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Alaska State Legislature

Senate

Official Business

Labor & Commerce Committee

Pouch V
State Capitol
Juneau, Alaska 99811

PROPOSED INTEREST RATE CS:

- 1) Loans of \$50 or less (60%)
- 2) Loans between \$50 and \$1,000 (36%)
- 3) Loans between \$1,000 and \$5,000 (24%)
- 4) Loans in excess of \$5,000 and to \$25,000: at a rate agreed upon by contract;

Loans categories to be adjusted in 10% increments based on 10% increases in the Anchorage CPI using November 1982 as the base period.

Late fee not to exceed 10% of the payment or \$1, whichever is less;

NEW PROPOSED INTEREST RATE CS:

- QF
- 0 to \$1,000: 36%
 - \$1,000 to \$10,000 24%
 - \$10,000 to \$25,000 at market rate

Late fee not to exceed 10% of the payment or \$15, whichever is less;

PRESENTLY IN STATUTE

- 1) Loans of \$50 or less (60%)
- 2) Loans between \$50 and \$500 (36%)
- 3) Loans between \$500 and \$1,000 (24%)
- 4) \$1,000 to \$25,000 (12%)
- 5) Open end loans between \$5,000 and \$25,000 the greater of $1\frac{1}{2}\%$ per month (18%) or 8% points above the federal reserve discount rate on the first day of the month before the calendar quarter during which the loan is made.

Suggested AMENDMENTS to CSHB 524

Page 1:

Line 14 - Strike (\$500), insert \$1,000.

Line 15 - Strike (\$500), insert \$1,000; strike (\$1,000), insert \$5,000.

Lines 15, 16, 17 - Delete (and one percent a month on the remainder of any unpaid principal balance exceeding \$1,000 but not exceeding \$25,000.)

Line 26 - Strike (1978), insert 1982.

Page 2:

Line 6 - Strike (1978), insert 1982.

Add new section to bill as Section #5.

Sec. 5. AS 06.20.230(b) is amended to read:

(b) Notwithstanding the provisions of (a) of this section, a licensee who makes open-end loans under A.S. 06.20.010 - 06.20.920 or who makes a loan under A.S. 06.20.010 - 06.20.920 exceeding \$5,000 but not exceeding \$25,000 may elect to charge, contract for, and receive interest at any rate agreed upon by contract. (NOT TO EXCEED THE GREATER OF

(1) ONE AND ONE-HALF PERCENT A MONTH: OR

(2) EIGHT PERCENTAGE POINTS ABOVE THE FEDERAL RESERVE DISCOUNT RATE ON 90-DAY COMMERCIAL PAPER CHARGED TO BANKS FOR ADVANCES BY THE 12th FEDERAL RESERVE DISTRICT ON THE FIRST DAY OF THE MONTH BEFORE THE CALENDAR QUARTER DURING WHICH THE LOAN IS MADE.)

Sec. 6. This Act takes effect immediately in accordance with A.S. 01.10.070(c).



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CS HB 524 (L&C):

Amends the Small Loans Act with the addition of a new subsection relating to the maximum interest permitted for various loan amounts, and that the interest rates may be annually adjusted according to changes in the consumer price index.

LOAN AMOUNT CATEGORIES:

Interest rates based upon unpaid principal balance for the following categories:

- 1) Loans up to \$50; 5% per month.
- 2) Loans in excess of \$50 but not exceeding \$500; 3% per month
- 3) Loans in excess of \$500 but not exceeding \$1,000; 2% per month
- 4) Loans in excess of \$1,000 but not exceeding \$25,000; 1% per month

Consumer Price Index Adjustments

- 1) Adjustments shall be made if the change in the CPI for Anchorage is 10% or more using the Anchorage CPI for November 1978 as a base
- 2) Adjustments are to be made in 10% increments
- 3) An increase may not exceed 10% in one year
- 4) An adjustment may not result in a decrease ^{OF} amounts for loan categories below the maximum amounts in effect on the effective date of this act
- 5) On or before March 1st, the Department of Commerce and Econ Dev shall publish changes
- 6) Adjustments are to be effective on April 1st of each year

If the method of calculating the CPI is revised by the US Department of Labor, the CPI for Anchorage (1978) as revised shall be used for computations.

