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Adopted

Conceptual language for CS for SB 87:

Delete the existing new (underlined) language and insert language that would provide:

"not in excess of a monthly rate that results in 17 percent per year on the outstanding balance".

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST: _____

Bill Version : SB 87

Publish Date : _____

Revision Date: _____

Title : Credit Card Interest Rates

Agency Affected : Comm. & Econ. Dev.

BRU: Banking

Sponsor : Labor & Commerce

Requestor : Labor & Commerce

Components : _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

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

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Willis Kirkpatrick, Director

Division: Banking, Securities and Corporations

Phone: 465-2521

Date: February 11, 1987

Approved by Commissioner: *[Signature]*

Agency: Commerce and Economic Development

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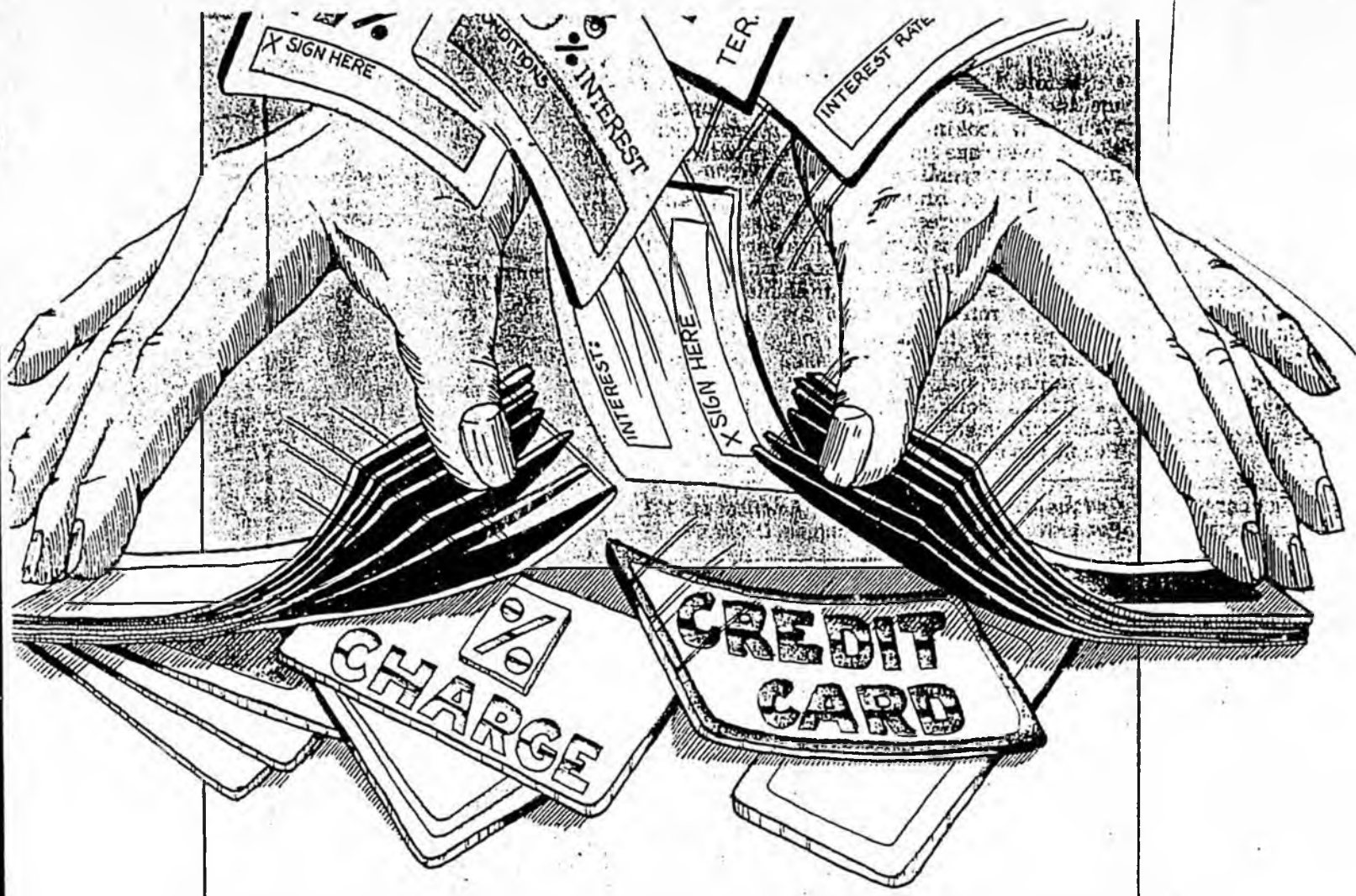
- Legislative Finance
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- Impacted Agency(ies)
- Senate Secretary

