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## Involuntary Unemployment Insurance Fact Sheet

Involuntary unemployment insurance (IUI) 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, IUI steps in to make payments on the customer's loan. It offers protection similiar to credit disability insurance. Coverage is not provided for voluntary unemployment, retirement, accident or sickness, discharge for misconduct and some other exclusions.

IUI 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. IUI 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.

IUI 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 IUI loans, with equal monthly payments of \$750 or less, have terms of sixty (60) months or less.

IUI is a coverage which cannot be required of any borrower; it is strictly an optional insurance coverage, but one for which there is a growing demand. Five years ago IUI 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 IUI to their customers.

Premiums for IUI, 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 IUI. His total premium is 3.5% x \$2,500 or \$87.50. Mr. Green recently became involuntarily unemployed due to a labor dispute and IUI 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 business, she also purchased IUI on her loan as a precaution. Ms. Harrison's total IUI payment equals 3.5% x \$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 IUI coverage.

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(9) may convert from a mutual bank to a capital stock bank under a plan approved by the department. (§ 15 a ch 132 SLA 1960; am § 3 ch 47 SLA 1980)

**Sec. 06.15.360. Additional powers.** The enumeration of powers in AS 06.15.350 does not exclude other powers appropriate for the achievement of the objects and purposes of a mutual bank under this chapter. With the approval of the department, a mutual bank may provide for the exercise of other powers in its bylaws, rules or regulations. (§ 15 b ch 132 SLA 1960)

**Article 5. General Provisions.**

**Section**

370. Definitions

380. Short title

**Sec. 06.15.370. Definitions.** In this chapter

(1) "conventional loan" means a loan secured by a first mortgage on unencumbered real property or leasehold estate other than a loan guaranteed or insured by a federal agency;

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

(3) "financial institution" means a thrift institution, a commercial bank, a trust company, or an insurance company;

(4) "mutual bank" means a mutual savings bank chartered under this chapter;

(5) "thrift institution" means a cooperative bank, a homestead association, a mutual savings and loan association, or a mutual bank. (§ 3 ch 132 SLA 1960; am § 22 ch 218 SLA 1976)

Revisor's notes. — Reorganized in 1988 to alphabetize the defined terms.

**Sec. 06.15.380. Short title.** This chapter may be cited as the Mutual Savings Bank Act. (§ 1 ch 132 SLA 1960)

**Chapter 20. Alaska Small Loans Act.**

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**Sec. 06.20.010. License required.** A person may not engage in the business of making loans of money, credit, goods, or things in action in the amount or of the value of \$25,000 or less and charge, contract for, or receive on the loan a greater rate of interest, discount, or consideration than the lender would be permitted by law to charge if the person were not a licensee under this chapter, except as authorized by this chapter and without first obtaining a license from the department. (§ 2 ch 73 SLA 1955; am § 5 ch 94 SLA 1969; am § 23 ch 218 SLA 1976; am § 1 ch 71 SLA 1978; am § 1 ch 63 SLA 1980)

**Cross references.** — For the legal rate of interest in Alaska, see AS 45.45.010.

**Opinions of attorney general.** — This chapter licenses only persons engaging in "the business of making loans of money, credit, goods, or things in action in the amount or of the value of \$1,000 (now \$25,000) or less . . ." and who wish to charge a greater rate of interest than that otherwise provided by law. 1963 Op. Atty. Gen. No. 16.

Those required to be licensees under

this chapter are "lenders of money." 1963 Op. Atty. Gen. No. 16.

**Collateral references.** — 54 Am. Jur 2d, Moneylenders and Pawnbrokers, §§ 8-12, 17.

9 C.J.S. Banks and Banking § 1045.

Statutes regulating business of making small loans. 69 ALR 581; 125 ALR 743; 149 ALR 1428.

Discrimination in taxation of business of small loans. 93 ALR 209.

Statutory limit on period of small loans. 58 ALR2d 1263.

