

Introduced: 2/28/69
Referred: Commerce

CS [Redacted]

1 IN THE SENATE

BY JOSEPHSON BY REQUEST

2 SENATE BILL NO. 212

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the legal rate of interest; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 45.45 is amended by adding a new section to read:

10 Sec. 45.45.005. DECLARATION OF PURPOSE. (a) The following find-
11 ings of the legislature regarding the existing legal rates of interest
12 evidence an emergency of unknown duration. The legislature finds that
13 the existing usury rate of eight per cent seriously inhibits the
14 availability of new capital in Alaska. Since Alaska lenders must
15 compete for funds outside the state, the existing maximum legal rate
16 of interest retards effective competition because other states set their
17 maximum interest rates at levels more attractive to investors. The
18 economy of this state suffers adverse effects, some of which will be
19 immediate if relief is not given by the legislature.

20 (b) The legislature finds that the homebuilding industry in the
21 state will come to a virtual halt, with consequential widespread unem-
22 ployment in the construction trades. If maximum interest rates are too
23 low in relation to the market, the home buyer is deprived of effective
24 freedom of choice and bargaining power because of a lack of new homes
25 from which to choose. As a result, his ability to negotiate for
26 favorable price and terms is diminished. As landlords comprehend that
27 available shelter spaces are restricted because of the home shortage,
28 tenants may find rental rates escalating and poorer service and mainten-
29 ance provided. When sellers of existing homes are unable to be bought

1 out for cash by buyers who are unable to refinance, the sellers are
2 likely to insist on higher sales prices as a condition for accepting
3 side notes and junior mortgages.

4 (c) The legislature also finds that another adverse effect of
5 unrealistically low usury limits is the encouragement of investment by
6 state residents in, and the transfer of deposits to, other areas of the
7 country offering better yields on investment. Moreover, as interest
8 levels rise toward the effective usury ceiling, requirements for the
9 maintenance of "compensating balances" usually become more stringent
10 and are administered more rigidly. The result of these requirements is
11 to increase the effective rate. The effect of "compensating balances"
12 on the Alaska economy is doubly adverse when the result is to shift de-
13 posits from Alaska banks to institutions outside the state where these
14 balances must be maintained resulting in less capital available in
15 Alaska for loans.

16 (d) Because the existing emergency conditions are of unknown dura-
17 tion, certain provisions of this Act are temporary in nature and require
18 continuing legislative oversight of the conditions creating the emer-
19 gency.

20 * Sec. 2. AS 45.45.010(b) is repealed and re-enacted to read:

21 (b) Until April 1, 1970, unless extended by the legislature, in-
22 terest at a rate no greater than twice the federal reserve discount
23 rate may be charged by express agreement of the parties in a contract.
24 If the legislature has not extended the expiration date by April 1, 1970
25 interest at the rate of eight per cent may be charged by express agree-
26 ment of the parties in a contract after that date.

27 * Sec. 3. AS 45.45.010 is amended by adding new subsections to read:

28 (c) The maximum rate of interest specified in this section does
29 not apply to loans insured by the Federal Housing Administration and

1 to loans guaranteed by the Veterans Administration. This provision
2 shall remain in effect only until April 1, 1970, unless extended by
3 the legislature.

4 (d) The maximum rate of interest specified in this section does
5 not apply to transactions involving loans processed through Alaska
6 financial institutions but requiring participation by foreign corres-
7 ponding banks or institutional lenders because of the loan limitations
8 on state banks under AS 06.05.205(b) and on national banks under
9 12 U.S.C. 84 and the regulations and rulings under that section. This
10 provision remains in effect until April 1, 1970, unless extended by
11 the legislature.

12 * Sec. 4. AS 45.45.060 is amended to read:

13 Sec. 45.45.060. CONTRACT NOT DEEMED USURIOUS BECAUSE OF AGREEMENT
14 TO PAY TAXES. A contract made in the state between borrower and lender,
15 debtor [,] and creditor, or mortgagor and mortgagee, on which the rate
16 of interest is the legal rate of interest specified in sec. 10 of this
17 chapter or less [EIGHT PER CENT OR UNDER], by which one party agrees
18 to pay the taxes on the debt, credit, or mortgage existing or entered
19 into between the parties, is legal and valid and is not usurious.

20 * Sec. 5. This Act takes effect on the day after its passage and approval
21 or on the day it becomes law without approval.
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