

SUMMARY OF NC PREDATORY LENDING LAW

“This is the toughest law against predatory lending in the country. NC is leading the first wave of assault on these practices.”

NC State Senate Majority
Leader Roy Cooper

“This legislation will put an end to this form of economic rape. It will strengthen the economic health of all African-American communities, and all low-wealth communities in the state.”

Rev. G. I. Allison,
NC NAACP

“This new law is carefully crafted to protect NC consumers from the worst abuses, while still allowing lenders to make a reasonable profit on their loans.”

Jim Blaine, CEO
State Employees Credit
Union

“This is the toughest law against predatory lending in the country. I am confident this will be a model law for all state legislatures.”

NC Attorney General
Mike Easley

“This law is an important first step in preserving investments made by private and public actors to rebuild low-wealth communities.”

Andrea Harris
NC Institute for Minority
Economic Development

“This law provides North Carolinians with a great safety net against predatory lending.”

Stella Adams
NC Fair Housing Center

“Seniors all across the state are very pleased with the passage of this law.”

Richard C. Hatch
AARP-NC

On July 22, 1999, Governor Jim Hunt signed into law the NC Predatory Lending Law, Senate Bill 1149. This law passed both houses with overwhelming support, by a vote of 47:2 in the Senate and 109:9 in the House. This new law will substantially protect the equity that NC homeowners have invested in their homes by curbing abusive home lending practices. The legislation was endorsed by all major financial trade associations in the state, as well as the Coalition for Responsible Lending.

This law **amends the North Carolina Usury Law (Chapter 24)** to:

1. Include three **important general prohibitions**, which apply to **all** home loans, not just high cost loans:
 - **No prepayment penalties** for home loans of \$150,000 or less.
 - **No “flipping”**, where a lender repeatedly refinances an existing home loan with upfront fees.
 - **No financing of upfront, single premium insurance.** Monthly payment insurance is still permitted.
2. Create a new section dealing with **high cost home loans**, residential home loans of \$300,000 or less with either:
 - **High fees:** Loans where the borrower is charged more than 5% of the loan amount in upfront points, fees, or other charges. This 5%:
 - *Does not include* escrows collected at closing or fees for appraisal, attorney, credit report, etc. that are paid to third parties.
 - *Does include* fees paid directly by borrower to mortgage brokers, but *does not include* the back end payments to brokers by lenders (yield spread premium).
 - *Does include* any prepayment penalty in excess of 1%.
 - **High interest rate:** Loans where the borrower is charged an interest rate that is 10% (dropping to 8% in October 2002) more than the comparable Treasury bond rate. The current threshold rate is less than 16%, and will change as market interest rates fluctuate, or
 - **Prepayment penalty** longer than 30 months or more than 2% of amount prepaid.
3. **Restrict the terms of high cost home loans** to protect consumers:
 - **No financing of upfront fees and insurance premiums.**
 - **Requires counseling for high cost home loan borrowers** prior to loan closing.
 - **No balloon payments**, where the borrower owes a large lump sum at some point during the loan.
 - **No loans with negative amortization**, where the loan amount increases because the monthly payments do not cover the loan costs.
 - **No lending without consideration of consumer’s ability to repay.**

Most sections of the law went into effect on July 1, 2000. The prepayment penalty and flipping prohibitions went into effect October 1, 1999.

For more details, contact the Coalition or visit our website:

The Coalition for Responsible Lending
919-956-4485 Fax 919-956-4600
www.responsiblelending.org