

ALASKA LEGISLATURE COMMITTEE FILES 1983 - 1984 8672

2708 SLC HB 241 - HB 246 (FILE 2)

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99813
907-465-3800


LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

June 20, 1983

SUBJECT: Boxing
(CSHB 241 (Finance))

TO: Representative Albert P. Adams
Chair, House Finance Committee

FROM:  Russ Josephson
Legislative Counsel

I have two legal concerns about the requested committee substitute reinserting provisions regarding "other medical personnel" into HB 241. This issue has been discussed, as you may know, for some time. I explored this type of approach to the provision of medical care at boxing matches with the Department of Health and Social Services several months ago. At that time I asked them what level of emergency medical technician would be qualified to act in place of an attending physician or an examining physician. They replied, after consultation with their medical advisor, "none". I strongly suspect that their answer would have been the same for registered nurses and physician assistants (incidentally, paramedics are emergency medical technicians). I agree with their conclusion, not from the perspective of professional qualifications but from a legal standpoint.

All of the persons covered by the definition of "other medical personnel" probably would be acting beyond the scope of their licenses if they assumed the role required of them by this bill. Additionally, I think their action beyond the scope of their licenses would entail violations of the prohibition of the practice of medicine without a license. Accordingly, I would advise against the use of the proposed scheme to use medical personnel other than physicians at boxing matches.

RJ:ljb

Enclosure
24/028

H B

246

#1

Juneau Empire 1/27/84
Banks announce earnings for 1983

National Bancorp of Alaska, announced record earnings in 1983.

Net Income for 1983 was \$16,109,000 compared to \$14,473,000 reported in 1982, an increase of 11.3%. Net Income for the fourth quarter of 1983 was \$3,911,000, compared to \$3,857,000 reported for the same period in 1982, according to Ed Rasmuson, NBA president.

Earnings per share in 1983 was \$4.03 compared to \$3.62 in 1982. Fourth quarter earnings per share was \$.96 compared to \$.96 for the fourth quarter of 1982.

Profits increased in 1983 at Alaska National Bank of the North, according to Richard L. Davis, Jr., president and chief executive officer.

Earnings for the year totalled \$2,735,000 as compared to \$1,028,000 for 1982.

Year end total assets for Bank of the North in 1983 were \$285,002,000. Net loans totalled \$116,872 and deposits were \$228,635,000.

Alaska Pacific Bancorporation (NASDAQ:ABPCA) reported net income of \$5,280,000 or \$2.61 per share for the year ending December 31, 1983. The company's earnings per share increased 32% compared to net income of \$3,907,000 or \$1.97 per share for 1982.

Fourth quarter 1983 income was \$1,510,000 or \$74 per share, up 32% over the like period in 1982. Year end total assets for the bank holding company were \$373 million, up 32% from \$282 million at the end of 1982.

"Alaska Pacific Bancorporation achieved excellent 1983 earnings through strict adherence to our plan for corporate evolution," said A.G. Espe, president and chairman of the board.

Money in Alaska banks reaches all-time high

Total resources of Alaska's state-chartered banks reached an all time high of \$1.82 billion during the second quarter, an increase of \$504,794,000 or 38 percent from June 30, 1982. Increases of \$475,007,000 in deposits and \$34,113,000 in capital accounts were reported by Willis Kirkpatrick, director of the Division of Banking, Securities and Corporations in the Department of Commerce and Economic Development.

The substantial increase in recent deposits was incurred largely because of the flow of new money into money market deposit accounts and the continued popularity of the individual retirement accounts, Kirkpatrick said. The deposit increase in Alaska paralleled the national trend. According to the Federal Reserve, more than

\$360 billion has been deposited into the money market deposit accounts nationally, since the inception of the accounts in December 1982.

Total resources of state-chartered commercial banks were distributed as follows:

- Loan and Discounts 55.1%
- Security Investments 22.3%
- Cash & Due from Banks 16.0%
- All other resources 7.6%

The ratio of total capital accounts to total deposit is 8.7 percent. The loan to deposit ratio is 65.2 percent. The total capital accounts to total assets ratio is 7.4 percent.

At the end of the second quarter, the ten state-chartered banks in Alaska operated out of 50 offices through the State.

Empire 1/25/83

Alaska State Legislature

Advisory Council Members
Senator Kerttula, Chairman
Senator Bennett
Senator Vic Fischer
Senator Fahrenkamp



Pouch V
State Capital
Juneau, Alaska 99811
Phone: (907) 465-3114

SENATE ADVISORY COUNCIL

MEMORANDUM

TO: SENATOR VICTOR FISCHER
FROM: ELIZABETH HICKERSON and ELIZABETH BERBERICH
RE: INTEREST RATE CEILINGS
DATE: MARCH 2, 1984

You requested that the following questions be researched by the Senate Advisory Council.

1. What effect does raising the interest rate ceiling on credit cards have on the availability of credit cards to low-income applicants?
2. In states that have no interest rate ceiling on loans given by retail outlets, if possible find out what the average interest rate charged to a customer is? If the interest rate charged can be broken down by income of the recipient, please forward that information also.
3. What effect does raising the interest rate ceiling on loans under \$25,000 have? Have loans under \$25,000 become more available to low-income applicants in States that have raised their interest rate ceiling for loans of \$25,000 or less?

Numerous publications, reports, and testimony were reviewed. These resources did not contain specific information on questions one or three. A number of states were contacted for updated information. The following states responded that no data was available on questions one and three: Connecticut, Florida, Illinois, Kentucky, Massachusetts, Michigan, Arizona, New Hampshire, North Carolina, New Jersey, Virginia, New York and New Mexico (see attached summary of responses). The following states were contacted but no one was available to respond: Maine, Texas, South Carolina, South Dakota, Delaware, and Montana.

Apparently, the current authority on availability of credit is "The Price and Availability of Consumer Credit in New York State", conducted by the New York State Banking Department, December 1982. (see attachment). In 1980, the New York State Omnibus Banking Bill became

effective. Virtually all interest rate ceilings, except criminal usury, on consumer loans in New York State were eliminated. The Banking Department conducted two surveys of financial institutions and others who extend credit to consumers in New York State. The first survey, conducted in January-February 1981 found:

1. the interest rates on consumer credit had risen after passage of the bill since the previous rate ceilings had been unrealistically low;

2. that there was an increase in the availability of consumer credit for New Yorkers;

3. and that banks were offering a wide range of rates and fees, thereby providing consumers with alternative choices which they could take advantage of by shopping for credit.

The second survey, conducted in September 1982, found:

1. because the Omnibus Banking Bill granted additional consumer lending powers to savings banks and savings and loan associations, the number of banking institutions offering consumer loans has increased substantially, this resulted in a greater degree of competition in consumer lending and a wider range of choice for consumers among different types of banking institutions;

2. there are wide variations in rates charged by different institutions in the same market area for the same type of loan, thereby providing consumers with alternative choices;

3. as market rates have fluctuated there have been changes in rates charged on consumer loans; rates generally increased for most types of consumer loans during 1981 but eased off and then fell sharply during the second half of 1982;

4. and more liberal credit standards for consumer lending, larger credit lines and greater participation in consumer loan activity by banks has continued since 1981.