Anchorage Daily News
Monday, February 2, 1987

styles/community/entertainment/tv

MATTER OF INTEREST

It pays to shop around for credit rates



BANK CARD INTEREST RATES

A sample of some Anchorage banks

Company	First \$1,000	Over \$1,000	Annual fees	Interest free period
Alaska Continental Bank	18.00%	10.50%	\$20	25 days
Alaskan Federal Credit Union	*14.85%	same	none	none
Alaska Mutual Bank	18.50%	same	\$18	21 days
Alaska National Bank of the North	15.00%	same	\$18	21 days
Alaska Pacific Bank	18.00%	10.50%	\$20	25 days
Alaska State Bank	18.00%	10.50%	\$20	25 days
Alaska USA Federal Credit Union	*13.90%	same	\$15	25 days
Fedalaska Federal Credit Union	18.00%	10.50%	\$20	25 days
First Federal Bank of Alaska	18.00%	10.50%	\$20	25 days
First Interstate Bank of Alaska	21.00%	same	\$20	25 days
First National Bank of Anchorage	18.00%	10.50%	\$20	25 days
National Bank of Alaska	18.00%	10.50%	\$20	25 days
Rainier Bank Alaska	15.00%	same	\$20	25 days
Alaska Bank Card Center	18.00%	10.50%	\$20	25 days

Fluctuates

By JANE CARTWRIGHT

Daily News reporter

If you're unhappy with the interest rate you pay on your credit card, all you may have to do is drive down the street to a different bank.

Or apply for a "cheaper" card from an out-of-state bank.

Don't let the pleasure and convenience of the credit card — perhaps the most popular consumer invention ever — blind you to the reality of monthly payments, say experts. Shop around for the best interest rate, annual fee and interest-free grace period.

Banks that issue Visa or MasterCard set their own interest rates. Rates charged by Anchorage banks and credit unions vary widely — up to 6 percent.

Alaska USA Federal Credit Union currently charges its members the lowest rate at 13.9 percent. California-based First Interstate Bank of Alaska charges the highest at 21 percent.

The majority of Anchorage banks charge 18 percent on the first \$1,000 of unpaid balance and 10.5 percent on anything above that.

The annual interest rate is the amount the cardholder pays on the unpaid balance of the charge. Usually there's an interest-free or grace period before interest is tagged onto the balance. The length of the grace period varies, too. So does the annual fee charged to use the card.

So what? you may ask. If so, you're not alone.

One in four Americans carrying bank "plastic" doesn't know the rate of interest he is paying for the pleasure, according to a survey published in the Bank Credit Card Observer, a monthly industry newsletter.

The percentage of card holders who don't know may, in fact, be quite a bit higher, according to experts. Many people find it difficult to admit they don't know.

A surprising 78 percent of the 1,008 Americans surveyed said they see their cards as more of a convenience than a loan.

"The new year will challenge these beliefs," according to the New Jersey-based newsletter. "... Comparative shopping is entering a new era."

The new federal tax law calling for the phase-out of the tax deduction on bank credit card interest, among other things, may heighten consumer activism, according to the newsletter.

This and other factors may lead consumers to comparison shop for credit cards the way they shop for best buys on appliances and automobiles.

"Consumers are switching (banks) by the millions," said Steve E. Goodman, associate editor of the newsletter, in a telephone interview. "Banks that offer low-interest rates are being swamped by applications."

According to the newsletter's poll of the nation's 200 largest banks, the lowest interest rate on a bank card, 10.5 percent, is offered by the First Commercial Bank of Little Rock, Ark. The highest: 22.2 percent, by NCNB South Carolina in Columbia.

There's nothing to prevent a resident of Anchorage from applying for credit cards offered by banks Outside. In fact, many Alaskans do, according to Elgie Holstein, Washington, D.C., director of Bankcard Holders of America.

All you have to do is write to the bank and apply for a card.