Amends AS 06.20.260 with a new paragraph: "(a) No further or other charge or amount for any examination, service, brokerage commission, expense, fee, or bonus or other thing or otherwise shall be directly or indirectly charged contracted for or received

except (6) A late payment fee of not more than 10% of the payment which is due or \$15, whichever is less."

Section 4 of the bill changes the definition of consumer price index to include any revision of the CPI which the Bureau of Labor Statistics determines accurately reflects changes in the purchasing power of the dollar for consumers.

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

FOUCH D

JUNEAU, ALASKA 99811

Phone: 465-2500

November 19, 1981

Honorable Bob Mulcahy
Chairman
Senate Labor and Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Senator Mulcahy:

Thank you for your request for a position statement and fiscal note on each of HB 386, CSHB 524 (L&C) and SB 606.

Fiscal notes are enclosed.

Our position on HB 386, an act relating to business corporations, is that there will be no fiscal effect on the Department of Commerce and Economic Development or the Division of Banking and Securities. The Department neither endorses nor objects to the substantive intent of the bill. The Department objects procedurally because a draft revision of AS 10.05 has been completed under the direction of the Code Revision Committee. Parties interested in HB 386 should contact John W. Abbott, Attorney at Law and Chairman, Code Revision Commission, 601 W. 5th, Suite 820, Anchorage, Alaska 99501 (907/276-3222), or Catherine Walsh, Secretary, Code Revision Committee, Juneau, Alaska 99811 (907/465-4878).

Our position on CSHB 524 (L&C), an act relating to small loans, is that there will be no fiscal effect on the Department of Commerce and Economic Development or the Division of Banking and Securities. The Department neither endorses nor objects to the bill.

Essentially, CSHB 524 (L&C) allows for interest adjustments on small loans, on an annual basis, if the Anchorage consumer price index exceeds 10% in any calendar year. This automatic rate adjustment should make it unnecessary to constantly initiate rate adjustments by legislative action.

On SB 606, an act relating to ownership of financial institutions by out-of-state bank holding companies, this Department and the Division of Banking and Securities, although not necessarily advocating interstate banking, do support the full legislative process in determining the needs of the state, its citizens, and a sound financial community. We opposed the special interest activity noted on this subject last session.

Honorable Bob Mulcahy

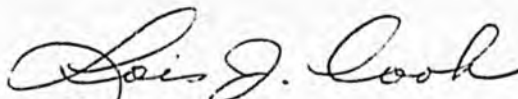
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November 19, 1981

SB 606 is acceptable inasmuch as it is not limited or restrictive to any size, condition, location, etc., of the bank holding company or subsidiary bank. We feel if interstate banking is going to be a benefit to the state it should go through the bank holding company structure. This will tend to preserve the dual banking system and also maintain some Alaska (community) management control and local interest of the subsidiary bank.

As to the regulatory scheme toward the proposed legislation, we see no problem as specifics in public protection are covered under the Alaska Banking Code and can be implemented by regulations. If, however, restricted activity or limiting provisions are amended into the bill, there may be serious problems in regulations and enforcement ability by the Department.

Sincerely,



Lois J. Cook
Acting Deputy Commissioner

LJC/wfs 5/5

Enclosures

"A person may" near the beginning of the subsection.

affected by the amendment, it is not set out.

As the rest of the section was not

Sec. 06.20.230. Maximum interest permitted. (a) A licensee may lend any sum of money not exceeding \$25,000 and may charge, contract for, and receive on the loan interest at a rate not exceeding three percent a month on that part of the unpaid principal balance of a loan not in excess of \$500; two percent a month on the remainder of any unpaid principal balance exceeding \$500 but not exceeding \$1,000; and one percent a month on the remainder of any unpaid principal balance exceeding \$1,000 but not exceeding \$25,000. On loans the principal of which is \$50 or less a licensee may charge, contract and receive interest at a rate not exceeding five percent a month.