Although not stated as a formal report finding, there has been very little increase in maximum lines of consumer credit and almost no liberalization of consumer loan standards. Carmen J. Carlo, co-author of the report, told Ms. Hickerson on March 1, 1984, that while more credit has been available since the passage of the bill, the income class of borrowers has not been expanded. She clarified this by stating that there is more money available today but generally it is going to the same economic class of borrowers as before. Ms. Berberich contacted Glen Nishimura, legislative representative for the Consumer Federation of America, and Mark Leymaster, National Consumer Law Center, Inc., on March 2, 1984 and both agreed with Ms. Carlo's analysis. A statement from Mr. Leymaster on this issue is attached.

While these are the major findings of the survey it is important to note the following specific information contained in the report.

COMMERCIAL BANK FINDINGS

1. Rates and fees on credit cards have not been reduced, and in fact were increased at some banks during 1982. (p.11)

2. Almost all banks indicated that they charged the same rates at all offices and almost two-thirds of the respondents stated that their rates were the same for all customers. Among New York City Banks, however, slightly over half reported that they charged different rates for different customers. Generally, persons who had no other deposits or loan accounts with the bank were charged a higher rate on their consumer loans than those who did have such accounts. (p.12)

3. Only 38% of the respondents statewide indicated that they had increased their participation in consumer lending since February 1981. Only 17% of the respondents raised their maximum lines of credit since February 1981. Only 7% of the respondents liberalized their consumer loan standards. (p.12)

SAVINGS BANKS FINDINGS

1. On conventional home improvement loans, the average interest rate statewide rose from 15.6% on January 2, 1981 to 18.6% by January 2, 1982, many banks reduced their rates during 1982 so that the average declined to 17.8% by September 15, 1982.

2. Most savings banks reported that they had not altered their credit standards or increased their maximum credit lines since February 1981. (p. 40)

3. Three-quarters of the banks indicated that they had increased their participation in consumer lending. This largely reflected the fact that the number of savings banks making car loans, second mortgage loans, overdraft loans, unsecured personal loans and educational loans increased during the period covered by the survey. (pp. 40-41)

SAVINGS AND LOAN ASSOCIATIONS FINDINGS

1. On conventional home improvement loans, the average interest rate statewide rose from 15.6% on January 2, 1981 to 18.1% by January 2, 1982. Many associations reduced their rates during 1982 so that the average decline to 17.6% by September 15, 1982. (p.48)

2. All respondents indicated that their loan rates were uniform at all offices and almost all indicated that their rates for any specific type of loan were the same for all customers. (p. 49)

3. Only a few institutions indicated they had liberalized their credit standards or increased their maximum credit lines since February 1981, although 29% reported they had increased their participation in consumer lending.

CREDIT UNIONS FINDINGS

1. Generally, interest rates on the various types of consumer loans trended upward during the period covered by the survey. Rates in New York City usually averaged higher than those upstate and there were substantial variations in rates charged by different institutions. (p. 56)

2. All respondents indicated that their loan rates were uniform at all offices and almost all indicated that their rates were the same for all customers. (p. 56)

3. Most credit unions reported that they had not altered their credit standards or increased their maximum credit lines since February 1981. However, 30% of the respondents indicated that they had increased their participation in consumer lending. (p. 57)

LICENSED LENDERS FINDINGS

1. All but one of the respondents (total of 31) indicated that their rates on all types of loans were uniform at all offices for all customers. (p. 63)

2. Most lenders reported that, since February 1981, they have not liberalized credit standards or raised credit lines although 40% stated they had increased their participation in consumer lending. (p. 63)

RETAILERS FINDINGS

1. The rates charged on their revolving credit accounts generally trended upward during the period covered by the survey. On indebtedness of \$500 or less, the average rate statewide was almost 18% in January 1981, rose to 20.1% in January 1982 and to 20.6% in September 1982. On balances over \$500, the average rates were 12.9%, 17.9% and 19.1% on the three dates. (p. 67)

2. The respondents reported that their rates were uniform at all their places of business in New York State. (p. 67)

3. Most of the respondent retailers did not offer close-end credit. Of the few that did, all indicated their rates were the same as for their revolving credit accounts. (p. 67)

4. Virtually all the retailers indicated that they did not change their credit standards or credit line since February 1981 nor did they increase their participation in consumer lending. (p. 67)

AUTOMOBILE DEALERS FINDINGS

1. Virtually all the respondents indicated that their rates were uniform at all their places of business for all their customers.
(p. 70)

2. The preponderance of the dealers reported no liberalization of credit standards since February 1981 although 26% of them reported increased participation in consumer lending activities since that date.
(p. 70)

3. During 1982 the financing arms of the major automobile manufacturers cut their rates for various periods of time for certain of their cars. (p. 70)

QUESTION 1 & 3

STATE BANKING/COMMERCE DEPARTMENTS
REPLIES TO AVAILABILITY OF CREDIT CARDS, LOANS UNDER \$25,000 AND
FINANCING THROUGH RETAIL OUTLETS TO LOW-INCOME APPLICANTS WITH
INTEREST INCREASES OR ABOLISHMENT OF USURY CEILINGS

CONNECTICUT

Harry Donnely, Examiner
Banking Department

No data available.

FLORIDA

Ed Strippling, Administrator of Banks and Trust Companies
Department of Banking & Financing

No data available.

ILLINOIS

Mr. Stevens, Supervising Examiner
Banks and Trust Companies

No data available.

KENTUCKY

Jim Baker, General Counselor
Department of Banking & Securities
Public Protection & Regulation Cabinet

No data available.

MARYLAND

Steven Cole, Director
Consumer Protection

No data available.

MASSACHUSETTS

Mr. Flynn, Deputy Commissioner of Counsel
Division of Banks & Loan Agencies
Department of Banking & Insurance

No data available.

MICHIGAN

Russ LaCoursier, Economic Analyst
Financial Institutions Bureau
Department of Commerce

No data available.

ARIZONA

Howard Warner, Examiner
Banking Department

No data available.

NEW HAMPSHIRE

A. Roland Roberge, Bank Commissioner
Banking Department

No data available.

NORTH CAROLINA

Mr. Fred Alphin, Assistant to Commissioner of Banking
Banking Commission
Department of Commerce

No data available.

NEW JERSEY

Jerry Trimble, Banking Market Analyst
Banking Department

No data available.

VIRGINIA

John Sutton, Deputy Commissioner
Bureau of Financial Institutions
State Corporation Commission

No data available.

NEW MEXICO

Snyder Campbell, Savings & Loan Supervisor
Budget Division
Department of Finance & Administration

No data available.

CALIFORNIA

Banking Department

No data available.

STATES THAT WERE CONTACTED BUT WERE UNAVAILABLE FOR RESPONSE

MAINE

SOUTH CAROLINA

TEXAS

SOUTH DAKOTA

DELAWARE

MONTANA

QUESTION #2

STATE BANKING DEPARTMENT REPLIES TO AVERAGE INTEREST RATES BEING CHARGED
WITHIN THEIR STATES

CONNECTICUT

Harry Donnelly, Examiner
Banking Department

Unable to supply average interest rate information.

FLORIDA

Ed Strippling, Administrator of Banks and Trust Companies
Department of Banking & Financing

Average interest rates: credit cards - 22%; installment payments -
15%-16%.

ILLINOIS

Mr. Stevens, Supervising Examiner
Banks and Trust Companies

Unable to supply average interest rate information.

KENTUCKY

Jim Baker, General Counselor
Department of Banking & Securities
Public Protection & Regulation Cabinet

Average interest rates: credit cards - 18%; general/consumer loans - 24%
- 36%.

MARYLAND

Steven Cole, Director
Consumer Protection

Unable to supply average interest rate information.