"I do know that Alaska residents, like residents elsewhere in the country, are carrying credit cards issued by a local bank and also carrying a large number of cards issued by out-of-state banks," he said.

The average bank credit card interest is 18.5 percent, he said, even though interest rates on mortgages, cars and other loans "have fallen dramatically."

Holstein said the variation in rates here in Anchorage is not unusual.

"Regardless of where you live," he said, "you should shop around for the best deal on credit cards."

Bankcard Holders of America will mail you a list of bank interest rates from across the country for \$1.

"If there's a dispute over a charge, you have to put it in writing," he explained. "So, it doesn't matter if the bank is two blocks away or 2,000 miles."

Of the 82 million people in the U.S. who carry bank credit cards, almost two-thirds (63 percent) say they would be willing to switch to a card with a lower interest rate, according to the Bank Credit Card Observer.

Though there is a push in Congress for a national ceiling on interest rates, the banking industry opposes it.

"Legislation is not necessary unless there is evidence of a monopoly in the marketplace," said Mary-Liz Meany, Washington, D.C. spokeswoman for the American Bankers Association.

"With the issuance of bank cards, this isn't true. There's quite a lot of competition."

She said it's dangerous to compare credit card interest rates with interest charged for other types of consumer loans.

"They (card loans) are unsecured loans, risky loans, more expensive to process," Meany said. "The cost of administering the program is very high."

She said credit cards make less money for banks — 1.68 percent of balances before taxes — than mortgages (2.24 percent), installment loans (2.32 percent) or commercial loans (2.91 percent).

And the fees for credit cards are "more accurately described as service rates,"

Meany said. "They are a tremendous convenience and they are very popular."

However, in its February issue, Consumer Reports noted that last year consumers owed some \$70 billion in outstanding credit balances, "a virtual gold mine for card issuers, especially those who've planted millions of cards in the wallets of consumers."

The magazine reports that "lenders also believed that consumers were not sensitive to interest rates because they are hooked on their cards, and the lenders felt free to charge whatever interest the traffic will bear."

However, sensitivity by banks may be growing. Late last year Citibank, the largest issuer of credit cards in the country, dropped its rate from 19.8 percent to 16.8 percent on its premium cards. Chase Manhattan, the third largest credit-card issuer, quickly reduced its regular Visa and MasterCard accounts from 19.8 percent to 17.5 percent.

By law, Alaska banks cannot assess cardholders more than 18 percent interest annually on credit balances of less than \$1,000.

For accounts with balances exceeding \$1,000, the interest rate floats 5 percentage points above the discount rate set by the Federal Reserve Bank — currently 5.5 percent.

The restrictions don't apply to out-of-state banks with branches in Alaska.

Rainier Bank Alaska offers a 15 percent interest rate — the same rate Rainier Bank charges its Washington customers. Transactions are processed through Seattle.

Seattle First National Bank processes transactions for four Alaska banks: Alaska National Bank of the North (15 percent), Alaska Mutual Bank (18.5 percent), Mount McKinley (18.5 percent) and First Bank (18.5 percent).

With SeaFirst's acquisition last month of the bank card operation at Alaska Bank of the North, the number of Anchorage institutions that issue and process their own cards shrank to three: two credit unions and a bank.

Competing with Alaska USA Federal Credit Union's 13.9 percent is Alaska Federal Credit Union's 14.85 percent. You must be a member to get a card. Alaska Federal charges no annual fee for use of a card. However, there is no grace period.

The one bank in Anchorage that issues its own card is First National Bank of Anchorage. The interest rate is 18 percent on the

CREDIT: It pays to shop around

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first \$1,000 and 10.5 on anything above.

The bank offers a 25-day grace period and charges a \$20 annual fee.

Though there are only three financial institutions that issue and process their own cards, Alaska Bank Card Center processes cards in the name of 21 other financial institutions statewide. The center is a wholly owned subsidiary of National Bank of Alaska, the state's largest bank.

Rates for National Bank of Alaska's 50,000 cardholders are the same as those offered by the First National Bank of Anchorage.

Local bank officials say they encourage shopping around.

"I think people are becoming more cognizant of the different interest rates charged," said Vicki Wilts, member services manager for Alaska Federal Credit Union.