(b) Notwithstanding the provisions of (a) of this section, a licensee who makes open-end loans under this chapter or who makes a loan under this chapter exceeding \$5,000 but not exceeding \$25,000 may elect to charge, contract for, and receive interest not to exceed the greater of

(1) one and one-half percent a month; or

(2) eight percentage points above the Federal Reserve discount rate on 90-day commercial paper charged to banks for advances by the 12th Federal Reserve District on the first day of the month before the calendar quarter during which the loan is made.

(c) Interest on loans under (b) of this section shall be computed according to the actuarial method on the entire unpaid principal balance as determined in AS 06.20.285(b). (§ 16(a) ch 73 SLA 1955; am § 5 ch 94 SLA 1969; am § 7 ch 71 SLA 1978; am § 2 ch 84 SLA 1979; am § 3 ch 63 SLA 1980)

Effect of amendments.

The 1979 amendment added subsection (b).

The 1980 amendment, effective June 5, 1980, in subsection (a), substituted "\$25,000" for "\$5,000" twice; in subsection (b), inserted "or who makes a loan under this chapter exceeding \$5,000 but not exceeding \$25,000" and "the greater of"; restructured the subsection into the

present introductory paragraph and paragraphs (1) and (2), added "or" following "a month" in paragraph (1), added the provisions of paragraph (2); designated the provisions beginning "Interest on loans" as subsection (c), added "Interest on loans under (b) of this section shall be", and inserted "entire" preceding "unpaid principal" in subsection (c).

Sec. 06.20.250. Computation and payment of interest. (a) Interest shall not be paid, deducted, or received in advance. Except for open-end loans made under AS 06.20.285, interest shall be computed and paid only on unpaid principal balances and shall not be compounded; however, if part or all of the consideration for a loan contract is the unpaid principal balance of a prior loan, the principal amount payable under the loan contract may include any unpaid charges on the prior loan which have accrued within 60 days before the

making of the loan contract. The maximum interest permitted on loans made under this chapter shall be computed on the basis of the number of days actually elapsed. For the purpose of these computations a month is any period of 30 consecutive days.

(c) Except for open-end loans under AS 06.20.285, a licensee may not enter into any contract for a loan that provides for a scheduled repayment of principal over more than the maximum terms set out below opposite the respective size of loans.

Principal amount of loan to	Maximum term
\$1,000	24 and 1/2 months
Over \$1,000 to \$2,500	48 and 1/2 months
Over \$2,500 to \$5,000	60 and 1/2 months
Over \$5,000 to \$25,000	as agreed to by the parties

(am §§ 3, 4 ch 84 SLA 1979; am § 4 ch 63 SLA 1980)

Effect of amendments.

The 1979 amendment added "Except for open-end loans made under AS 06.20.285" at the beginning of the second sentence of subsection (a) and "Except for open-end loans under AS 06.20.285" at the beginning of subsection (c).

The 1980 amendment, effective June 5, 1980, in subsection (c), substituted "a" for "no" preceding "licensee" near the

beginning of the subsection, inserted "not" following "licensee may" near the beginning of the subsection, added the provisions of the last line of both columns of the loan repayment terms beginning "Over \$5,000" and ending "as agreed to by the parties."

As the rest of the section was not affected by the amendments, it is not set out.