MASSACHUSETTS

Mr. Flynn, Deputy Commissioner of Counsel
Division of Banks & Loan Agencies
Department of Banking & Insurance

Average interest rates: mortgage - 13%; credit cards - 18%; 2nd mortgage
- 18%; auto - 23%.

MICHIGAN

Russ LaCoursier, Economic Analyst
Financial Institutions Bureau
Department of Commerce

Average interest rates: banks, credit unions and savings & loans - 18%;
retail - 20.4% per year on unpaid balance; and second mortgage -
15%-18%.

ARIZONA

Howard Warner, Examiner
Banking Department

Unable to supply average interest rate information.

NEW HAMPSHIRE

A. Roland Roberge, Bank Commissioner
Banking Department

"Shopper guides" are made available every three months to consumers telling them what level of interest different loaning institutions are charging.

Commissioner Roberge stated that experience with finance companies in the state of New Hampshire have shown that finance companies have charged as much as 30%-31%, he said that their business was low and made the other companies look bad. Since there are no laws on the books regulating the amount they charge for interest, he has found it effective to send a scolding letter from himself, causing the particular companies to drop their interest rates back down.

Commissioner Roberge reported that he knew of several horror stories involving small companies charging outlandish interest rates to people already in financial trouble.

Commissioner Roberge feels that so far finance companies have been on best behavior with deregulation because they do not want regulation back in effect.

Unable to supply specific data.

NORTH CAROLINA

Mr. Fred Alphin, Assistant to Commissioner of Banking
Banking Commission
Department of Commerce

Average interest rates: credit cards - 18% with 25 day grace period from time of billing (also included is a annual card fee not to exceed \$20); card fees charged by banks range between \$12-\$15; loans under \$25,000 - has continued to stay stable at 16% for sometime. Based on six month T bill plus 6 points or 16% which ever is greater/per month.

NEW JERSEY

Jerry Trimble, Banking Market Analyst
Banking Department

Average interest rates: equity - 12%; competitive average - 12%; personal - 12%-15%; credit cards - 19%; retail - 19.3% to 19.8%. (polled 10 major retail outlets in New Jersey)

VIRGINIA

John Sutton, Deputy Commissioner
Bureau of Financial Institutions
State Corporation Commission

Average interest rates: loans - 18%; credit cards - 18%-21%; retail - 18%-21%.

NEW MEXICO

Snyder Campbell, Savings & Loan Supervisor
Budget Division
Department of Finance & Administration

Average interest rates: loans (mortgage) - 14%; credit cards - 18%-21%.

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ELIZABETH HICKERSON
1024 WEST 6 AVE
ANCHORAGE AK 99501

AT THE REQUEST OF SENATOR FISCHER:

AS THE SOLE LEGAL SUPPORT CENTER FOR CONSUMER LAW PROBLEMS OF LOW-INCOME AMERICANS WHO GO TO LEGAL AID OR LEGAL SERVICES PROGRAMS THROUGHOUT THE NATION, WE HAVE PERSISTENTLY SOUGHT INFORMATION ON CREDIT AVAILABILITY EFFECTS OF USURY DEREGULATION ON THE POOR, AND FIND IT DOES NOT EXIST. THERE IS NO RELIABLE DATA ON IMPACT BY INCOME GROUP, THOUGH THE 1982 FEDERAL RESERVE BOARD CONSUMER SURVEY MAY CONTAIN SOME INFORMATION, IT IS UNAVAILABLE UNTIL FALL AT THE EARLIEST. IN THE PUBLIC DOMAIN, THERE IS LITTLE MORE THAN SELF-SERVING THEORY ON AVAILABILITY AT ANY INCOME. ONLY THE 1982 NEW YORK BANKING DEPARTMENT REPORT DESCRIBES AVAILABILITY AT ALL: IT FOUND MASSIVE RATE INCREASES DID NOT EFFECTIVELY IMPROVE EITHER THE EASE OF QUALIFYING FOR CREDIT OR INCREASE THE AMOUNT OF CREDIT LINES FOR EXISTING BORROWERS. THAT FAILURE IS CONSISTENT WITH OUR EXPERIENCE IN A NUMBER OF OTHER STATES.

IF THE FRB'S FUNCTIONAL COST ANALYSIS FOR BANK CREDIT CARDS IS TYPICAL, CREDIT CARD RATES INCREASE WITH DEREGULATION: FULLY ALLOCATED RETURN HAS GROWN FROM 25.4 PERCENT APR BEFORE DEREGULATION TO ABOUT 29.5 PERCENT AT PRESENT. MUCH OF THIS RETURN IS HIDDEN IN RETAIL PRICES SUCH AS THE SUBSIDY THAT CASH CUSTOMERS PAY BECAUSE LEGAL DISCOUNTS FOR PAYING CASH ARE NOT OFFERED. A LITTLE REPORTED NATIONAL SCIENCE FOUNDATION STUDY OF ARKANSAS FOUND MUCH MORE CREDIT SUPPLIED TO WORKING CLASS AND POOR BORROWERS UNDER A 10 PERCENT RATE CEILING THAN IN LOUISIANA WHERE 3 TIMES THAT RATE WAS LEGAL. AS I URGED, CALIFORNIA DECIDED NOT TO DEREGULATE ITS RETAIL CREDIT RATES 2 YEARS AGO, APPARENTLY BECAUSE IT WAS INAPPROPRIATE.

FOR THE POOR, DEREGULATION OF LENDING UNDER \$25,000 HAS PROBABLY WORSENED CREDIT AVAILABILITY, SINCE FINANCE COMPANIES HAVE ABANDONED THE SMALL LOAN MARKET AND MOVED MOST OF THEIR MONEY INTO PREVIOUSLY ILLEGAL, HIGH RATE, HOME EQUITY LENDING TO THE MORE UPSCALE CONSUMERS WHO OWN THEIR HOMES. FOR POOR, RETIRED HOMEOWNERS, DEREGULATION HAS PERMITTED VARIOUS NEW ABUSES SUCH AS DISGUISED INTEREST VIA BROKERAGE FEES AND TRICKERY, SINCE BUYERS OF HOME IMPROVEMENTS SOMETIMES GRANT SECOND MORTGAGES WITHOUT REALIZING IT, HIGH RATES NOT WITHSTANDING.

MARK LEYMASTER
NATIONAL CONSUMER LAW CENTER

TO REPLY BY MAILGRAM, SEE INSTRUCTIONS ON REVERSE SIDE

STATE OF ALASKA

Bill Sheffield, Governor

**DEPARTMENT OF COMMERCE &
ECONOMIC DEVELOPMENT**

OFFICE OF THE COMMISSIONER

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2500

April 25, 1983

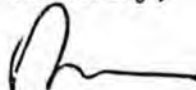
Honorable Richard I. Eliason, Chairman
Senate Labor and Commerce Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

It is the position of our Division of Banking, Securities and Corporations that SB 276, deregulation of interest rates, should be passed into law. This recommendation is based partly upon the following:

1. Inflation and high interest rate squeezes the lender and the borrower in the supply of credit. No lender can lend money out at a rate below his cost of the monies to lend.
2. There is little or no evidence of abuse in financial institutions' policies as money is consistently lent out lower than usury rates.
3. Ceiling rates too low can dry up credit. This was noted in the early 1970's when the Legislature failed to set usury rates therefore limiting housing loans to the State rate of 8%.
4. Rates should be determined by
 - a. cost of money to lend
 - b. risk involved in lending
 - c. competition (supply & demand).