"Before, it didn't matter. People said, 'Give me the card and let me do my shopping.' We're now looking at a younger generation, the 28-to-45 age group, which is educated about how to spend money wisely."

Joan Easley, branch manager for Rainier Bank Alaska, agreed. "This is a sophisticated population that is very much aware of what interest rates are doing," she said. "We get calls from people who want to change cards."

Because rates in Alaska are lower than other parts of the country, out-of-state consumers apply here for Alaska cards, said Gloria Rager, bank card coordinator for Alaska Mutual Bank. "We get calls from East Coast consumers two or three times a day. People can afford to be choosy."

Write Bankcard Holders of America at 333 Pennsylvania Ave. S.E., Washington, D.C. 20003.

Hidden costs may offset low rates

By JANE CARTWRIGHT
Daily News reporter

Do lower interest rates on your bank credit card mean lower cost?

In its February issue, Consumer Reports warns: "Before you leap for the nearest interest-rate break, you should know about the creative ways banks and thrift institutions have found to charge you more even as they charge you less."

The magazine urges consumers to consider the following:

- **Annual fees.** A card with a lower interest rate may come with a higher annual fee. When Citibank lowered its interest rate, it raised the annual fee on premium-card accounts from \$40 to \$50.

- **Tiered pricing.** Some banks charge a higher interest fee on lower outstanding

balances and a lower interest fee on higher ones. Norstar Bank of Maine charges customers 15.5 percent on card balances of \$1,000 and over, 18.5 percent on balances below \$1,000.

- **Grace periods.** Some banks have started offering cards at a lower interest rate, but with no interest-free or grace period. Traditionally, a customer could pay off the entire unpaid balance before the normal 25-day grace period lapsed and incur no finance charge.

"Some banks have told us they make more profit by reducing the rate and wiping out the grace period," Robert Heady, publisher of The Bank Rate Monitor, is quoted as saying. His publication tracks interest rates.

Last fall, First Financial Savings, a

See Page D-2, HIDDEN

HIDDEN: Low rates may belie actual cost

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Wisconsin bank, began offering some cards at a 14.9 percent interest rate, but eliminated the grace period.

Consumer Reports notes: "Let's say you make five \$50 purchases during a billing cycle and pay in full two weeks before the bill's arrival. With the normal 25-day grace period, you'd owe no interest.

"But without a grace period, those purchases would cost you \$3 to \$4 in interest even on a card with a relatively low 14.9 percent interest rate."

- **Variable rates.** Other banks offer a low-rate card, but the rate is variable. Marine Midland in New York, for example, offers a card with a 14.9 percent variable rate. The bank changes the rate every quarter according to a number of factors, including the cost of the funds. The rate, however, is not pegged to any outside index.

If you pay off your credit-card balances regularly and don't incur finance charges, a much higher rate down the line won't make much difference. But if you carry credit balances, it could.

"Before looking for a credit card that offers the best features in the crazy quilt of pricing schemes, consider first how you use credit," the magazine suggests. "If you are a 'convenience' user, who pays off balances promptly each month thus incurring no finance charges, grace periods count but interest rates do not.

"If you're a true credit user, who allows your unpaid balances to revolve into the next billing period, look for a lower interest rate. And, of course, the more heavily you charge, the more you'll save with the lower rate.

"When evaluating credit-card offers, look carefully at the fine print before you sign up. Check the annual fee. Does the bank charge you

interest at a higher rate if you purchase less on your card? Are there transaction fees for cash advances or even purchases?

"Your best bet is still with an old-fashioned credit card with a low interest rate, low annual fee, and the grace period. Such offers are likely to come from financial institutions that are trying to get more cards into the hands of consumers, rather than from banks that already have a large credit-card consumer base."

Consumer Reports notes that "pricing can be subtle."

Consider First Deposit National Bank in Tilton, N.H. It offered by mail a Visa card with no annual fees, no transaction fees, lower minimum monthly payments and a 1 percent rebate on every purchase made with the card.

The catch?

To get the card, you had to take out a \$1,000 cash advance at a hefty 21.9 percent interest rate.

See Page J-2, HOSPITALS A birthing room at Providence Hospital is equipped with many of the amenities of home.

Alaska laws keep card rates high

You might not have noticed, but the interest you pay on your VISA or MasterCard depends very much on whether it was issued by an "Outside" bank like Citibank or Bank of America, or an Alaska bank. It can make a real difference, because the interest charged by local banks can be considerably less. But not as cheap as it could be. Therein lies an interesting story.

