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HOUSE COMMITTEE REPORT

4/6

(7)

Date Referred: March 8, 1990

FURTHER REFERRALS:

Date of Committee Action: 4/5/90

Rules

The LABOR & COMMERCE Committee considered:

SB 322

SENATE BILL NO. 322 LOSS OF INCOME INSURANCE: SMALL LOANS ACT

"An Act authorizing loss of income insurance under the Alaska Small Loans Act."

RECOMMENDATIONS:

- be replaced with _____ the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact _____
- zero fiscal note _____
- zero with analysis _____

- ^{Senate} fiscal note(s) _____ 2/6/90
- zero fiscal note(s) Com + Econ. Dev.
- zero fn/analysis _____

SIGNING DO PASS:

SIGNING:

(Check approp. column)

Do Not
Pass No Rec Amend

<i>Dee Donley</i> Donley							
<i>Mark Bayer</i> Bayer							
<i>Doreen A. Leman</i> Leman							
<i>Collins</i> Collins							
<i>Max Greenberg</i> Greenberg							
<i>"70" Compense</i>							

Dee Donley
Chairman's Signature

Patrick M. Rodey
Senator

Alaska State Legislature



Senate

3111 C. St., Suite 510
Anchorage, Alaska 99503
(907) 561-7618

During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-3793

DATE: March 26, 1990

TO : Representative Dave Donley, Chair
House Labor & Commerce Committee

FROM: Senator Patrick Rodey

RE : Senate Bill 322 - authorizing loss of income insurance under the
Alaska Small Loans Act

I respectfully request that the above-mentioned bill be scheduled in the House Labor and Commerce Committee as soon as possible.

Attached is a copy of back-up material relating to this proposal. There is a zero fiscal note, a CED position paper, as well as a fact sheet which explains the LII (Loss of Income Insurance) coverage.

The bill received strong support in the Senate.

Enclosures

LOSS OF INCOME INSURANCE
FACT SHEET
SB 322

Loss of Income Insurance (LII) is a coverage that provides protection for the borrower against loss of employment during the term of the loan due. Coverage arises if unemployment is due to lay-off, termination, lockout, labor dispute, or strike. If the borrower becomes unemployed as a result of one of the foregoing, LII steps in to make payments on the customer's loan. It offers protection similar to credit disability insurance. Coverage is not provided for voluntary unemployment, retirement, accident or sickness, discharge for misconduct and some other exclusions.

LII reduces the risk to both the lender and the borrower. It reduces the risk to the lender of credit losses where the customer is unemployed involuntarily. It also permits the customer to continue making his or her loan payments while involuntarily unemployed, keeping the customer out of default and with credit intact. LII is an additional protection for the customer as well as the lender.

Most policies contain eligibility requirements such as:

- 1) the borrower must be employed by salary or wages for at least 30 hours per week,
- 2) the borrower cannot be self employed, or
- 3) the borrower must have been employed for 12 consecutive months prior to the effective date of the coverage.

Many policies also contain a schedule of benefits which provide a maximum number of monthly benefits ranging from four on a 12 month loan to twelve on a 60 month loan.

LII is usually limited to loans which have an equal monthly payment of \$500 or less. In these instances, there is no limit to the loan term. Other LII loans, with equal monthly payments of \$750 or less, have terms of sixty (60) months or less.

Most of the loans for which LII protects the borrower are small loans. Typically, these small loans are secured by collateral such as automobiles or other kinds of personal property. LII steps in to save the borrower's car or other property when otherwise it might be lost because of the borrower's inability to continue paying the loan, allowing the borrower time to obtain new employment or otherwise get back on his or her feet financially.

There are a number of loan transactions for which this optional insurance coverage would be beneficial to Alaskan borrowers and lenders. For example, Norwest Financial Alaska, Inc. has three offices in Anchorage and one in Fairbanks. As of December 31, 1989, it had 3,977 outstanding loans and sales accounts, with balances of approximately \$10,287,883. While not all borrowers would opt for **LII**, unquestionably there are a number who would, and they would benefit from this insurance coverage.

