

BUSINESS AND ECONOMIC DEVELOPMENT (BED)

Resolution BED-25-02

PROMOTING ACCESS TO SAFE AND AFFORDABLE LENDING PRACTICES

WHEREAS, the National Black Caucus of State Legislators (NBCSL) has always been committed to financial empowerment through improved access to capital as well as a marketplace that offers safe and affordable lending products and services;

WHEREAS, the World Bank defines financial inclusion as “when individuals and businesses have affordable financial products and services that meet their needs, delivered in a responsible and sustainable way.”

WHEREAS, the need for small-dollar closed-end credit products and access exists in every community throughout the country;

WHEREAS, not all loan types are equally safe and affordable, and the structure of certain loans significantly increases the likelihood of borrowers falling into a cycle of debt;

WHEREAS, responsibly structured credit is essential to support a household’s ability to save, develop a sound credit history, and build a foundation for other wealth-building activities;

WHEREAS, the key structural qualities of closed-end loans that are safe and affordable are that the lender makes a good faith effort to assess the borrower’s ability to repay the loan and that the loan is repayable in substantially equal installments, with no balloon payments;

WHEREAS, it is the intention of this body to ensure access to loans that are low cost since consumers buy goods with dollars and cents and not with annual percentage rates;

WHEREAS, NBCSL passed Resolution BED-22-49, “SAFE AND AFFORDABLE LENDING PRACTICES TO AID CONSUMERS AND ESTABLISH CREDIT,” among the 2022 Ratified Resolutions and that resolution recognized the critical role that small-dollar closed-end credit in the form of traditional installment loans can play for consumers in certain circumstances;

WHEREAS, small-dollar closed-end credit should be “fully amortized,” meaning that the total of payments as defined under the Federal Truth in Lending Act, is repaid in substantially equal multiple installments at fixed intervals to fulfill the consumer’s obligation and such payments should not be excessively large where the consumer is unable to make the payments and places the consumer in a position that they can never pay off the debt;

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WHEREAS, small-dollar closed-end credit, should be used prudently by consumers and lenders to help establish, re-establish, or improve credit scores and not create a never-ending cycle of debt;

WHEREAS, all small-dollar closed-end credit should be reported to at least one of the three major credit agencies: Equifax, Experian, and TransUnion;

WHEREAS, all small-dollar closed-end credit should provide that the Total of Payments as defined in the Truth in Lending Act have a repayment period over at least 120-days in substantially equal payments and fully disclosed to the customer; and

WHEREAS, Traditional Installment Loan Lenders offering amortizing small-dollar closed-end credit, may prevent cycle of debt issues inherent with non-amortizing balloon payment loans.

THEREFORE, BE IT RESOLVED, that the National Black Caucus of State Legislators (NBCSL) recognizes that in certain circumstances that small-dollar closed-end credit access in the form of traditional installment loans can be a safe and reliable financial resource;

BE IT FURTHER RESOLVED, that both Traditional Installment Loan Lenders and consumers should be reasonably protected and enter into agreements that are fair to both parties;

BE IT FURTHER RESOLVED, that that the NBCSL urges legislators to protect consumers' access to credit products from regulated and reputable lending parties that are safe for the consumer; and

BE IT FINALLY RESOLVED, that the NBCSL believes that legislators should examine the role that Traditional Installment Loans with affordable interest rates and amortized payments could play as an affordable means for borrowers to establish credit and secure small dollar closed-end credit while preventing cycle of debt issues inherent with non-amortizing balloon payment loans.

Resolution ID: BED-25-02

Sponsored by: Rep. Terry Alexander (SC) and Rep. Annie E. McDaniel (SC)

Policy Committee: Business and Economic Development (BED)