**Sec. 06.20.020. Application for license.** Application for a license shall be in writing under oath, and in the form prescribed by the department, and must contain the name and the residence and business address of the applicant, the district and municipality with street and number, if any, where the business is to be conducted and other information as the department may require. If the applicant is a partnership or association, the application must contain the residence and business address of each member; if the applicant is a corporation, the application must contain the residence and business address of each officer and director. (§ 3 ch 73 SLA 1955)

**Sec. 06.20.030. Fees and charges.** (a) Investigation expenses incurred by the department in processing an application for licensure shall be charged to and paid by the applicant under AS 06.01.010. At the time of submitting the application to the commissioner, the applicant shall pay to the department \$400 in partial payment of those investigation expenses incurred by the department. If the investigation expenses incurred by the department do not exceed \$400, the remainder shall be promptly refunded to the applicant.

(b) An applicant shall pay to the department at the time of submitting an application a sum, in addition to that specified in (a) of this section, of \$200 as an annual license fee for a period terminating on the last day of the current calendar year. If the application is filed after June 30, the additional sum is \$100.

(c) The license fee required by this section is in place of the fee under AS 43.70 (Alaska Business License Act). (§ 3 ch 73 SLA 1955; am § 44 ch 169 SLA 1978)

**Revisor's notes.** — The word "fee" was substituted for "tax levied" in (c) of this section in 1988 to conform the language to changes in AS 43.70 in 1978 and 1984.

**Sec. 06.20.040. Liquid assets required.** An applicant shall prove, in form satisfactory to the department, that the applicant has available for the operation of the business at the location specified in the application, liquid assets of at least \$20,000. (§ 3 ch 73 SLA 1955; am § 2 ch 71 SLA 1978)

**Sec. 06.20.050. Bond.** The applicant shall file with the application a bond to be approved by the department in which the applicant shall be the obligor, in the sum of \$5,000 with one or more sureties. The bond shall be for the use of the state and any person who may have a cause of action against the obligor under this chapter. The bond must state that the obligor will faithfully conform to and abide by the provisions of this chapter and of all regulations lawfully adopted by the department, and will pay to the state and to any person all money that may become due or owing to the state or to the person from the applicant under this chapter. (§ 4 ch 73 SLA 1955; am § 3 ch 71 SLA 1978)

**Sec. 06.20.060. Issuance of license.** Upon the filing of the application, the payment of the fees and the approval of the bond, the department shall issue a license to the applicant if it finds upon investigation, that (1) the financial responsibility, experience, character, and general fitness of the applicant and of its members if the applicant is a copartnership or association, and of its officers and directors if the applicant is a corporation, are such as to command the confidence of the community and to warrant belief that the business will be operated honestly, fairly, and efficiently within the purposes of this chap-

ter, and (2) allowing the applicant to engage in business will promote the convenience and advantage of the community in which the business is to be conducted, and (3) the applicant has available for the operation of the business at the specific location liquid assets of at least \$20,000. The foregoing facts are conditions precedent to the issuance of a license under this chapter. The license permits the applicant to make loans in accordance with this chapter at the location specified in the application. The license remains in full force and effect until it is surrendered by the licensee or revoked or suspended. If the department denies the application, it shall notify the applicant of the denial, bill the applicant for any outstanding expenses incurred by the department during the investigation and return the bond if those expenses have been paid. The department shall approve or deny every application for license within 60 days from the filing of the application with the fees and the approved bond. If the application is denied, the department shall, within 20 days thereafter, serve upon the applicant a copy of the written decision and findings. The decision and findings may be reviewed in the manner provided in AS 44.62.560 and 44.62.570 (Administrative Procedure Act). (§ 5 ch 73 SLA 1955; am § 4 ch 71 SLA 1978; am § 45 ch 169 SLA 1978)

**Sec. 06.20.070. Form, posting, and transfer of license.** The license must state the address at which the business is to be conducted and the full name of the licensee. If the licensee is a copartnership or association, the license must state the names of its members, and if a corporation, the date and place of its incorporation. The license shall be conspicuously posted in the place of business of the licensee. The license is not transferable or assignable. (§ 6 ch 73 SLA 1955)