Sincerely,



Richard A. Lyon
Commissioner

RAL/va1A28

May 25, 1983

ANALYSIS OF HB 246
RELATING TO THE DEREGULATION OF INTEREST RATES

The text of CSHB 246 (L&C) is particularly confusing because of the "negative sunset" arrangement. The first six sections of this bill effectively repeal all statutory limitations on interest and service charge rates for a whole range of defined loans in Alaska. By the terms of Section 17 of the bill these sections go into effect on July 1, 1983.

Sections 7 through 14, though, go into effect on July 1, 1987. These sections re-impose all of the statutory rate limitations repealed by the first six sections. This arrangement is instituted in order to "experiment" with this deregulation.

Section 15 requires Legislative Audit to report on "the effects of the amendments made in secs. 1 - 6...on the people of the state and in particular those persons seeking or receiving credit." This information will give the legislature the opportunity to repeal Sections 7-14 and leave the deregulation in place.

SECTIONAL ANALYSIS OF SECTIONS 1 THROUGH 6 AND 16

- Sec. 1 Deregulates the interest rate charged by a licensed lending institution. [Beneficial Finance is the only such business now operating in the state.] Interest rates now allowed are up to 36%/year.
- Sec. 2 Deregulates interest rates charged by licensed premium finance companies. This type of service is used by businesses and this section has little effect on consumers.
- Sec. 3 Removes 6%/year interest rate on money deposited with a court in satisfaction of a judgement after the state or a local government has condemned property and replaces with "lawful" interest of 10.5%. Does not affect consumers.
- Sec. 4 Deregulates the interest rate on retail installment contracts. These are those special cases where the seller is also the lender. Examples include furniture stores and car dealers. Interest limit is now 18.5%. The identity between the "lender" and the "seller" means that this is an area where credit is not likely to dry up, as the lender needs to continue to provide credit to continue to sell.

The lender here also has a special security interest in the item sold which allow instant repossession if a payment is missed. This justified by the higher risks involved in these sales. Prices are frequently higher in these stores to reflect the "costs" of providing this kind of credit.

Sec. 5 Deregulates the interest rate on retail charge agreements, revolving charge agreements or other retail charge agreements. This applies to all charge cards and also to charge accounts at stores. This provision will have a special impact on credit customers at bush general stores, cannery stores, fishing gear stores, fuel suppliers, etc. The present allowed interest rate is 18%. This is another situation where selling on credit is an essential part of the business, and credit is not likely to "dry up." Here, and in the section 4 situation, the consumer has almost no bargaining power and is dependent on doing business with these institutions if they need the goods provided. This imbalance in bargaining power was a prime reason for this credit being regulated in the first place, and nothing has happened to relieve the need for consumer protection in these situations.

Sec 6. If interest rates are to exceed 10.5%/year it must be by express agreement of the parties in a contract or loan commitment. This section may have an effect on medical bills, interest on other unpaid bills, etc. If the original contract or agreement of sale contains an interest rate provision this could impose extremely high interest rates.

Sec 16. Aside for adjusting the general usury rate, this section deletes the upper limit for credit union loans. This should not have much effect on consumers as pressure from customer/members should keep these rates reasonable.

STATE OF ALASKA
FISCAL NOTE

Revision Date April , 1983

I. REQUEST

Bill/Resolution No.: SB 276 / HB 246
 Title: Deregulation of Interest Rates
 Sponsor: Josephson
 Requestor: _____

II. FISCAL DETAIL

Agency Affected: Commerce & Econ. Developme
 Program Category Affected: Banking
 BRU, Program of Subprogram(s) Affected: None

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC						
TOTAL OPERATING		0	0	0	0	0
CAPITAL		0	0	0	0	0
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: Willis F. Kirkpatrick, Director Phone: 465-2521
 Division: Banking, Securities & Corporations Date: _____
 Approved by Commissioner: Richard A. Lyon Date: 5/5/83
 Department: Commerce and Economic Development

Distribution:

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 Copy to Sponsor
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3/8/83



LAW OFFICES OF
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POSITION PAPER: House Bill No. 246 - "An Act relating to the deregulation of interest rates; and providing for an effective date."

AT THE REQUEST OF: Senator Richard Eliason, Chairman of Senate Labor and Commerce Committee

FOR MORE INFORMATION CONTACT: Robert Hickerson

DATE: May 25, 1983

HB 246 proposes to deregulate all interest rates and financial charges in the State of Alaska from July 1983 until July 1987. After this five year period, this bill purports to reinstate the current existing regulations.

BRIEF ANALYSIS:

It appears from testimony submitted to U.S. S.B. 730 which proposed preemption of state authority over consumer credit transactions that the proposed Alaska HB 246, which would eliminate state interest regulations would adversely affect the ability of Alaskans to obtain credit, as well as burdening future Alaskan debtors with increased interest rates and repayment plans. Moreover, there has been no apparent data or alternative premises introduced which would justify the deregulation of interest rates. Rather this bill seems aimed at increasing the short term profitability of money lenders at the expense of the consumers.

1) The premise that Alaska is not competitive with other states for ascertainment of credit is misleading.

- a) Only six states (New York, New Jersey, Montana, South Dakota, Delaware and Arizona) have adopted deregulatory bills similar to the proposed HB 246. Additionally, both New York and New Jersey have buffered the consumer impact of deregulation by adopting criminal usury ceiling-statutes of 25% and 30% respectively.
- b) Eleven states (Alabama, Illinois, Michigan, Missouri, New Hampshire, North Dakota, Pennsylvania, Tennessee, and Wisconsin) have floating interest ceilings which are tied to the Federal Reserve Discount Rates.
- c) The UCCC States of Idaho, Indiana, Iowa, Kansas, Maine, Oklahoma, South Carolina, Utah and Wyoming have inflationary provisions which tie their regulation

- d) The remainder of the twenty-two states including Alaska have statutorially increased the maximum interest rates allowable.

It appears that the availability of credit in Alaska is no less competitive than the majority of the states. If studies show that Alaska is uncompetitive, alternative statutory provisions could be substituted rather than adopting the radical approach of complete deregulation.

2) The premise that HB 246 will expand credit to Alaskan consumers is misleading because it appears that the credit market place is not a competitive market.

- a) The proported premise that high risk debtors will be able to obtain credit has been proven fallacious in New York. In New York (a deregulated state) such debtors were still turned down 3 to 1 despite increased interest rates.

- b) ~~There is no evidence that interest rates for lower risk debtors would decrease.~~ Apparently in New York debtors eligible for 18% financing are still required to pay the upper ceiling at 25% rates.

3) Additionally, the effects of the deregulation of interest rates would be unduly burdensome to the consumer because of the following:

- a) Financial charges and interest rates would increase.
- b) Additional "hidden" fees would be added to the financing contract which would make comparison shopping very difficult.

4) The effects of deregulation of interest rates would be burdensome to creditors because of the following:

- a) It would decrease the consumer consumption of goods because an individual could only absorb a certain amount of credit and interest rates; increased interest rates would proportionately reduce the amount of goods purchased.
- b) Incidents of bankruptcy are likely to increase as a result of increased interest rates. Statistics have shown that the rate of bankruptcy increases proportionately to the rate of interest rates.

