NC COALITION FOR RESPONSIBLE LENDING
Protecting Home Ownership & Family Wealth

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North Carolina Consumer Protections Remain Crucial As CFPB Releases New Payday Lending Rule

North Carolina Usury Cap Keeps Loan Sharks at Bay

Durham, NC — While consumers in states that are burdened by predatory payday lending will benefit from a final rule issued today by the Consumer Financial Protection Bureau (CFPB), North Carolina has already eliminated payday lending altogether and established a 30% interest rate cap for consumer loans. Our cap is a much more effective protection than the CFPB rule, as it saves North Carolina families over $457 million every year in abusive payday and car title lending fees.

"With this new rule issued today, the CFPB recognizes the tremendous harm of the payday lending debt trap and has taken steps to address it. North Carolina recognized these harms years ago, and since 2001 our legislature has rejected repeated attempts to weaken our good laws. Our General Assembly let the authority to make payday loans expire in 2001 and went back to the strongest law possible to protect against payday and car title loans —a usury cap," said **Alfred Ripley of the NC Justice Center**. "In the states with no protection against the debt trap, payday and car title lenders trap people in loans with 300% or 400% interest, leading to significant financial distress. While we are glad to see the CFPB put some safeguards in place for people in states without laws as strong as ours, we call on our lawmakers to stand firm in support of our North Carolina usury cap, as this is the most effective and efficient way to prevent legalized loansharking."

The CFPB is not legally authorized to cap interest rates, so the new rule protects consumers by requiring lenders to make more affordable loans – loans that borrowers can pay back without taking out another loan to cover their living expenses. We expect this ability-to-repay standard to reduce the harms of payday lending across the nation by disrupting the payday lending business model, which depends on trapping borrowers in long-term, unaffordable debt.

"Payday loans rob borrowers of their ability to recover from a financial shortfall by pulling them deeper into debt. Borrowers routinely end up with unpaid bills and overdraft fees. Some lose their bank accounts or file bankruptcy," said **Donna Gallagher of the NC Assets Alliance**. "North Carolinians deserve the strongest protections possible. We will continue to fend off powerful out-of-state predatory lenders to maintain our state protections."

The CFPB makes it clear that the rule is a floor for consumer protections, not a ceiling. The rule does not prevent states from having stronger laws, like our North Carolina rate cap. In fact, the rule states that state interest rate caps provide better protection than the rule.

As noted in the rule: "Particularly in the States where fixed usury caps effectively prohibit these types of loans, nothing in this rule is intended or should be construed to undermine or cast doubt on whether those provisions are sound public policy." (Page 183)

And also: "The Bureau regards the fee and interest rate caps in these States as providing greater consumer protections than, and thus as not inconsistent with, the requirements of the final rule." (Page 184)

Payday lenders have a long history of exploiting loopholes where they can find them, and state usury caps prevent this exploitation. The rate cap also ensures that borrowers are protected against the harms of these high-cost loans regardless of whether they are structured as short-term or long-term loans. While the CFPB is not authorized to cap interest rates, Congress and the states can and should do so.

“North Carolina is proud to be among the 15 states plus D.C. that have eliminated payday lending. Our lawmakers must continue to stand by these strong state protections,” said **Kelly Tornow of the Center for Responsible Lending**. “We call on Congress to let this rule go into effect. We also call on Congress to enact a strong national interest rate cap, ending the payday loan debt trap once and for all.”

“I applaud this new CFPB rule, which starts from the common-sense principle of making sure the borrower has the ability to repay,” said **Jennifer Copeland of the NC Council of Churches**. “Reasonable interest rates are one thing, but God does not look kindly on taking advantage of those struggling financially by charging them outrageous interest rates. The structure of these loans creates borrowers in bondage, enslaved by fees and interest they can never repay.”

“The Department of Defense recognizes the dangers caused by payday and other high-cost loans and their impact on military readiness. In 2006, Congress passed a 36% interest rate cap to protect active duty military and their families,” **said Larry Hall, Secretary of the NC Department of Military and Veterans Affairs**. “This rule is a good first step, and Congress should support it. Congress should also enact an interest rate cap to protect all Americans, including the more than 21 million veterans who do not receive Military Lending Act safeguards.”

The full CFPB rule can be found here: https://www.consumerfinance.gov/policy-compliance/rulemaking/final-rules/payday-vehicle-title-and-certain-high-cost-installment-loans/

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For more information or to arrange an interview with a coalition spokesperson, please contact Carol Hammerstein at carol.hammerstein@responsiblelending.org or 919-313-8502.