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322

SENATE COMMITTEE REPORT

DATE: 2/7/90

FURTHER:

DATE TURNED INTO OFFICE: 2/26/90

L & C Committee considered SB 322

Authorizing loss of income insurance under the Alaska Small Loans Act

and recommended:

- [] replace with CS
[] or adopt CS
[] attached amendment(s)
[] letter of intent adopted
[] same title
[] new title
[] technical title change (HB only)

[x] do pass

[] do not pass

[] no recommendation

[] individual recommendations

[] further referral to

ATTACHES NEW FISCAL NOTE(S):

APPROVES PREVIOUS:

[] fiscal note(s) Dept/Date:

[] fiscal note(s) Dept/Date:

[] zero fiscal note(s)

[x] zero fiscal note(s) Dept of Commerce 2/6/90

[] appropriation-no fiscal note

[] Governor's bill w/fiscal note

SIGNING DO PASS:

OTHER RECOMMENDATIONS:

Handwritten signatures of committee members.

Chair: Signature and Recommendation Do pass

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
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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) 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
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 Impacted Agency(ies)

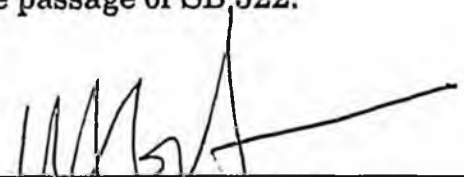
SB 322: "An Act authorizing loss of income insurance under the Alaska Small Loans Act."

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 SB 322.



Larry Mercurieff, Commissioner

Date: _____

5 Feb 90

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February 9, 1990

**ADMITTED IN WASHINGTON & ALASKA
OTHERS NOT ADMITTED IN WASHINGTON
*ADMITTED IN WASHINGTON ONLY

Ms. Sheila Peterson
Senator Richard Eliason's Office
Room 417, Capitol Building
Juneau, Alaska 99801

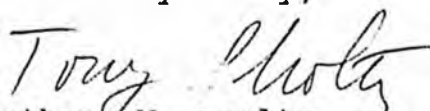
Re: SB 322

Dear Ms. Peterson:

As I mentioned over the telephone, our firm represents Norwest Financial, Inc., which strongly supports SB 322. I enclose a relative brief fact sheet which provides background concerning loss of income insurance and what it accomplishes.

Please give me a call if you have any questions.

Yours very truly,


Anthony M. Snolty

AMS/lmw/encl.

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% x \$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. in 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 is 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 LII coverage.

factsh.

Payment Protection: An important part of your complete insurance picture.

We sincerely hope you never have to use the benefits of the Payment Protection. But, if something should go wrong, it's nice to know that you or your family won't have to deal with the extra burden of a credit card debt.

If you lose your job because of a layoff, strike or involuntary termination, Payment Protection can give you a helping hand until you get back to work. At times like these, up to a maximum of \$250 a month, for up to 24 months, can help you weather the storm.

If you become disabled, Payment Protection can come to the rescue by paying your minimum monthly credit card payments up to a maximum of \$250 a month, up to 24 months.

In the event of your death or dismemberment, Payment Protection pays off your entire debt, up to \$5,000 relieving your family of a financial obligation and protecting your estate.

Peace of mind for pennies a day. If your paycheck stops, the monthly payment you're making now could become an impossible hardship. But, why worry when it costs so little to know that your debt will be paid. Just pennies a day will give you peace of mind now, and a lot more than that if you ever need it in the future.

Your Protection Costs Only Pennies A Day - And It's Easy To Apply. The monthly cost of your protection is .0070 of your monthly card balance. The charge will be reflected on your monthly credit card statement. For example, if your monthly balance is \$140, your premium would be 98¢.

Enroll now. Payment Protection coverage is not automatic. You must apply for it. We encourage you to do so right now, using the handy application form attached.

No physical exam is required and you do not have to answer any health questions. Enrollment is voluntary, and you have the right to cancel at any time.

For a more complete description of benefits please refer to the Description of Benefits section.

YES! I WANT INVOLUNTARY UNEMPLOYMENT, CREDIT DISABILITY AND CREDIT LIFE INSURANCE!

I am eligible for these coverages because I am less than 67 years old, am currently employed on a full-time basis of at least 30 hours per week and am not self-employed. My account will be charged 70¢ per \$100 of outstanding balance each month.

VALID UNTIL APRIL 30, 1990

Primary Cardholder (Please Print)	Date of Birth
Address	
City/State/Zip	
Account No.	
Your Signature/Date	

NOTE: The account holder and spouse are covered for death and dismemberment. The primary (first-named) account holder is covered for disability and unemployment benefits.

Your Payment Protection coverage becomes effective on the date stated on your Certificate.

- In CA the monthly cost of the coverage is .0064 of your monthly card balance.
- Program not available in AZ, CT, DC, HI, ME, MD, MI, NE, NV, NH, NJ, NY, NC, ND, PA, SD, TX, UT, VT, WA, WI, WY
- Dismemberment benefits not available in CA, ID, KS, MN, RI, VA
- For DE residents, coverage terminates at age 66
- For CA residents, coverage terminates at age 65
- Self-employed persons are not eligible for Payment Protection
- Strike coverage not available to IL residents

**This brochure does not contain all of the provisions of the certificates. You are encouraged to read the certificates themselves for specific details of coverage.*

DESCRIPTION OF BENEFITS

1. INVOLUNTARY UNEMPLOYMENT —

Underwritten by The Forum Insurance Company of Schaumburg, IL, Policy Form 360-170 Series.

If you become unemployed for more than 30 days due to a layoff, strike, or labor dispute which prevents you from working, Payment Protection will make your minimum monthly credit card payments up to a maximum of \$250 per month, for 24 consecutive months. Payments are made retroactive to the first day of unemployment. However, you will have to pay for any new charges incurred during your unemployment. At the time your claim begins, you must be working full time (30 hours a week or more). Voluntary unemployment such as quitting is not covered.

2. LIFE, DISMEMBERMENT AND DISABILITY COVERAGE — Underwritten by USLIFE Credit Life Insurance Company of Schaumburg, IL, Policy Form GPC14400 Series.

Payment Protection will pay up to \$5,000 of your credit card balance if either you or your spouse dies from any cause before age 67 or if either of you suffers a covered dismemberment (loss of sight in both eyes or loss of either a hand or a foot) from any cause. Death and dismemberment benefits are paid in a lump sum to your account and are based on your balance as of the date of death or dismemberment.

Payment Protection will make your minimum monthly credit card payments up to a maximum of \$250 per month, for 24 consecutive months should you become disabled and unable to work. Coverage starts from the first day of disability and you can file your claim after 30 days of continued disability.

TERMINATION OF POLICY:

Payment Protection terminates when the master policy issued to your bank terminates (you will be given 31 days notice of any such termination), your account ceases to be in good standing for more than 90 days, you reach age 67 (coverage terminates on the first statement billing date following your 67th birthday), or you request cancellation by giving written notice to the insurance company telling them when the cancellation is to take effect.

BANKCARD SERVICES
MEMBER FDIC
P.O. Box 2462
Spokane, WA 99210-9955

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UNITED STATES

Are You Missing An Important Piece Of Protection?