5) Lastly, it is suggested that if a deregulation bill was to be passed, additional measures should be taken simultaneously which would provide the consumer with full disclosure protections of a financing contract. These include:

- a) A Plain English Statute;

- b) Expansion of the truth in Lending and Fair Debt Collection Statutes;
- c) Prohibition of Wage Assignments;
- d) Prohibition of non purchase money security interests in household goods;
- e) Prohibition of blanket security interests, and increasing the specificity of goods included under a security agreement; and
- f) Expansion of laws protecting co-signers which would include more information and a cooling off period.

CONCLUSION:

It appears from the available material that HB 246 would not achieve the purported purposes and seriously hinder consumer financing. It is suggested that this Bill be reexamined and alternative options be presented which would either provide potential debtors with additional disclosure protections or the alternative provide less drastic remedies to resolving the purported Alaskan Credit Problem.



ALASKA PUBLIC INTEREST RESEARCH GROUP

Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

May 23, 1983

Richard Eliason, Chair
Senate Labor and Commerce Committee
Pouch V
State Capitol
Juneau, AK 99811

Dear Sen. Eliason:

The Alaska Public Interest Research Group is strongly opposed to HB 246, which would deregulate interest rates in the State. Deregulation of interest rates will not increase competition in lending, will not increase access to credit, or revive the State's economy, and it will most certainly harm consumers seeking credit.

1. Interest ceilings were established to protect consumers from unscrupulous lenders charging unconscionable rates of interest. The present law does just that. The ceilings are above the present market rate, so fair and honest lenders are not adversely affected by the law. In deregulating interest rates, this Legislature would be aiding those lenders who gouge consumers seeking credit. Caveat emptor cannot apply in an industry well-known for misleading statements, fine print and waiver-of-defense clauses.
2. Lifting interest rate ceilings will artificially increase interest rates. Usury ceilings in New Jersey were lifted from 21% to 30% in 1980. The average interest rate increased from 6 to 7% just after the new ceiling went into effect and has not come down. These lenders were not reflecting the market when they increased rates, they were exercising oligopolic control of interest rates. If interest rates were to increase artificially, both consumers' disposable income and consumer demand would constrict, restraining growth in the Alaskan economy.
3. We can't rely on the marketplace forces to set interest rates because the lending industry is not competitive. Many consumers, especially lower-income and less-educated consumers, don't shop for credit. Even with the yardsticks made possible by the Truth in Lending Act, consumers rely on family,

merchants and the lenders themselves for information when making credit decisions. Credit and interest rates are perceived as a "take it or leave it" proposition, with the lender in control.

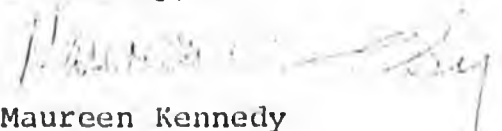
4. The lending industry doesn't need increased rates, and when it does, the Legislature can simply increase the ceiling appropriately. The inflation rate has decreased by two thirds over the last two years, the prime rate has decreased by nearly one half, and the rate at which banks pay for their money--the money market rate--has declined substantially to around 9%. These pressures have not brought about a corresponding decrease in the consumer loan rates, the banks' profit margins (at least on their loan portfolios) have just increased. The financial pressures to increase rates which we experienced several years ago no longer exist.

5. Lifting the ceilings will not open credit up to borrowers previously unable to obtain credit. A recent New York Banking Department study bears this out, according to testimony presented by the Consumer Federation of America before the Senate Banking Committee earlier this year. In 1980, New York raised its interest ceiling substantially and opened lending up to new classes of institutions. While there is a theoretical argument that lenders then could charge new high risk borrowers a commensurately higher rate of interest, this did not happen. Few lending institutions raised their credit limits and even fewer opened up their loan standards. As the C.F.A. testimony concludes, ". . . consumers who are eligible for credit at 25% are the same consumers who were eligible for credit at 18%." The primary change has been an increased cost of credit to the borrower and increased earnings to the lender.

We urge you to recognize the faults in HB 246, and not pass the bill out of Committee.

Moreover, HB 246 should be of great importance to Alaska's consumers, yet it has received little publicity or attention outside the lending industry. We urge the Committee to hold a teleconference in the evening with plenty of notice on this issue.

Sincerely,



Maureen Kennedy
Director

0143 -
2 - 75
FEB 13 1984



NFIB® National Federation
of Independent Business

The Guardian of Small Business.

February 13, 1984

The Honorable Rick Uehling
Alaska House of Representatives
Pouch V
Juneau, AK 99811

Dear Representative Uehling:

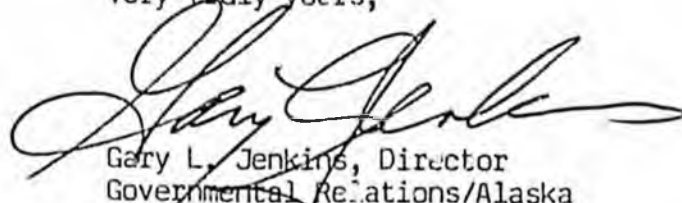
Small business continues to be the largest generator of new jobs in the United States, however, the number of jobs which are created often are significantly effected by state legislative actions. To ensure that legislators have the benefit of knowing how existing law and proposed legislation affects small business, the National Federation of Independent Business has been working with, not only the Alaska Legislature, but state legislatures nationwide for several years.

In Alaska, NFIB currently has a membership in excess of 3,600 which means that we usually represent a significant majority of the retail and service businesses in each city in Alaska. Each year we send a ballot to all of our members requesting their input on issues of current interest in Alaska. This ballot permits each member to express their feelings on those issues and gives me direction regarding which issues should be pursued legislatively. I do not take a position on an issue for NFIB unless the members have voted on it and a majority favor the position being taken.

Enclosed for your information is a copy of our 1983 State Ballot showing the vote of the membership on the various issues. The issues which received strong support are ones which I will be discussing with legislators during this and subsequent legislative sessions.

If I can provide you any additional information on NFIB or if you would like to know our position on a particular issue, feel free to contact me.

Very truly yours,



Gary L. Jenkins, Director
Governmental Relations/Alaska

NFIB/ALASKA
Legislative Office
P.O. Box 194
Juneau, AK 99821
907/586-4100

Dear NFIB Member:

This Ballot is solicited by NFIB Research and Education Foundation to gather information pertaining to small business issues in your state.

Your answers are valuable and will enhance the survey.

Please return the entire Ballot. Thank you.

Very truly yours,

John E. Sloan, Jr., President
NFIB Research and Education Foundation

GENERAL BUSINESS

Interest Rates

1. Should interest rate ceilings be repealed on: (vote on each)

a. Bank loans of \$25,000 or less
 $\frac{32\%}{1}$ Favor $\frac{60\%}{1}$ Oppose $\frac{8\%}{1}$ Undecided $\frac{11}{11}$

b. Savings and loan association loans of \$25,000 or less
 $\frac{34\%}{1}$ Favor $\frac{58\%}{1}$ Oppose $\frac{8\%}{1}$ Undecided $\frac{11}{11}$

c. Retail installment contracts
 $\frac{36\%}{1}$ Favor $\frac{54\%}{1}$ Oppose $\frac{10\%}{1}$ Undecided $\frac{11}{11}$

d. Retail open-ended charge accounts
 $\frac{34\%}{1}$ Favor $\frac{56\%}{1}$ Oppose $\frac{10\%}{1}$ Undecided $\frac{11}{11}$

e. Credit card revolving accounts
 $\frac{33\%}{1}$ Favor $\frac{58\%}{1}$ Oppose $\frac{9\%}{1}$ Undecided $\frac{11}{11}$

f. State chartered credit unions
 $\frac{35\%}{1}$ Favor $\frac{55\%}{1}$ Oppose $\frac{10\%}{1}$ Undecided $\frac{11}{11}$

g. Small loan finance company loans of \$10,000 or less
 $\frac{33\%}{1}$ Favor $\frac{58\%}{1}$ Oppose $\frac{9\%}{1}$ Undecided $\frac{11}{11}$

BACKGROUND: HB 246, presently in the Senate Labor and Commerce Committee proposes to remove all limitations on all types of credit in Alaska. The measure would permit each financial institution and all businesses extending credit to charge whatever interest rate they wish, subject only to competition of the marketplace and negotiation with each individual customer.