**Sec. 06.20.080. Additional bond.** If at any time the department finds that the bond is unsatisfactory for any reason, it may require the licensee to file, within 10 days after the receipt of a written demand therefor, an additional bond complying with the provisions of AS 06.20.050. (§ 7 ch 73 SLA 1955)

**Sec. 06.20.090. Places of business.** (a) A licensee may maintain only one place of business under the license. The department may issue more than one license to the same licensee upon compliance with the provisions of this chapter governing the original issuance of a license.

(b) If a licensee changes the place of business to another location within the same municipality, the licensee shall give written notice to the department in advance. The department shall attach the written notice of the change to the license together with the date. Thereafter the licensee may operate the business under the license at the new location. A licensee may not change the place of business to a location

outside the municipality in which the licensee is authorized to do business. (§ 8 ch 73 SLA 1955; am § 5 ch 71 SLA 1978)

**Sec. 06.20.100. New bond.** On or before December 20 of each year, each licensee shall file a new bond that complies with AS 06.20.050. (§ 9 ch 73 SLA 1955; am § 46 ch 169 SLA 1978)

**Sec. 06.20.110. Grounds for revocation of license.** The department shall, under the Administrative Procedure Act (AS 44.62), revoke any license issued under this chapter if it finds that

(1) the licensee has failed to pay the annual license fee or to maintain the required bond in effect or has failed to comply with any lawful demand, ruling, or requirement of the department made under and within the authority of this chapter;

(2) the licensee has violated a provision of this chapter or a regulation lawfully adopted by the department under and within the authority of this chapter; or

(3) any fact or condition exists that, if it had existed at the time of the original application for the license, clearly would have constituted ground for denial of the issuance of the license. (§ 10 ch 73 SLA 1955)

**Opinions of attorney general.** — The act of charging an interest rate in excess of that prescribed in AS 45.45.080(b) on a loan in excess of \$1,000 (now \$25,000) is grounds for revocation of the lender's

small loan license, regardless of whether the loan is consummated or administered in the same place of business. 1963 Op. Atty. Gen. No. 16.

**Sec. 06.20.120. Revocation or suspension where licensee has branches.** Where a licensee holds more than one license, the department may revoke or suspend any license for which grounds for the action exist. (§ 10 ch 73 SLA 1955)

**Sec. 06.20.130. Surrender.** A licensee may surrender a license by delivering written notice of the surrender to the department. The surrender does not affect the licensee's civil or criminal liability for acts committed before the surrender. (§ 10 ch 73 SLA 1955)

**Sec. 06.20.140. Effect of revocation.** A revocation, suspension or surrender of a license does not impair or affect the legally enforceable obligation of any pre-existing contract between the licensee and any borrower. (§ 10 ch 73 SLA 1955)

**Sec. 06.20.150. Status of license; reinstatement.** Every license remains in force and effect until it is surrendered, revoked, or suspended as provided in this chapter. The department may reinstate, suspend licenses, or issue new licenses to a licensee whose license has been revoked if no fact or condition exists that clearly would have

constituted ground for denial of the issuance of the license by the department. (§ 10 ch 73 SLA 1955)

**Sec. 06.20.160. Inspection and examination of licensees.** For the purpose of discovering violations of this chapter or securing information required by it under this chapter, the department or its duly designated representative may investigate at any time the loans and business and examine the books, accounts, records, and files used in the business, of every licensee and of every person engaging in the business described in AS 06.20.010, whether the person acts or claims to act as principal or agent, or under or without the authority of this chapter. For that purpose the department and its duly designated representative have free access to the office and place of business, books, accounts, papers, records, files, safes, and vaults of all such persons. The department and all persons duly designated by it may require the attendance and examination under oath of all persons whose testimony it may require relative to the business. (§ 11(b) ch 73 SLA 1955)