Sec. 06.20.260. Charges prohibited. (a) No further or other charge or amount for any examination, service, brokerage commission, expense, fee, or bonus or other thing or otherwise shall be directly or indirectly charged, contracted for or received except

(1) lawful fees actually paid out by the licensee to a public officer for filing, recording, or releasing any instrument securing the loan, or for transferring certificate of title to a motor vehicle securing the lien or noting a lien on that certificate;

(2) premiums actually paid out for insurance on any one or combination of the following: pledged property of the borrower, credit life insurance on the life of one or more borrowers, or credit disability insurance to provide indemnity for payments becoming due on the indebtedness;

(3) taxable costs and expenses to which the licensee becomes entitled under general law in any court proceedings to collect a loan or to realize on the security after default;

(i) Repealed by § 16 ch 71 SLA 1978.

(5) reasonable fees paid by a licensee for appraisals, surveys, and title insurance or reports if the loan is secured by an interest in real estate.

(am § 5 ch 84 SLA 1979)

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Sec. 06.20.310. Illegal interest rate. No loan of the amount or value of \$25,000 or less for which a greater rate of interest, consideration or charge than is permitted by this chapter has been charged, contracted for or received, wherever made, may be enforced in the state, and every person participating in such a loan in the state is subject to this chapter. This section does not apply to loans legally made in any state or territory of the United States which has in effect a regulatory small loan law similar in principle to this chapter. (§ 20(c) ch 73 SLA 1955; am § 5 ch 94 SLA 1969; am § 13 ch 71 SLA 1978; am § 9 ch 63 SLA 1980)

Effect of amendment.

The 1980 amendment, effective June 5, 1980, substituted "\$25,000" for "\$5,000."

Sec. 06.20.320. Civil and criminal penalties.

(c) If a penalty for failure to comply with financing disclosure requirements under regulations adopted by the Board of Governors of the Federal Reserve System is imposed by the federal authorities, the department may not impose a civil penalty under this section for the same act or omission.

(am § 7 ch 84 SLA 1979)

Effect of amendment.

The 1979 amendment added subsection (c).

As the rest of the section was not affected by the amendment, it is not set out.

Sec. 06.20.900. Definitions. As used in this chapter, unless the context otherwise requires,

(1) "commissioner" means the commissioner of commerce and economic development or his designee;

(2) "department" means the Department of Commerce and Economic Development.

(3) "open-end loan" means a loan made by a licensee under this chapter under an agreement between the licensee and a borrower which provides that

(A) the borrower may obtain advances of money from the licensee from time to time or the licensee may advance money on behalf of the borrower from time to time as directed by the borrower;

(B) the amount of each advance and interest and charges will be added to the borrower's open-end loan account and payments and other credits are deducted from that account;

(C) interest will be computed on the unpaid principal balance or the average unpaid principal balance of the open-end loan account;

(D) the borrower may pay all or any part of the unpaid principal balance of his open-end loan account or, if the account is not in default, in monthly installments of fixed amounts as provided in the loan agreement; and

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CSHB 524 (L&C)
 Title An Act Relating to Small Loans
 Requested by Senate Labor and Commerce Committee Date November 9, 1981

II. FISCAL DETAIL

Agency Affected Department of Commerce & Economic Development
 Program Category Affected Consumer Protection
 BRU, Program, or Subprogram(s) Affected Financial Institutions
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)
EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES		0	0	0	0	0
200 TRAVEL		0	0	0	0	0
300 CONTRACTUAL		0	0	0	0	0
400 COMMODITIES		0	0	0	0	0
500 EQUIPMENT		0	0	0	0	0
600 LAND & STRUCTURES		0	0	0	0	0
700 GRANTS, CLAIMS, ETC.		0	0	0	0	0
TOTAL		0	0	0	0	0

FUNDING (Thousands of Dollars)

GENERAL FUND		0	0	0	0	0
FEDERAL FUNDS		0	0	0	0	0
OTHER (Specify Fund Source)		0	0	0	0	0

POSITIONS

FULL TIME		0	0	0	0	0
PART TIME		0	0	0	0	0
TEMPORARY		0	0	0	0	0

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

IV. DATE November 12, 1981 PREPARED BY *Willis F. Kirkpatrick*
 AGENCY Department of Commerce & Economic Development
 PHONE 465-2521
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)