Current law limits banks and savings and loan associations to a maximum interest rate of 5% over the federal discount rate in effect at the time of the loan on any loan of \$25,000 or less. There are no interest rate limitations on loans in excess of \$25,000. During the past few months, the federal discount rate has been 8.5%, thereby setting the maximum allowable interest rate at 13.5%.

A retail business selling merchandise on a retail installment contract is presently limited to a maximum interest rate of 10% per year on the first \$1,000 of credit extended, and 8% on credit in excess of \$1,000. However, for retail businesses as well as credit card companies extending open-ended revolving charge accounts, the maximum interest rate is 18% per year on the first \$1,000 of credit extended and the federal discount rate plus 5% on credit in excess of \$1,000. A state chartered credit union is presently limited to 15% or 5% over the federal discount rate, whichever is higher on loans of any amount. Small loan finance companies can now levy a maximum interest rate of 36% per year on the first \$850 of credit extended and 24% on credit up to \$10,000.

Proponents of the removal of all interest rate limitations argue that many financial institutions and businesses lost money on their credit transactions during the period of very high interest rates and, further, the limits are no longer necessary. If the limitations were removed, the marketplace, i.e., competition for the financing, would set the rates at reasonable levels in line with the risks inherent in the particular credit transaction.

Opponents argue that Alaska does not have a well developed marketplace and there are many communities where no competition exists either for banking or retail credit. The removal of all limits would permit the charging of unreasonably high rates. Further, it has also been pointed out that in the case of consumer loans and small business loans under \$25,000, the marketplace seems to react very slowly when interest rates are falling in general. For example during the first few months in 1983 in California, where there are no interest rate limitations, interest rates being charged on small loans by banks were running at 20% to 25%, while rates in Alaska were about 14%.

Interest Rates

2. Should interest rates on balances of \$1,000 or less that are limited to a maximum, such as the 18% for business credit or credit card companies, be modified so the maximum rate could be increased with the federal discount rate, once the federal discount rate reached a pre-set level?

$\frac{39\%}{1}$ Favor $\frac{52\%}{1}$ Oppose $\frac{9\%}{1}$ Undecided $\frac{11}{11}$

BACKGROUND: Proponents of this concept feel that businesses extending financing and credit should not be so limited in the rates they charge that they lose money; therefore, the limitations should be allowed to rise when interest rates are generally high. It has been proposed that the maximum rate on accounts with balances of \$1,000 or less be set at 18%, or 6% over the federal discount rate, whichever is higher.

Opponents argue that the federal discount rate does not necessarily indicate the cost of funds to financial institutions or businesses. A variety of other factors affect the cost of funds to a particular entity. They argue, therefore, that it is more appropriate to remove all limitations and let market conditions establish the rates.

Bad Check Penalties

3. Do you favor or oppose increased civil and/or criminal penalties as an effective deterrent to the writing of bad checks?

$\frac{95\%}{1}$ Favor $\frac{4\%}{1}$ Oppose $\frac{1\%}{1}$ Undecided $\frac{19}{19}$

BACKGROUND: It is well established that bad checks are a problem that every business must deal with to some degree. However, the question has been raised whether the laws of Alaska are presently adequate to deal with the problem. It has been suggested that either or both the civil or criminal penalties should be made stronger to attempt to reduce the impact of this problem.

Bad Check Civil Penalties

4. Should legislation be adopted to require that bad-check writers repay not only the face value of the check and any court costs incurred by the receiver but also civil damages of \$100 (minimum) or triple the amount of the check?

$\frac{86\%}{1}$ Favor $\frac{10\%}{1}$ Oppose $\frac{4\%}{1}$ Undecided $\frac{10}{10}$

BACKGROUND: Law enforcement officials frequently do not pursue those who write bad checks for small amounts. Thus, the only deterrent to writing a bad check is the receiver's (merchant) collection efforts. Checks written for small amounts, which together may represent a deep cut in a business's profit, frequently cost more to collect than they are worth.

If the merchant were allowed to collect from the bad-check writer a minimum of \$100 or triple the amount of the check as damages, in addition to the base value of the check and any court costs incurred, there would be a real incentive for the merchant to collect and a deterrent to bad-check writing.

Check Information

5. Should financial institutions be required to number checks on new accounts beginning at #101 and display on the face of the check the month and year the account was opened?

$\frac{41\%}{1}$ Favor $\frac{49\%}{1}$ Oppose $\frac{10\%}{1}$ Undecided $\frac{21}{21}$

5A. Should banks be allowed to disclose to merchants the bank account information of those who issue checks which are returned because of insufficient funds? Such information might include account status, current address, phone number, and history of returned checks.

$\frac{66\%}{1}$ Favor $\frac{33\%}{1}$ Oppose $\frac{1\%}{1}$ Undecided $\frac{22}{22}$

BACKGROUND: In the United States, approximately 400,000 worthless checks are written every day. Eighty percent of those checking accounts are six months old or less. Numerical listing and date of account opening would alert merchants to new accounts and to take care in deciding whether to accept those checks. Additionally, several states have given financial institutions permission to disclose account information to either law enforcement officials or merchants who receive a worthless check.

Opponents of the numbering system believe it would create problems for individuals and businesses who for continuity purposes want to continue to number checks from where the old account left off.

LABOR

Mandatory Overtime Wages

6. Should existing law be repealed which requires a business with four or more employees to pay overtime to an employee who works more than 8 hours in one day, but does not work over 40 hours per week?

$\frac{73\%}{1}$ Favor $\frac{24\%}{1}$ Oppose $\frac{3\%}{1}$ Undecided $\frac{21}{21}$

BACKGROUND: Most small businesses require that a particular job be accomplished within a certain period. This may require an employee to work more than 8 hours on a particular day. However, the employee is given time off on other days of the week so as not to work more than 40 hours that particular week. Proponents of a change

say that law is particularly unfair to smaller businesses whose workload is heavy at certain times and slack on other days of the week. This flexibility of worker time should not impose an additional financial burden on smaller businesses.

Opponents to changing the law argue that employees working more than 8 hours in any one day should be given extra compensation in the form of overtime pay, whether they worked voluntarily or were required to do so by their employer. They feel daily overtime pay should be independent of the requirement to pay overtime to an employee who works more than 40 hours a week.

GOVERNMENT

Permanent Fund Income

7. Should the unused portion of the income from the Permanent Fund not allocated to the Dividend Program be authorized for the following?

a. The Longevity Bonus Program for the elderly

$\frac{41\%}{1}$ Favor $\frac{51\%}{1}$ Oppose $\frac{8\%}{1}$ Undecided $\frac{14}{14}$

Municipal Assistance Program

$\frac{24\%}{1}$ Favor $\frac{66\%}{1}$ Oppose $\frac{10\%}{1}$ Undecided $\frac{14}{14}$

BACKGROUND: During the 1983 Legislative Session bills were introduced which would require that part of the income of the Permanent Fund be held to finance the Longevity Bonus program and/or finance the municipal revenue sharing program. In the past, funding for such programs has been from the state's General Fund.