**Sec. 06.20.170. Annual examination.** The department shall examine the affairs, business, office, and records of each licensee at least once each year. Examination fees are to be charged to and paid by the licensee in accordance with AS 06.01.010. The department may maintain an action for the recovery of the costs in any court of competent jurisdiction, with recourse to the bonds referred to in AS 06.20.050 and 06.20.080. (§ 11(c) ch 73 SLA 1955; am § 47 ch 169 SLA 1978)

**Sec. 06.20.180. Books and records of licensees.** Each licensee shall keep and use in the licensed business those books, accounts, and records that will enable the department to determine whether the licensee is complying with this chapter and with the regulations lawfully adopted by the department under this chapter. The licensee shall preserve the books, accounts, and records, including cards used in the card system, if any, for two years after making the final entry on any recorded loan. (§ 12 ch 73 SLA 1955)

**Sec. 06.20.190. Annual reports of licensees.** Each licensee shall, on or before March 15 of each year, file a report with the department containing information as the department may reasonably require concerning the business and operations during the preceding calendar year of each licensed place of business conducted by the licensee inside the state. The report shall be made under oath and shall be in the form prescribed by the department, and shall be kept available as a public record. (§§ 11(a), 12 ch 73 SLA 1955)

**Sec. 06.20.200. Advertising of misleading statements prohibited.** (a) A person may not advertise, print, display, publish, distribute, or broadcast or cause or permit to be advertised, printed, displayed, published, distributed, or broadcast, in any manner any statement or representation with regard to the rates, terms, or conditions for the lending of money, credit, goods, or things in action in the amount or of the value of \$25,000 or less, which is false, misleading, or deceptive. The department may order a licensee to desist from conduct that it finds to be in violation of this section.

(b) The department may require rates of charge stated by a licensee to be stated fully and clearly in the manner considered necessary to prevent misunderstanding by prospective borrowers. (§ 13 ch 73 SLA 1955; am § 5 ch 94 SLA 1969; am § 6 ch 71 SLA 1978; am § 2 ch 63 SLA 1980)

**Sec. 06.20.210. Use of premises restricted.** A licensee may not conduct the business of making loans under this chapter within an office, room, or place of business in which another business is solicited or engaged in, or in association or conjunction therewith, except as may be authorized in writing by the department upon its finding that the character of the other business is such that the granting of authority would not facilitate evasions of this chapter or the regulations lawfully adopted under this chapter. (§ 14 ch 73 SLA 1955)

**Opinions of attorney general.** — Neither the purchase of contracts nor the making of loans in excess of \$1,000 (now \$25,000) may be carried on within the

place of business of the licensee without the express permission of the Department of Commerce and Economic Development. 1963 Op. Atty. Gen. No. 16.

**Sec. 06.20.220. Transactions limited to licensed premises.** A licensee may not transact business or make any loan under this chapter under any name or at any place of business other than that named in the license. (§ 15 ch 73 SLA 1955)

**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 \$850; two percent a month on the unpaid principal balance exceeding \$850 but not exceeding \$10,000; and at a rate agreed by contract on the remainder of any unpaid principal balance exceeding \$10,000 but not exceeding \$25,000.

(b) Notwithstanding the provisions of (a) of this section, a licensee who makes open-end loans under this chapter may charge, contract for, and receive 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 \$850; two percent a month on the unpaid principal balance exceeding

\$850 but not exceeding \$10,000; and at a rate agreed by contract on the remainder of any unpaid principal balance exceeding \$10,000 but not exceeding \$25,000.

(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 under 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; am §§ 1, 2 ch 99 SLA 1982)

**Sec. 06.20.240. Loans for purpose of obtaining higher interest.** A licensee may not induce or permit a borrower to split up or divide a loan. A licensee may not induce or permit a person, or a husband and wife jointly or severally, to become obligated, directly or contingently or both, under more than one loan contract at the same time, for the purpose or with the result of obtaining a higher rate of interest than would otherwise be permitted by AS 06.20.230. (§ 16(b) ch 73 SLA 1955)

**Sec. 06.20.250. Computation and payment of interest.**  
 (a) Interest may 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 may 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 that 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.

