

SB

118

COMMITTEE REPORT

HOUSE

FURTHER:

April 24, 1979

Date: _____

Mr. Speaker:

The Committee on JUDICIARY has had CSSB 118

"An Act relating to small loans."

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

**MEMBERS SIGNING
DO PASS**

Thompson

H. McCune

H. L. ...

**MEMBERS HAVING
OTHER RECOMMENDATIONS:**

John ...

Robert ...

Richard ...

W. L. ...

Richard ...

CHAIRMAN

Schedule

SB 118 (wpd.)



BENEFICIAL FINANCE
SYSTEM - SINCE 1914

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SB 118

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Last year, the legislature updated the small loan statutes under which consumer finance companies are permitted to operate, responding to evidence that showed there was a need for modernization in order for the industry to survive. This bill offers an additional opportunity to further improve the operating environment for that industry and increase consumer benefits at the same time.

SB 118 will authorize "open end loans" which is known as revolving credit. This type of lending is presently used in Alaska by credit unions and banks. Additionally, 20 other states (list attached) have passed legislation permitting finance companies to lend in this manner.

The concept involves the establishment of a line of credit for the applicant, execution of a "loan agreement" instead of a traditional promissory note, which authorizes the lender to make cash advances under certain terms, and a monthly billing statement showing all debits, credits, interest charges and required payment.

The benefits to the borrower are:

- A. More convenient service (eliminates need for travel to office to obtain additional money)
- B. Reduction of state examination time
- C. Eliminates delay in getting necessary funds
- D. Reduced interest cost on this type of loan. (18% vs 25% average on closed end loans.)

The benefits to the lender are:

- A. Simplification of keeping records
- B. Reduction of paperwork
- C. Reduction of office costs.

We find that the benefits to the industry by use of this lending method to be great enough to allow us to pass on savings to the customer in the form of a lower interest rate, hence the provision in the bill for 1 1/2% per month compared with our average rate of 25% on closed end loans.

The need for a committee substitute was established by inclusion of 2 amendments found in Section 5 and Section ¹⁶9. Section 5 was included at the request of the finance industry to allow a lender to recover costs of appraisals and title insurance when real property is used as security.

Section 9 was added at the request of the Division of Insurance to eliminate a conflict with existing law and to allow for continued regulations of loans below \$5000.00.

In summary, open end lending is an improved method of doing business which can be beneficial for the lender and the borrower. For the reasons stated I ask the committee for its "Do Pass" recommendation.