Proponents of using the income from the Permanent Fund to provide funds for these programs contend that this would not violate the intent of the Permanent Fund financing activities to benefit the maximum number of residents of the state. They argue that programs like the municipal assistance program are helping all communities of the state directly and thus benefit the residents of the various communities indirectly by reducing local taxation and providing needed services.

Opponents argue that the Legislature is merely looking for new sources to fund the expensive programs they have created the past few years which they do

May 26, 1983

Senator Richard Eliason
Chairman, L & C Committee
State Capitol
Pouch V
Juneau, AK 99811

Dear Senator Eliason:

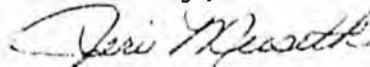
HB 246(L&C) which you will hearing this date, has been brought to my attention. I find that Sections 4 & 5 of this bill has potential to directly affect fishermen and I am concerned.

Credit is a funny situation. Even when you have cash available, you are forced to buy on time or charge an account at a business in order to establish credit just to get a telephone installed in your home. In other words, you are forced to use the system. Unfortunately, in these trying times most fishermen do not have a pocketful of cash. We find ourselves living from "hand-to-mouth".

This bill is experimenting with what is going to happen to interest rates if deregulated for four years. We, the consumer, will be the ones paying the costs. Fishermen can little afford the extra strain. Major purchases such as a diesel engine or auxillary will fall under the catagory of Section 4, and everything else from gear, groceries, ice and bait will fall under Section 5 of this bill. All too often fishermen are trapped by the "company store" situation. This is especially true of areas found along the coast of Alaska, such as Pelican, Elfin Cove, Craig. We are currently struggling with inflated prices (and often inferior products) which the sellor justifies because of "freight" charges. I would hate to see us saddled with inflated interest rates on these accounts also, just because we are forced to do business and have no other choice.

Unless you can see a real need for this legislation that is hidden from me, I urge you to oppose it. I thank you for your time to read this and consider it with other testimony.

Sincerely,



Jeri Museth
Elfin Cove, AK 99825

cc: Labor and Commerce Committee members



UNITED FISHERMEN OF ALASKA

319 Seward Street, Suite #219
Juneau, Alaska 99801-1188
(907) 586-2820

Cass M. Parsons
Executive Director

May 26, 1983

Honorable Dick Eliason
Chairman
Senate Labor and Commerce
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

The Senate Labor and Commerce Committee is scheduled to hear House Bill 246 today. There are a couple of concerns I would like to bring to your attention.

Sections of House Bill 246 deregulate interest rates retail establishments are allowed to charge customers. These sections could have a very negative impact on the fishing communities in Alaska. As you know, fishermen throughout the State buy supplies pre-season on credit. The processors in turn, open charge accounts at lumber companies, groceries and hardware shops for their fishermen and their own necessities. This way of doing business has been going on for decades in Alaska. If the limit is taken off the interest rates these establishments can charge, the entire industry would suffer. Fishermen and processors alike require these pre-season purchases, and in most communities there are no other stores to compete. Most coastal communities support one grocery and one hardware store only.

Thank you for your attention. I urge you and the members of your committee to consider very carefully the effect this legislation will have on rural and coastal communities and the Alaskan consumer.

Sincerely,

Cass M. Parsons

Cass M. Parsons
UFA Executive Director

CMP/jb

cc: All members, Senate Labor and Commerce Committee

1950, 1951, 1952, 1953, 1954, 1955

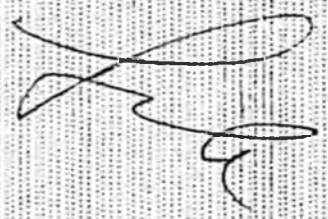
THE STATE OF MISSISSIPPI, HONORABLE DEPT. OF AGRICULTURE

STATE ROAD, 730. HONEST ROAD, WASHINGTON MISSISSIPPI

1950-1951 1952-1953

THE ABOVE WILL BE RECONSTRUCTION OF WASHINGTON ROAD
IN GENERAL, OPPOSED TO MS 240 BECAUSE OF THE IMPROVEMENT
INTERESTED. I FEEL IT WILL AFFECT THE INTERESTS OF THE
STATE OF MISSISSIPPI IN THE RECONSTRUCTION OF WASHINGTON ROAD
AND WOULD BE A LOSS TO THE STATE.

THE ABOVE WILL BE RECONSTRUCTION OF WASHINGTON ROAD



11 12 11 10 22 27 37

02212 ANCHORAGE AK 26 05-25 325P ADT

PMS SEN RICHARD ELIASON

POUCH V

A710

JUNEAU AK

WE URGE YOU TO HOLD CSHB 246 IN COMMITTEE AND TAKE NO ACTION
THIS LEGISLATIVE SESSION TO INSURE AMPLE PUBLIC REVIEW AND
COMMENT ON THIS BILL.

GORDON A SMITH, PRESIDENT

ANCHORAGE AREA DEMOCRATIC COUNCIL

5/19/83, JUNE, ANC LIO, MSNG 19145

TO: SENATORS ELIASON, MULCAHY, BENNETT, SACKETT, AND RODEY

FROM: LOUISE HUNTER, 223 NORTH HOYT #4, ANCHORAGE, AK 99504
H- 277-3783

CSHB 246 (DEREGULATE INTEREST RATES) CAN BE DETRIMENTAL TO THE FINANCIAL HEALTH OF THE POOR AND OF WOMEN WHO ARE STRUGGLING AS IT IS. PLEASE DON'T SUPPORT IT.

MSG 84-00018287 PRTY 1 02/28/84 10:14:14 ORIG: LA17 IN= 0006 OUT= 0043
FROM: KIM / ANCH LIO TO: POM / JNU INFO
TARGET: LJHK SUBJ: PCM 6

TO: SENATORS ELIASON, MULCAHY, FETTYJOHN, SACKETT, AND RODEY

FROM: BOB LIBBEY, SRA BOX 4011, ANCHORAGE 99507
H 345-3083 W 278-9551

HB246 RE: DEREGULATION OF INTEREST RATES

DO NOT PASS LEGISLATION DEREGULATING INTEREST RATES ON CONSUMER LOANS.
RESEARCH CLEARLY SHOWS IT WILL NOT LEAD TO INCREASED COMPETITION AMONG
LENDERS. DEREGULATION WILL LEAD TO HIGHER INTEREST CHARGES TO LOW INCOME
FAMILIES, THUS INFLECTING UNNECESSARY HARDSHIP UPON THEM.

MSG 84-00016706 PRTY 1 02/23/84 11:08:20 ORIG: LA09 IN= 0003 OUT= 0055
FROM: SHIRLEE ANC LTD TO: POMS/JUNEAU INFO
TARGET: LJHK SUBJ: P.O.M.

TO: ALL MEMBERS
ALASKA LEGISLATURE

FROM: BYRON MORRIS
BOX 141, CRESTVIEW LANE
EAGLE RIVER, AK 99577
(H) 694-3565 (W) 271-5006

PLEASE REPRESENT THE PUBLIC INTEREST AND VOTE AGAINST SENATE BILL 405
OR HOUSE BILL 246 (DEREGULATION OF INTEREST RATES).