(b) A licensee may compute interest for a loan as provided in this chapter on an interest-bearing or actuarial basis either at the rates stated in AS 06.20.230 or at the single annual percentage rate that would earn the same finance charge as the rates stated in AS 06.20.230 when the debt is paid according to the agreed terms and the calculations made according to the actuarial method.

(c) Except for open-end loans under AS 06.20.285, a licensee may not enter into a 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	Maximum term
up to \$1,000 .....	24 and 1/2 months
Over \$1,000 to \$2,500 .....	18 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

(§ 16(c) ch 73 SLA 1955; am § 8 ch 71 SLA 1978; am §§ 3, 4 ch 84 SLA 1979; am § 4 ch 63 SLA 1980)

#### NOTES TO DECISIONS

The basis for determining the ne- Supp. 1166 (D. Alaska 1971), rev'd on  
crual of interest is governed by law. other grounds, 469 F.2d 453 (9th Cir.  
Douglas v. Beneficial Fin. Co., 334 F. 1972).

**Sec. 06.20.260. Charges prohibited.** (a) A further or other charge or amount for an examination, service, brokerage commission, expense, fee, or bonus or other thing or otherwise may not 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;

(4) *[Repealed, § 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;

(6) a late payment fee of not more than 10 percent of the payment that is due or \$15, whichever is less.

(b) A licensee may collect the charges permitted under (a) of this section at the time when the loan is made or at any time thereafter. If any interest, consideration or charges in excess of those permitted by AS 06.20.230 are charged, contracted for or received, except as the result of an accidental and bona fide error in computation, the contract of loan is modified as follows: all interest, consideration or charges involved are voided and a like amount credited to the debtor on the principal of the loan. If the unpaid principal is less than the total of the interest, consideration and charges, the difference shall be refunded by the lender to the borrower. (§ 16(d) ch 73 SLA 1955; am §§ 9, 16 ch 71 SLA 1978; am § 5 ch 84 SLA 1979; am § 3 ch 99 SLA 1982)

Opinions of attorney general. — cluded in calculating the rate of interest, "Service charges," being also consider- except those fees excluded by this section. ation for the use of money, should be in- 1963 Op. Atty. Gen. No. 16.

NOTES TO DECISIONS

Cited in *Douglas v. Beneficial Fin. Co.*,  
469 F.2d 453 (9th Cir. 1972).

**Sec. 06.20.270. Requirements for making and payment of loans.** Except as provided in AS 06.20.285 for open-end loans, every licensee shall

(1) deliver to the borrower at the time a loan is made a statement containing a printed copy of AS 06.20.230 — 06.20.260 in the English language and showing in clear and distinct terms the amount and date of the loan and its maturity, the nature of the security, if any, for the loan, the name and address of the borrower and the licensee, and the agreed rate of charge;

(2) give to the borrower a plain and complete receipt for all payments made on account of the loan at the time payments are made, specifying the amount applied to interest and the amount, if any, applied to principal, and stating the unpaid principal balance, if any, of the loan;

(3) permit payment to be made in advance in any amount on a contract of loan at any time, but the licensee may apply the advance payment first to all interest in full at the agreed rate up to the date of payment;

(4) upon repayment of the loan in full, mark indelibly every obligation and security signed by the borrower with the word "Paid" or "Cancelled," and release any mortgage, restore any pledge, cancel and return any note, and cancel and return any assignment given to the licensee by the borrower;

(5) display prominently in each licensed place of business a full and accurate schedule, approved by the department, of the charges to be made and the method of computing them. (§ 17 ch 73 SLA 1955; am § 6 ch 84 SLA 1979)

**Sec. 06.20.280. Maximum charge by licensee.** A licensee may not directly or indirectly charge, contract for, or receive any interest, discount, or consideration greater than that which the licensee would be permitted by law to charge if the person were not a licensee under this chapter, upon the loan, use or forbearance of money, goods, or things in action, or upon the loan, use, or sale of credit, of the amount or value of more than \$25,000. This section applies to any licensee who permits any person, as borrower or endorser, guarantor, or surety for any borrower, or otherwise, to owe directly or contingently or both to the licensee at any time a sum of more than \$25,000 on principal.