This is hard to believe, but sadly true: Alaska's law restricting interest rates on credit cards puts local banks at a competitive disadvantage with out-of-state financial institutions, results in local consumers paying higher rates, raises the possibility of local jobs being eroded and surprisingly, results in a minority of relatively affluent Alaskans being, in effect, subsidized by the rest of us.

You'd think legislators would rush to change this. In fact, they tried to. A bill did pass both the House and Senate, but it died in the confusion during final hours of the legislative session.

The law governing these interest rates is relatively obscure, a relic of the days of high interest rates, high inflation and the notion that economic problems can be solved by price controls and government regulation. But because of it, out-of-state financial institutions have been able to market their own credit cards aggressively here, capturing about half the Alaska charge card market. Because Alaska's limitations on interest don't apply to them, they can charge higher rates as well.

Alaska is one of five states that still have laws restricting interest rates on



tim bradner

locally issued credit cards that are lower than they would be on the open market. However, the problem is not so much the limit but the way the limit is structured.

We have a "two-tier" limit in Alaska, a top rate of 18 percent on the first \$1,000 owed, and a lower interest rate, applying to balances over \$1,000, that "floats" at five points over the federal discount rate. The discount rate has been falling, so this lower rate is now about 11.5 percent.

Like any price control, these limits create shortages and market distortions. The shortage is in the ability of the local banks to offer their lower-cost credit card services to large numbers of Alaskans, many of whom then turn to cards issued by out-of-state financial institutions to which the Alaska limits do not apply. Rates charged on these cards approach 20 percent. For example, Citibank and Bank of America charge 19.8 percent for their VISA and MasterCard accounts, as does Sears with its new Discover card.

But the most bizarre distortion is this:

The "two-tier" structure of Alaska's law creates a situation in which most of Alaska-issued card owners who carry relatively low balances wind up paying the maximum 18 percent, while a minority of the more affluent, who qualify for the premium bank cards with larger credit lines, can carry large balances and pay 11.5 percent on some of it. In effect, they are using the cards as a source of cheap consumer credit and are being subsidized by the rest of us who pay 18 percent.

This is the crux of the matter. Alaska bank earnings are marginal when servicing charge card accounts at 11.5 percent. To make up for lower earnings on this money, they must push the rate to the legal 18 percent maximum on the other money lent. Even with that, bank card services are no big money-maker for local banks.

Credit card operations are more complex and costly than conventional bank lending because of added costs in processing, handling and mailing. What this means is that to stay in the business, local banks must keep costs to a minimum, particularly the inevitable bad debt losses. They can do this by being very restrictive to whom they issue cards.

This has made Alaska a happy hunting ground for out-of-state financial institutions that are regulated under more liberal laws of their home states. With modern communications and data-processing technology, they locate card

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ANCHORAGE DAILY NEWS - SUNDAY, JULY 6, 1986

CREDIT: Laws keep rates high

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operations in states with liberal laws and can aggressively promote their cards nationwide because they charge higher rates and have a huge volume to make up losses. Local banks, in contrast, have less volume, less margin and higher costs, partly because they maintain their operations and people here.

The legislation that died in Juneau would have wiped out this lower "tier" of interest limitation to leave just one limit on the total of the amount owed. In fact, in final versions of the bill, the top "cap" would have been reduced from 18 to 17 percent.

But the actual rate would be determined by competitive market forces here and would "float" down to around 16.5 percent, Alaska bank officials say. Because there no longer would be a need to subsidize the lower limit, rates for most people would go down. But the overall return to the banks would increase. A greater margin would permit more liberal card-issuing, more volume, an ability to capture back more market share from the Outsiders, and lower interest rates on charge cards for most Alaskans.

Cynics doubt rates would actually fall. Local bankers point to other states with relatively high legal limits, or even no limits, where actual rates, established by market competition, are lower. They point to Washington, where the legal ceiling is 18 percent but Seafirst and Rainier banks charge 15 percent on their cards.

Critics respond: the Alaska banking community is small and dominated by a few big banks. There might not be enough competition for market forces to bring down rates.

