

Original sponsor: Josephson,
Haggland, Lewis and Ziegler

Offered: 3/4/69
Referred: Rules

amc

IN THE SENATE

BY THE COMMERCE COMMITTEE

CS FOR SENATE BILL NO. 212

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTH LEGISLATURE - FIRST SESSION

A BILL

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

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

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

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

(b) The legislature finds that the homebuilding industry in the state will come to a virtual halt, with consequential widespread unemployment in the construction trades. If maximum interest rates are too low in relation to the market, the home buyer is deprived of effective freedom of choice and bargaining power because of a lack of new homes from which to choose. As a result, his ability to negotiate for favorable price and terms is diminished. As landlords comprehend that available shelter spaces are restricted because of the home shortage, tenants may find rental rates escalating and poorer service and maintenance 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 un-
5 realistically 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 and
10 are administered more rigidly. The result of these requirements is to
11 increase the effective rate. The effect of "compensating balances" on
12 the Alaska economy is doubly adverse when the result is to shift deposits
13 from Alaska banks to institutions outside the state where these balances
14 must be maintained resulting in less capital available in Alaska for
15 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, during
22 any calendar quarter no interest may be charged by express agreement of
23 the parties in a contract which is greater than twice the federal re-
24 serve discount rate for the 12th Federal Reserve District that prevailed
25 on the first day of the month preceding the commencement of that calen-
26 dar quarter. Notice of the prevailing quarterly rate shall be provided
27 by the Department of Commerce. If the legislature has not extended the
28 expiration date by April 1, 1970, interest at the rate of eight per cent
29 may be charged by express agreement of the parties in a contract after

1 that date.

2 * Sec. 3. AS 45.45.010 is amended by adding a new subsection to read:

3 (c) The maximum rate of interest specified in this section does
4 not apply to transactions involving loans processed through Alaska
5 financial institutions when there is participation by corresponding
6 banks or institutional lenders in other states or countries because the
7 amount of the transaction exceeds the loan limitations on state banks
8 under AS 06.05.205(b) and on national banks under 12 U.S.C. 84 and the
9 regulations and rulings under that section and to those loans made by
10 mutual savings banks, state chartered savings and loan associations,
11 and federally chartered savings and loan associations which exceed 10
12 per cent of surplus, undivided profits and reserves for loan losses.
13 This provision remains in effect until April 1, 1970, unless extended
14 by the legislature.

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

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

23 * Sec. 5. AS 44.33.020 is amended by adding a new paragraph to read:

24 (11) before the commencement of each calendar quarter, furnish
25 lending institutions, title insurance companies, mortgage companies and
26 clerks of the respective superior courts with the 12th Federal Reserve
27 District discount rate which is to be used during that calendar quarter
28 for computing the maximum rate of interest under AS 45.45.010(b).

29 * Sec. 6. This Act takes effect on the day after its passage and approval.

1 or on the day it becomes law without approval.

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29