(§ 18 ch 73 SLA 1955; am § 5 ch 94 SLA 1969; am § 10 ch 71 SLA 1978; am § 5 ch 63 SLA 1980)

**Cross references.** — For legal rate of interest, see AS 45.45.010.

**Opinions of attorney general.** — The act of charging an interest rate in excess of that prescribed in AS 45.45.080(b) is grounds for revocation of the lender's small loan license, regardless of whether the loan is consummated or administered in the same place of business. 1963 Op. Atty. Gen. No. 16.

"Service charges," being also consideration for the use of money should be included in calculating the rate of interest

except those fees excluded by AS 06.20.260. 1963 Op. Atty. Gen. No. 16.

The bona fide purchase of installment contract paper is an activity distinct from the lending of money, and a discount at any rate is not usurious unless the transfer is merely a cloak for a usurious loan. 1963 Op. Atty. Gen. No. 16.

If the installment contract paper discounted is usurious on its face, then the licensee is in violation of this section in that it is "receiving" the usurious interest, even though it did not directly contract for it. 1963 Op. Atty. Gen. No. 16.

**Sec. 06.20.285. Open-end loans.** (a) A licensee may make open-end loans not exceeding an aggregate total of \$25,000 and may contract for and receive interest on open-end loans as provided in AS 06.20.230, and for other charges permitted under this chapter. Interest on open-end loans may be computed daily or monthly on the unpaid principal balance or the average unpaid principal balance if the interest charged as a result of these computations does not exceed the rates stated in AS 06.20.230 when the interest is computed according to the interest-bearing or actuarial method.

(b) The billing cycle for open-end loans is monthly, and the unpaid principal balance on a certain day is computed by adding to the balance unpaid on the beginning of that day, or the average unpaid daily balance for that billing cycle, all advances and other permissible amounts charged to the borrower and deducting all payments and other credits made or received that day.

(c) A licensee may secure the payment of an open-end loan in the same manner as other loans under this chapter may be secured.

(d) The licensee shall deliver a copy of the open-end loan agreement to the borrower at the time the open-end loan account is opened. The open-end loan agreement must contain the name and address of the licensee and the borrower and must contain disclosures of finance charges and agreed terms as may be required by regulations adopted by the department and the Board of Governors of the Federal Reserve System.

(e) At the end of each billing cycle in which there is an outstanding balance in the account for which a finance charge is imposed, the licensee shall deliver to the borrower a statement in the form required by regulations adopted by the department and the Board of Governors of the Federal Reserve System. This subsection does not apply to accounts that the licensee considers uncollectible or for which an action to collect past due amounts has been filed. (§ 1 ch 84 SLA 1979; am § 6 ch 63 SLA 1980)

**Sec. 06.20.287. Credit insurance on open-end loans.** (a) A licensee may obtain credit life, credit disability, and property insurance on open-end loans under this chapter. The credit life and credit disability insurance obtained by a licensee shall satisfy the requirements of AS 21.57. The property insurance obtained by a licensee shall satisfy the requirements of AS 21.39 and AS 21.42. The licensee shall comply with AS 21.36.160 and 21.36.165 during all transactions with borrowers involving credit life, credit disability and property insurance.

(b) The licensee shall calculate the charge for credit life or disability insurance in each billing cycle by adding to the unpaid balance in the borrower's account the current monthly premium rate for the coverage required at the rate set under AS 21.57, using the method specified in the loan agreement for determining the unpaid balance.