Most legislators finally grasped the subtle complexities of this issue, though not in time to see a change in the law this year. It's tempting in politics to rely on the notion that government can "fix" a problem with a regulation or a control. It's more difficult to see the long-range effects or to really trust that free-market forces and deregulation in the financial community can really benefit consumers.

If legislators do allow interest rate deregulation, it will be interesting indeed to see how free-market forces will actually perform.

□ Tim Bradner writes for an Alaska economic reporting service.

TESTIMONY BEFORE SENATE LABOR & COMMERCE COMMITTEE

Mr. Chairman, my name is Wes Coyner and I am representing the Alaska Bankers Association who support passage of SB87. This bill is, in fact more of a consumer bill than a banking bill.

What this bill will do is provide a single legal maximum interest rate on the outstanding balances on credit cards.

Under current Alaska law we have a two tier interest rate structure which is outdated, and a relic of the days of high interest rates and high inflation.

We now have a maximum rate of 18% on the first \$1,000 owed on local bank cards and a lower rate on balances over \$1,000 that floats at five points above the federal discount rate. The discount rate has fallen recently and this lower rate on balances over \$1,000 is now 10.5%. That is the problem - rates are too high on balances under \$1,000 and too low on balances over \$1,000.

As a result of our current two tier system approximately 150,000 Alaskans who have VISA and MASTERCARGE cards issued by Alaska banks, are not getting the full benefits of falling interest rates in todays market.

In addition, current statute places Alaska banks, who offer credit cards, at a competetive disadvantage with out of state banks who have captured approximately half of the Alaska credit card market. Ironically, most of those banks charge a higher interest rate than local banks.

Further, existing law discourages Alaska banks from issuing new cards, which in turn effects the number of people employed in their card operations and forces many Alaskans to use out of state cards at higher rates than Alaska law allows. State laws do not apply to out-of-state banks and credit unions who issue cards under more liberal laws of their home states, in the case of banks, and federal regulations for credit unions. Thirteen states have no limit and all but five states allow rates that vary from 18% to 30%. However, the legal maximum is not necessarily the rate charged.

As a side note, and as an example, Alaskan National Bank of the North recently sold their credit card operations to Seattle First National Bank. They reduced employment in that department by 10-14 employees and now Seattle First will be offering Alaska customers a card from Seattle at a 15% single rate not regulated by Alaska law but by Washington state.

Existing law allows our competitors from out of state to do things that we cannot do, and the law in its present form is not beneficial to lower income consumers.

We have a situation in which most of Alaska-issued card owners (approximately 2/3), who carry relatively low balances, wind up paying the maximum 18%, while a minority of the more affluent, who qualify for the premium bank cards with larger credit lines, can carry large balances and pay 10.5% on some of it. Consequently, to make up for lower earnings on this money, banks must push the rate to the maximum 18% on the lower balances. This has the effect of the more affluent using the cards as a source of cheap consumer credit and being subsidized by the average consumer who carries a smaller credit balance.

Our current structure has created inequities for banks doing business in Alaska, who want to provide jobs, and for the small or average consumer who desires a lesser interest rate.

Passage of SB87 would correct those inequities.

Banks would be able to compete on even terms with out of state banks by providing more cards to Alaskans seeking them, thereby expanding their card base, which in turn can lead to expanded operations and employment.

Most consumers would benefit by having one rate to consider rather than the confusing two tier system that now penalizes the lower balance user.

For those who are concerned about a maximum rate of 18% as set forth in SB87, Alaska banks are presently perceived to be an 18% card, when truly they are not. We cannot survive with an image of having an 18% card when our competitors are offering cards at far less.

In this regard, one of the two remaining Alaska banks offering credit cards will commit, in today's market, to a single or blended rate of 16.5%, or less, with passage of SB87. Thus, immediately reducing the 18% rate currently being paid by the approximately two thirds of holders of Alaska issued cards. Competition will certainly dictate that the other bank review the market to protect their interest.

Our current, out of step law, no longer protects or benefits the average consumer, who it was designed to protect and has put Alaska banks into a disadvantaged position against out of state card issuers.

SB87 will correct these problems and benefit both the consumer and the banks doing business in Alaska and creating employment.

The earlier this suggested change can be implemented, the sooner banks can compete by the same basic ground rules as out of state competitors and the sooner the consumer can take advantage of the lower interest rate at least one bank will commit to today and the other bank will review based on market conditions.