

Regulatory Environment in the Consumer Finance Industry

The legal and regulatory framework for the consumer finance industry is primarily dictated by two laws: the Acceptance of Contributions, Money Deposits and Interest Law (the "Contributions Law") and the Moneylending Law.

Contributions Law

The main regulation of the Contributions Law sets the maximum interest rate chargeable at 40.004 percent. Amended in 1983, the law has reduced the maximum interest rate stepwise from 109.5 percent to the 40.004 percent. The current rate was implemented as of November 1991. Promise's maximum interest rate is currently set at 25.55 percent.

The Moneylending Law

The Moneylending Law is a comprehensive regulatory statute governing consumer finance companies. The law sets out the registration authorities for offices and necessitates the formation of local and national associations to provide self-regulatory functions. In addition, the law requires that borrowers be provided with a written copy of the terms and conditions of the loan prior to making the loan and are entitled to receive a written receipt for each payment of principal or interest. Promise is registered under the Moneylending Law and regulated by the Ministry of Finance (MOF).

Other Related Laws

Among other related laws, the Interest Rate Restriction Law (IRRL) imposes interest rate ceilings on loans from 15 percent to 20 percent per annum, which are lower than the current interest rates charged by Promise. The purpose of the IRRL is to provide consumers with protection against extortive interest claims by making such claims legally unenforceable. Under the Contributions Law and the Moneylending Law, however, any voluntary excess payment of interest by a borrower to a registered moneylender is deemed to be a valid payment of interest provided that the borrower has received the required documentation from the moneylender. In the Company's experience, the IRRL has not hampered its loan operations because most borrowers voluntarily pay interest in excess of the IRRL ceiling. There have been cases, however, in which defaulting borrowers have refused to pay excess interest, forcing the Company to negotiate a settlement. These cases have not resulted in any significant financial damage.

Industry Rules and Regulations

Other industry rules and regulations ensure sound consumer finance operations, preventing excessive lending, requiring disclosure of loan conditions, controlling advertising and publicity, and regulating methods of debt collection. Furthermore, the MOF and prefectural governments monitor consumer finance companies and are empowered to suspend operations or revoke companies' registration if necessary. An MOF guideline stipulates that the maximum amount of loans extendable to new customers under preliminary credit investigation is either ¥500,000 or up to 10 percent of the borrower's annual income.

Promise complies with all of the important regulations for its industry as well as cooperating with the authorities that monitor its operations.