(c) A licensee may not cancel credit life or disability insurance obtained for an open-end loan if the borrower is delinquent in paying the monthly installments unless an installment is delinquent for 90 days or longer. The licensee shall advance to the insurer amounts necessary to keep the policy in force until the 90-day delinquency period has elapsed, and the borrower's account may be charged for the amounts advanced to the insurer. (§ 1 ch 84 SLA 1979)

**Sec. 06.20.290. Purchase of wages for \$25,000 or less.** For purposes of this chapter, the payment of \$25,000 or less in money, credit, goods, or things in action, as consideration for the sale or assignment of, or order for, the payment of wages, salary, commissions, or other compensation for services whether earned or to be earned is considered a loan, and the difference between the payment and the amount of the compensation sold or assigned is considered interest or a charge upon the loan from the date of payment to the date the compensation is payable. Such a transaction is governed by this chapter. (§ 19 ch 73 SLA 1955; am § 5 ch 94 SLA 1969; am § 11 ch 71 SLA 1978; am § 7 ch 63 SLA 1980)

**Sec. 06.20.300. Maximum charges by nonlicensee on loans.**

(a) Except as authorized in this chapter, a person may not directly or indirectly charge, contract for, or receive any interest, discount, or consideration greater than that which the person would be permitted by law to charge if the person were not a licensee, upon the loan, use, or forbearance of money, goods, or things in action, or upon the loan, use, or sale of credit of the amount or value of \$25,000 or less.

(b) The provisions of (a) of this section apply to any person who, by any device, subterfuge or pretense whatsoever charges, contracts for or receives greater interest, consideration or charges than are authorized by this chapter. (§ 20(a) (b) ch 73 SLA 1955; am § 5 ch 94 SLA 1969; am § 12 ch 71 SLA 1978; am § 8 ch 63 SLA 1980)

**Sec. 06.20.310. Effect of illegal interest rate.** A 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 not 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 a state or territory of the United States that 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)

**Sec. 06.20.220. Civil and criminal penalties.** (a) A licensee or lender who, in the making or collection of a loan contract, does any act that violates AS 06.20.230 — 06.20.260 or 06.20.280 — 06.20.310 shall at the option of the commissioner reimburse the portion of the interest and charges in excess of that provided in those sections, or, in the case of repeated violations of those sections by the licensee, the commissioner may, upon a hearing, require the licensee to adjust the loan contract interest or other charges down to the contract interest limitation specified in AS 45.45.010(a).

(b) Any person, copartnership, association, or corporation, and its members, officers, directors, agents, and employees, who violates or participates in a violation of the provisions of AS 06.20.010, 06.20.180 — 06.20.200, 06.20.230 — 06.20.290, 06.20.300 or 06.20.310 is guilty of a misdemeanor.

(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. (§ 21 ch 77 SLA 1955; am § 14 ch 71 SLA 1978; am § 7 ch 84 SLA 1979)

**Sec. 06.20.330. Exemptions.** (a) This chapter does not apply to a person doing business under and as permitted by any law of the state or of the United States relating to banks, savings banks, trust companies, building and loan associations, or credit unions.

(b) This chapter does not apply to individual loans by pawnbrokers or loan shops where separate and individual loans do not exceed \$200. (§ 22 ch 73 SLA 1955; am § 1 ch 49 SLA 1981)

**Sec. 06.20.340. Regulations, findings, and orders; service of notice.** (a) The department may adopt general regulations and make specific rulings, demands and findings consistent with this chapter as may be necessary for the proper conduct of business and the enforcement of this chapter.

(b) All notices required or authorized by this chapter to be given or served by the department may be given or served by registered mail and service is considered complete when a true copy is deposited in the post office properly addressed and stamped. (§ 2? ch 73 SLA 1955)

**Sec. 06.20.350. Amendment or repeal of chapter.** This chapter may be modified, amended, or repealed so as to effect a cancellation or alteration of a license or right of a licensee hereunder, but the cancellation or alteration may not impair or affect the obligation of a pre-existing lawful contract between a licensee and a borrower. (§ 24 ch 73 SLA 1955)

*Sec. 06.20.360. (Renumbered as AS 06.20.920.)*

**Sec. 06.20.900. Definitions.** In this chapter, unless the context otherwise requires,

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

(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 the borrower's 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

(E) the agreement covers open-end loans under this chapter. (§ 15 ch 71 SLA 1978; am § 8 ch 84 SLA 1979)

**Sec. 06.20.920. Short title.** This chapter may be cited as the Alaska Small Loans Act. (§ 1 ch 73 SLA 1955)

Revisor's notes. — Formerly AS  
06.20.360. Renumbered in 1978.

