply for a consumer finance license. Among other requirements, the applicant must pay an application fee of \$250. Once an applicant is approved for a license, that license must be posted at the licensee's place of business and the license may not be transferred without prior approval of the Commissioner.  Senate Bill 331 would increase the application fee to \$500. The bill would also allow a licensee to post their license on their website and mandate that any licensee seeking to transfer their license must provide the Commissioner at least 30-days' notice of the proposed transfer.

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<p><b>G.S. 53-170</b></p>	<p>Requires a licensee to notify the Commissioner of any change in the name and address of the licensee or of the president, secretary, or agent of a corporation, or in the membership of a partnership, but does not outline when that notice must be filed.</p> <p>Senate Bill 331 requires that notice be filed within 90 days of the change.</p>								
<p><b>G.S. 53-171</b></p>	<p>Outlines when the Commissioner may suspend or revoke a license, as well as the process for a licensee to surrender their license. Currently, a licensee must surrender their license if they fail to make any loans during any period of 90 consecutive days after being licensed.</p> <p>Senate Bill 331 would remove the requirement to surrender a license for failure to make any loans during a 90-day period.</p>								
<p><b>G.S. 53-172</b></p>	<p>Prohibits licensees from making consumer finance loans within any place of business in which any other business is solicited or transacted, unless specifically excepted from this requirement. One exception is for the collection by a licensee of loans legally made in North Carolina; this type of business is not considered as being any other business within the meaning of the statute.</p> <p>Senate Bill 331 would add loans legally made in North Carolina under Chapter 24 (Interest) and Chapter 25A (Retail Installment Sales Act) as part of that exception.</p>								
<p><b>G.S. 53-173</b></p>	<p>Outlines how interest is computed under the Consumer Finance Act. Currently, interest may not be compounded and is (i) computed and paid only as a percentage of the unpaid principal balance or portion thereof, and (ii) computed on the basis of the number of days actually elapsed; however, if part or all of the consideration is the principal balance of a prior loan, then the principal amount payable under the loan contract may include any unpaid interest on the prior loan that has accrued within 90 days before making the new loan contract.</p> <p>Senate Bill 331 would remove reference to "principal balance" and "principal amount" and substitute "amount financed." Therefore, the updated statute would provide that interest is to be computed on the unpaid portion of the amount financed.</p>								
<p><b>G.S. 53-176</b></p>	<p>Outlines the rate of interest that may be charged on consumer finance loans. The rate of interest depends on the amount of the loan. The current interest limitations are:</p> <table border="1" data-bbox="370 1432 1466 1650"> <thead> <tr> <th data-bbox="376 1440 919 1486">Loan amount up to \$10,000</th> <th data-bbox="925 1440 1466 1486">Interest Rate</th> </tr> </thead> <tbody> <tr> <td data-bbox="376 1495 919 1541">\$0 - \$4,000</td> <td data-bbox="925 1495 1466 1541">30%</td> </tr> <tr> <td data-bbox="376 1549 919 1596">&gt;\$4,000 - \$8,000</td> <td data-bbox="925 1549 1466 1596">24%</td> </tr> <tr> <td data-bbox="376 1604 919 1650">&gt;\$8,000 - \$10,000</td> <td data-bbox="925 1604 1466 1650">18%</td> </tr> </tbody> </table> <p>If a loan is greater than \$10,000, the interest rate may not exceed 18%.</p> <p>Licensees are also limited in the amount of loan processing fees they may charge a borrower at closing. Currently, the licensee is limited to charging \$25 for loans up to \$2,500, and for any loan above \$2,500, 1% of the cash advance of the loan, with a maximum fee not to exceed \$40.</p> <p>Senate Bill 331 would increase the loan amounts allowed to utilize the blended interest rates above, to \$12,000. It would also increase the interest rate for the first \$4,000 of those loans from 30% to 33%. Lastly, it would change the amount of processing fees</p>	Loan amount up to \$10,000	Interest Rate	\$0 - \$4,000	30%	>\$4,000 - \$8,000	24%	>\$8,000 - \$10,000	18%
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	<p>a licensee could charge at closing. The processing fees under the bill could not exceed \$30 for any loan up to \$3,000, and for any loan exceeding \$3,000, the fee would be 1% of the amount financed, with a maximum fee not to exceed \$150.</p>
<b>G.S. 53-177</b>	<p>Outlines fees allowed to be charged by the licensee to the borrower, including recording fees, late fees, deferral charges, payments for insurance policies in lieu of recording, and recovery of court costs.</p> <p>Senate Bill 331 would make the following changes to the fee statute:</p> <ul style="list-style-type: none"><li>• Increase late fees from \$15 to \$18.</li><li>• Provide that the licensee may apply a borrower's most recent payment to the oldest installment due.</li><li>• Provide that a licensee may not collect more than one late fee per installment owed.</li><li>• Provide that late fees on installment payments past due for 10 or more days may still be collected if the licensee places the borrower in default.</li><li>• Provide that if a loan is refinanced, the licensee may include late fees on installment payments past due for 10 or more days in the amount refinanced.</li><li>• Provide that if a loan reaches maturity, late fees for installment payments past due for 10 or more days may be included in the final balance.</li><li>• Provide that a licensee may assess a deferral charge for each month of the remaining loan term on each installment owed after the date of deferral.</li></ul>
<b>G.S. 53-180</b>	<p>Provides that a licensee may not take an assignment of earnings of the borrower for payment of or as security for a loan. Any assignment in violation of the statute is unenforceable by the assignee of the earnings and is revocable by the borrower.</p> <p>Senate Bill 331 would alter the language of the statute to remove reference to revocation by the borrower and provide that an assignment in violation of the statute is unenforceable.</p>
<b>G.S. 53-181</b>	<p>Licenses are currently required to deliver to the borrower a copy of the loan contract or a written statement outlining certain required items. Senate Bill 331 would allow a licensee to provide this information electronically, remove the requirement that the licensee include the face amount of the note evidencing the loan in the statement, and require the licensee to include that the loan is regulated by the Consumer Finance Act in the statement.</p> <p>Currently, each licensee must make available to borrowers a schedule of charges and insurance premiums on all classes of loans currently being made by the licensee as well as provide a copy of the schedule to the Commissioner. Senate Bill 331 would delete these requirements.</p> <p>Currently, a licensee is generally not permitted to take any confession of judgment from a borrower. Section 11 of S.L. 2022-75, however, provided that this prohibition does not apply to a licensee taking a confession of judgment from a borrower following the borrower's failure to make a payment as required under the loan contract. Senate Bill 331 would delete the language added under Section 11 of S.L. 2022-75.</p>

