

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

April 26, 2006

3:23 p.m.

**MEMBERS PRESENT**

Representative Tom Anderson, Chair  
Representative Pete Kott  
Representative Gabrielle LeDoux  
Representative Bob Lynn  
Representative Norman Rokeberg  
Representative Harry Crawford  
Representative David Guttenberg

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

CONFIRMATION HEARING(S)

Regulatory Commission of Alaska

Janis Wilson - Anchorage

- CONFIRMATION(S) ADVANCED

CS FOR SENATE BILL NO. 300(L&C)

"An Act relating to the handling of negative equity in motor vehicle transactions; and relating to the contents of retail installment contracts."

- MOVED CSSB 300(L&C) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: SB 300

SHORT TITLE: MOTOR VEHICLE NEGATIVE EQUITY/CONTRACTS

SPONSOR(S): SENATOR(S) SEEKINS

02/14/06	(S)	READ THE FIRST TIME - REFERRALS
02/14/06	(S)	TRA, L&C
02/23/06	(H)	TRA AT 1:30 PM CAPITOL 17
02/23/06	(H)	-- Meeting Canceled --
03/09/06	(S)	TRA AT 1:30 PM BUTROVICH 205

03/09/06	(S)	Moved SB 300 Out of Committee	
03/09/06	(S)	MINUTE(TRA)	
03/10/06	(S)	TRA RPT 2DP 1NR	
03/10/06	(S)	DP: HUGGINS, KOOKESH	
03/10/06	(S)	NR: FRENCH	
03/16/06	(S)	L&C AT 1:30 PM BELTZ 211	
03/16/06	(S)	Heard & Held	
03/16/06	(S)	MINUTE(L&C)	
03/28/06	(S)	L&C AT 1:30 PM BELTZ 211	
03/28/06	(S)	Moved CSSB 300(L&C) Out of Committee	
03/28/06	(S)	MINUTE(L&C)	
03/29/06	(S)	L&C RPT CS 4DP	NEW
		TITLE	
03/29/06	(S)	DP: BUNDE, DAVIS, ELLIS, SEEKINS	
04/05/06	(S)	TRANSMITTED TO (H)	
04/05/06	(S)	VERSION: CSSB 300(L&C)	
04/06/06	(H)	READ THE FIRST TIME - REFERRALS	
04/06/06	(H)	TRA, L&C	
04/25/06	(H)	TRA AT 1:30 PM CAPITOL 17	
04/25/06	(H)	Moved Out of Committee	
04/25/06	(H)	MINUTE(TRA)	
04/26/06	(H)	L&C AT 3:15 PM CAPITOL 17	

**WITNESS REGISTER**

JANIS WILSON, Appointee  
to the Regulatory Commission of Alaska (RCA)  
Anchorage, Alaska  
POSITION STATEMENT: Testified as appointee to the Regulatory  
Commission of Alaska.

SENATOR RALPH SEEKINS  
Alaska State Legislature  
Juneau, Alaska  
POSITION STATEMENT: Spoke as the sponsor of SB 300.

CLYDE (ED) SNIFFEN, JR., Assistant Attorney General  
Commercial/Fair Business Section  
Civil Division  
Department of Law (DOL)  
Anchorage, Alaska  
POSITION STATEMENT: Expressed support and answered questions  
during hearing on SB 300.

**ACTION NARRATIVE**

**CHAIR TOM ANDERSON** called the House Labor and Commerce Standing Committee meeting to order at [3:23:15 PM](#). Representatives Rokeberg, LeDoux, Kott, and Anderson were present at the call to order. Representatives Lynn, Guttenberg, and Crawford arrived as the meeting was in progress.

[3:23:36 PM](#)

CONFIRMATION HEARING(S)  
Regulatory Commission of Alaska

[3:23:52 PM](#)

CHAIR ANDERSON announced that the first order of business would be the confirmation of Janis Wilson to the Regulatory Commission of Alaska (RCA).

[3:24:19 PM](#)

JANIS WILSON, Appointee to the Regulatory Commission of Alaska (RCA), began by saying that she has been an Administrative Law Judge (ALJ) for first the Alaska Public Utilities Commission [and later] the RCA. She noted that her position as ALJ was the first position [of this type] in the state; however, at this time there are many ALJ positions. She explained that this position was created in 1981, when the Alaska Pipeline Commission merged into the Alaska Public Utilities Commission. She noted that she has held this position since its creation. She said "I've had the same job for 25 years. What I want you to conclude from that ... is ... that the job is a very, very interesting and varied job." She stated that she has presided over all of the concurrent hearings of the Federal Energy Regulatory Commission (FERC), the Alaska Pipeline Commission, the Alaska Public Utilities Commission, and the RCA since she first held the position, in addition to presiding over utility matters.

The committee took an at-ease from 3:26 p.m. to 3:28 p.m.

[3:28:04 PM](#)

CHAIR ANDERSON commented that the RCA deals with a number of different issues, and opined that Ms. Wilson has expertise in the various areas, and would be able to address these issues.

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MS. WILSON replied that while she does not have much experience in telephones, she does have some expertise in all of the required areas.

REPRESENTATIVE KOTT made a motion to advance the confirmation of Janis Wilson to the Regulatory Commission of Alaska (RCA), to the joint session for consideration. There being no objection, the confirmation of Janis Wilson was advanced. He noted that each members' signature does not reflect the member's vote during the joint floor session.