**Sec. 45.45.010. Legal rate of interest.** (a) The rate of interest in the state is 10.5 percent a year and no more on money after it is due except as provided in (b) of this section.

(b) Interest may not be charged by express agreement of the parties in a contract or loan commitment that is more than five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District on the day on which the contract or loan commitment is made. A contract or loan commitment in which the principal amount exceeds \$25,000 is exempt from the limitation of this subsection.

(c) *[Repealed, § 3 ch 84 SLA 1973.]*

(d) *[Repealed, § 2 ch 94 SLA 1981.]*

(e) *[Repealed, § 4 ch 146 SLA 1974.]*

(f) A bank, credit union, savings and loan institution, pension fund, insurance company or mortgage company may not require or accept any percent of ownership or profits above its interest rate. This subsection does not apply to a loan if the principal amount of the loan is \$1,000,000 or more and the term of the loan is five years or more.

(g) Loan contracts and commitments covering one- to four-family dwellings may be prepaid without penalty, except federally insured loans that require a prepayment penalty.

(h) If the limitations on interest rates provided for in this section are inconsistent with the provisions of any other statute covering maximum interest, service charges or discount rates then the provisions of the other statute prevail. (§ 25-1-1 ACLA 1949; am § 20 ch 143 SLA 1968; am § 2 ch 69 SLA 1969; am §§ 1, 2 ch 94 SLA 1969; am §§ 1, 2 ch 239 SLA 1970; am §§ 1 — 3 ch 84 SLA 1973; am §§ 1 — 4 ch 146 SLA 1974; am § 1 ch 110 SLA 1976; am § 1 ch 159 SLA 1976; am § 2 ch 107 SLA 1980; am §§ 1, 2 ch 94 SLA 1981; am § 1 ch 56 SLA 1982)

**Cross references.** — For maximum rates of interest applicable to: bank credit cards, see AS 06.05.209; bank revolving credit plans, see AS 06.05.208; credit unions, see AS 06.45.060; judgments, see AS 09.30.070; life insurance policy loans, see AS 21.45.080; premium finance agreements, see AS 06.40.120; retail installment contracts, see AS 45.10.120; small loan companies, see AS 06.20.230.

**Effect of amendments.** — The 1982 amendment, in subsection (f), inserted "credit union" in the first sentence and added the present second sentence.

**Legislative history reports.** — For report on ch. 84, SLA 1973 (FCCS HCSSB 37), see 1973 Senate Journal Supplement 16, pp. 1 and 2, following p. 766 of the 1973 Senate Journal.

**Opinions of attorney general.** — It is unlawful for a bank to charge or collect "points" which, when in combination with the interest charged for a loan, would exceed the usury ceiling established by subsection (b). 1979 Ops. Atty Gen. No. 6.

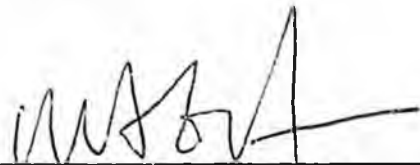
SB 322: "An Act authorizing loss of income insurance under the Alaska Small Loans Act."

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 Merculieff, Commissioner

Date: 6/2/90

LM/LW/dg16257D  
2590a

## FISCAL NOTE

**REQUEST:**

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

**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						
<b>TOTAL OPERATING</b>	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	0	0	0	0	0	0

**FUNDING:** (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	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 Feb 90  
 Agency: Department of Commerce & Economic Development

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

**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):**

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)