LII is a coverage which cannot be required of any borrower, and it cannot be made a condition of the loan. It is strictly an optional insurance coverage, but one for which there is a growing demand. Five years ago **LII** was virtually an unknown product in the consumer finance industry, but today Norwest Financial has the program available in twenty-one states. Many western states, including California, Colorado, Idaho, Nevada, New Mexico, Oregon, Utah and Washington, already permit companies to offer **LII** to their customers.

Premiums for **LII**, based on rates used in other states where the program is available, are about 3.5% of the coverage amount. The following examples demonstrate typical situations and charges:

- ° Jack Green has been a full-time laborer for an Alaskan pipeline company for three years. Last year, he took out a \$2,500 loan from his local finance company. The loan term is for 24 months with monthly payments of \$124.81. Since Mr. Green's employment situation is somewhat tenuous, he also purchased **LII**. His total premium is $3.5\% \times \$2,500$ or \$87.50. Mr. Green recently became involuntarily unemployed due to a labor dispute and **LII** coverage stepped in to make his loan payments.
- ° A local fish processing company in Anchorage employs Mary Harrison. She has worked 30-35 hours per week there for over a year. Mary has a \$1,500 loan with ABC Finance Co. of Anchorage. The term of the loan is 24 months with a monthly premium of \$74.16. Due to the seasonal nature of the fisheries, Ms. Harrison's total **LII** payment equals $3.5\% \times \$1,500$, or \$52.50. When the company laid off some of its employees, Mary was one of them. She would not have been able to continue her loan payments, had it not been for the **LII** coverage.

factsh.

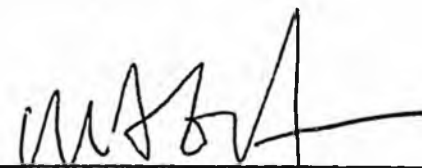
SB 322: "An Act authorizing loss of income insurance under the Alaska Small Loans Act."

The department has reviewed SB 322 and makes the following comments:

Consumer lenders licensed under the Alaska Small Loan Act have statutory limitations on the products they can charge for in conjunction with their lending activity. Alaska Statute 06.20.260(a)(2) sets out what premiums for insurance can be included in the loan charges. Consumer finance companies are now asking for the authority to offer, for a fee, an insurance policy for involuntary unemployment. This policy would protect borrowers from loan default if they should lose their job and be unable to continue to make loan payments.

There are prohibitions that would require the insurance as a condition for the loan which provides protection from abuse. Examinations by the department assures compliance. The department has contacted other states where this insurance is offered and can find no incidence of abuse. Many borrowers who use consumer finance companies for a source of funds are subject to job turnover through no fault of their own, thus, could be protected by this type of insurance.

The department does not oppose the passage of HB 322.



Larry Mercurieff, Commissioner

Date:

6/2/90

LM/LW/dg16257D
2590a

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Commerce & Economic Dev.
 Title: Authorizing loss of income insurance under the Alaska Small Loans Act BRU: Banking, Securities and Corporations
 Sponsor: Rodey Components: Banking
 Requestor: Senate Judiciary

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
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
REVENUE	0	0	0	0	0	0

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) No fiscal impact for FY 90.

Prepared by: Willis F. Kirkpatrick, Director Phone: 465-2521
 Division: Banking, Securities and Corporations Date: _____
 Approved by Commissioner: Larry Mercurieff Date: 6/21/90
 Agency: Department of Commerce & Economic Development

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: SB 322
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Commerce & Economic Dev.
Title: Authorizing loss of income insurance under the Alaska Small Loans Act BRU: Banking, Securities and Corporations
Sponsor: Rodey Components: Banking
Requester: _____

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
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 F. Kirkpatrick, Director
Division: Banking, Securities and Corporations

Phone: 465-2521
Date: 6-6-89

Approved by Commissioner: Larry Mercurieff
Agency: Department of Commerce & Economic Development

Phone: 465-2500
Date: 4/6/89

Distribution (by preparer):

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- Impacted Agency(ies)

page _____ of _____

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