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<b>G.S. 53-182</b>	<p>Currently, licensees are required to provide a receipt for loan payments made via certain methods. Senate Bill 331 would add electronic payments to the list of payments a licensee is not required to provide a receipt for.</p> <p>Upon payment in full of a loan, licensees are currently required to cancel and return any note, assignment, mortgage, deed of trust, or other instrument securing such loan. Senate Bill 331 would instead allow the licensee to make these documents available electronically.</p>
<b>G.S. 53-184</b>	<p>Outlines record-keeping and accounting requirements of licensees. Senate Bill 331 would mandate the following of licensees:</p> <ul style="list-style-type: none"><li>• Maintain separate loan ledgers and accounts related to the making and collecting of loans under the Consumer Finance Act.</li><li>• Allocate expenses monthly according to generally accepted accounting principles.</li><li>• Retain all required books and records for a period of 2 years after the last transaction.</li><li>• Outline the required books and records in the following categories: general ledger, loan documents, judgments, and repossessions.</li></ul>
<b>G.S. 53-190</b>	<p>Loan contracts made outside of North Carolina in the amount of \$15,000 or less, for which greater consideration or charges than allowed under the Consumer Finance Act have been charged, contracted for, or received, are not enforceable in the State.</p> <p>Senate Bill 331 would increase the monetary threshold of these loan contracts to \$25,000.</p>
<b>G.S. 53C-1-4</b>	<p>Makes a conforming change.</p>

**EFFECTIVE DATE:** This act would become effective October 1, 2023, and apply to contracts entered into, modified, or renewed on or after that date.

*Nicholas Giddings, counsel to Senate Finance, substantially contributed to this summary.*