[3:29:46 PM](#)

SB 300-MOTOR VEHICLE NEGATIVE EQUITY/CONTRACTS

[3:29:55 PM](#)

CHAIR ANDERSON announced that the final order of business would be CS FOR SENATE BILL NO. 300(L&C), "An Act relating to the handling of negative equity in motor vehicle transactions; and relating to the contents of retail installment contracts."

[3:30:00 PM](#)

SENATOR RALPH SEEKINS, Alaska State Legislature, speaking as the sponsor of SB 300, noted that SB 300 was introduced by request. He explained that national banks and credit unions are regulated under federal law. He said that acceptance companies such as Ford Motor Credit and GMAC are required to follow both federal and state laws. He noted that he has been in the industry for 36 years, and is familiar with the issue of negative equity. He said it is necessary to ensure that the federal requirements and restrictions regarding contracts and "negative equity" under state law line up with the requirements and restrictions under federal law. He stated that, in the industry, this is referred to as "upside down." He explained that there are advertisements claiming that for "zero down" a person can finance a car, provided that he/she is creditworthy. He said that finance contracts can run up to 84 months, with the average being 72 months. As a result of not making a down payment, many people, he said, will find themselves in a position in which the trade-in value is less than the amount of money owed. He said "the lines crossing between equity and what you owe extend farther out today than they ever did before."

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SENATOR SEEKINS went on to say that the Federal Reserve Board provided guidance on this issue in Regulations M and Z, which control the manner in which lease and credit transactions are disclosed. He explained that state law has never addressed where to disclose negative equity on a financing document. A dealer, he said, would be able to work with a federal bank or credit union on its contract and meet all of the necessary regulations; however, this may not meet all regulations and laws of the State of Alaska. This issue, he said, is addressed by SB 300. Referring to a handout in members' packets, he explained an "upside down" situation. He pointed out different areas in which federal law requires the negative equity be shown. He said SB 300 would bring state laws into compliance with federal laws regarding negative equity. He stated that the Attorney General's office was involved in the [drafting process].

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SENATOR SEEKINS, in conclusion, stated that once federal and state law are in compliance, there will be no "gray area," and everyone in the industry will be on "equal footing."

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REPRESENTATIVE CRAWFORD asked if there is a cap on how much negative equity can be borrowed.

SENATOR SEEKINS replied that there is no cap, although a person's ability to repay is taken into consideration. He said that he does not recommend doing this, adding that it is not favored in the industry as it takes the person out of the market for a longer period of time; however, this is an economic reality.

REPRESENTATIVE CRAWFORD asked if there are any guidelines regarding the maximum percentage.

SENATOR SEEKINS replied that he is not aware of any guidelines. He stated that in his experience, the most negative equity he has seen is \$19,000. He noted that this individual was not able to finance on the next contract. Years ago, he said, if a person did not have enough money for a down payment, they would borrow the money from a second lender. This was referred to as a "Mickey mouse loan," and resulted in two loan payments.

[3:40:00 PM](#)

REPRESENTATIVE GUTTENBERG said "Much of it goes back to what the banks will ... finance."

SENATOR SEEKINS said that this is correct. He said that Ford Credit uses a computer program that assigns a risk to the loan, and if this does not fit into the "risk profile," the loan will not get financed.

[3:41:12 PM](#)

CLYDE (ED) SNIFFEN, JR., Assistant Attorney General, Commercial/Fair Business Section, Civil Division, Department of Law (DOL), informed the committee that his obligations include enforcement of the consumer protection statutes. He said that he has looked over the bill and the division is in support. The division looked at the bill from a consumer disclosure perspective to ensure that consumers involved in this type of transaction are fully informed of the cost of refinancing. Under the current federal regulations, he said, these disclosures are made very clear; [on a state level], SB 300 adequately makes these disclosures.

REPRESENTATIVE GUTTENBERG asked if the passage of state guidelines would supersede "tighter" federal restrictions.

MR. SNIFFEN replied no. He said that the state cannot regulate any institutions that fall under federal jurisdiction; therefore, there is no conflict. This legislation would only affect entities that fall under state jurisdiction, which includes the acceptance corporations that do not fit into the federal definition of a bank or credit union.

REPRESENTATIVE GUTTENBERG asked if, because the banks have federal restrictions that differ from the lending institutions, the state should have more restrictions on the amount of negative equity allowed or the amount of times the negative equity can be "rolled over."

MR. SNIFFEN replied that he is not certain that this is necessary. He said that the [Division of Banking, Securities & Corporations] regulates the majority of the state's banking institutions, which are not federally chartered, and has comprehensive regulatory control over the aforementioned institutions. In regard to limiting the amount of "roll overs," he said that he has not considered this, although this is interesting idea and may be something to consider in the future.

SENATOR SEEKINS, in regard to limiting the amount of negative equity and "roll over," noted that it is allowed in 49 other states and opined that individuals would go elsewhere to purchase a vehicle if this was limited.

[3:45:01 PM](#)

REPRESENTATIVE ROKEBERG noted that this is self-regulating, adding that the banks will deny the loan if the amount of negative equity is too high. He remarked that a person's "creditworthiness" would drive the transaction.

SENATOR SEEKINS agreed that this is correct. He reiterated that the industry is in support of the legislation.

The committee took an at-ease from 3:45 p.m. to 3:49 p.m.

[3:49:41 PM](#)

REPRESENTATIVE LYNN moved to report CSSB 300(L&C) out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSSB 300(L&C) was reported from the House Labor and Commerce Standing Committee.

[3:50:12 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at [3:50:21 PM](#).