MSG 84-00016734 PRTY 1 02/23/84 11:37:36 ORIG: LD00 IN= 0003 OUT= 0069
FROM: LIZ IN DELTA TO: JUNEAU
TARGET: LJHK SUBJ: POM

TO: ALL LEGISLATORS

FROM: DIANE SHALE
1400.2 ALASKA HIGHWAY
DELTA JCT., AK 99737
895-4675

RE: SENATE BILL 338

SECTION 2 APPROPRIATES MONEY FOR STUDY OF TOURIST FACILITIES OF AREA DESIGNED
TO CONTAIN BUFFALO ONLY DURING WINTER. VERY FEW TOURISTS TRAVEL OR STOP
ALONG ALASKA HIGHWAY DURING WINTER. SAVE PUBLIC FUNDS, DELETE SECTION 2.
SUGGEST DEVELOPING NO FURTHER EAST THAN MILE 1402 ALASKA HIGHWAY EXISTING
RANGE, TO CUT COSTS.

***** EOM *****

TO: ALL LEGISLATORS
FROM: LINDA JACKSON
BOX 164
DOUGLAS, ALASKA 99824 PHONE: 364-3292

PLEASE PASS SB 354 ON PRIVATE SCHOOLS. THANK YOU.

FROM: THOMAS REHARD
PO BOX 371550
WASILLA 99687
376-2379

RE: HB 485
I DON'T THINK THE ANNUAL INTEREST RATE FOR CREDIT CARD USERS SHOULD BE RAISED FROM 18% TO 24%. I CAN UNDERSTAND WHY THE RAINIER CORPORATION WOULD WANT IT RAISED. IT'S THEIR BUSINESS AND THEY'LL MAKE MORE MONEY. BUT THAT'S INFLATION, SPENDING MORE--BUYING LESS.

FR: HELODY DOUGLAS 262-5846 W
P.O. BOX 344
SOLDOTNA, AK 99669

I SUPPORT HB-277 AND SB-236. BOTH ALLOW FOR RETIREMENT CREDIT FOR UNUSED SICK LEAVE FOR EMPLOYEES OF AN ORGANIZATION PARTICIPATING IN PERS. I URGE YOUR SUPPORT AND AID IN GETTING THESE BILLS TO THE FLOOR FOR PASSAGE. THIS BENEFIT WOULD ENCOURAGE EMPLOYEES TO NOT MISUSE THEIR SICK LEAVE.

~~VF~~
GB

MSG 84-00013688 PRTY 1 02/14/84 17:37:31 ORIG: LA17 IN= 0020 OUT= 014
FROM: KIM / ANCH LID TO: POM / JNU INFO
TARGET: LJHK SUBJ: F O M 13

TO: ALL MEMBERS OF SENATE FINANCE
SENATORS BENNETT, SACKETT, FERGUSON, V. FISCHER, MULCAHY
FAIKS, JOSEPHSON

ALL MEMBERS OF SENATE JUDICIARY
SENATORS RAY, JOSEPHSON, ELIASON, ZIEGLER, PETTYJOHN

FROM: KATHY MARSHALL, EXECUTIVE DIRECTOR, ALASKA WOMEN'S COMMISSION
3601 C STREET, SUITE 742, ANCHORAGE 99503
W 561-4227

THE ALASKA WOMEN'S COMMISSION URGES THE ADOPTION OF SJR30 WHICH WOULD
AMEND 42 USC664 TO PROVIDE THAT THE PROCEDURES THAT ARE PRESENTLY
AVAILABLE TO AFDC FAMILIES FOR THE COLLECTION OF PAST DUE CHILD SUPPORT
FROM FEDERAL TAX REFUNDS BE AVAILABLE TO ALL CHILDREN IN THE U.S. ON AN
EQUAL BASIS.

FROM: KATHY MARSHALL, EXECUTIVE DIRECTOR, ALASKA WOMEN'S COMMISSION
3601 C STREET, SUITE 742, ANCHORAGE 99503
W 561-4227

THE ALASKA WOMEN'S COMMISSION OPPOSES SB276 WHICH RELATES TO THE
DEREGULATION OF INTEREST RATES. THE COMMISSION BELIEVES THIS BILL
WOULD ADVERSELY AFFECT WOMEN, MINORITIES AND THE POOR.

ALASKAN INTEREST RATE DEREGULATION FACTSHEET

1. Would deregulation of interest rates increase competition among lenders and thereby keep rates reasonable?
 - No. Competition in any market requires that consumers shop for the good or service and compare prices. A 1977 study by the Federal Reserve Board reveals that only 30% of potential borrowers shop for loans. This figure would be much lower for low-income borrowers--those who have the most to lose under deregulation.
 - The New York State Banking Department found little increase in competition there after rates were deregulated in 1980. Ninety-three percent of New York banks surveyed increased their interest rates after deregulation.
2. Would deregulation allow lenders to give more people access to credit?
 - Again, the New York Banking Department study did not find this to be the case. A very small minority of all lending institutions changed their lending qualifications after deregulation. Consumer Federation of America testimony before the Senate Banking Committee explained that "consumers who are eligible for credit at 25% are the same consumers who were eligible for credit at 18%."
 - A 1981 Purdue University study found that Arkansas residents (where the interest rate ceiling was 10%) held as much consumer debt as residents of neighboring Louisiana (with a 31% APR ceiling). Lower-income Arkansas residents actually held more debt than similar consumers in Louisiana.
3. What adverse effects would asury deregulation cause?
 - The inevitable increase in rates would be inflationary.
 - The state economy would also suffer as consumers put off major purchases in the face of high interest rates. This impact would be especially noticeable in Alaska, a state of consumers rather than producers.
 - A Consumer Federation of America study found that states with high interest rate levels had a higher bankruptcy rate--19% higher--than states with rates below the average.
4. What would the impact be on low-income borrowers?
 - As outlined above, low-income consumers would experience higher rates of interest with no corresponding increase in available credit.
 - Because access to lending institutions is often limited in poorer neighborhoods and in rural areas, residents would not comparison shop for credit.
 - Unscrupulous lenders charging unconscionable rates of interest would operate legally--as long as the borrower could be persuaded to sign a contract.
 - Finance companies, which constitute the primary source of credit for low-income borrowers and which already operate at the legal interest rate limit would ratchet their rates upward, further constricting credit availability and buying power for lower-income borrowers.



JCPenney

406 Fifth Avenue Anchorage, AK 99501

June 2, 1983

Senator Richard Eliason
State Capitol Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

H.B. 246 relating to interest rates will give competitive rates to all borrowers, whether they are consumers or businesses. I urge favorable action on this bill in its present form.

The concern that retailers in smaller and isolated communities will charge exorbitant rates is unfounded. Penneys, Nerlands, Sears, Prairie Market and many other retailers in Anchorage and Fairbanks actively solicit business in these more remote communities. Certainly local retailers in Dillingham, Kodiak or other communities are not going to surrender their business to "outsiders" by charging non competitive interest rates.

It is unrealistic to establish separate standards for bank credit and retail credit. Almost all retailers operate on borrowed funds and in turn re lend this money as retail credit.

During the recent period of high interest rates, we all experienced a severe tightening of credit granting. Because of artificial limits on rates, credit was difficult to obtain or unavailable to many consumers and businesses.

H.B. 246 would let rates rise or fall naturally with prevailing interest rates and provide more available credit to everyone. This would improve the stability of the Alaskan economy and help provide more jobs in the future.

Again, I urge passage of H.B. 246 in its present form.

Sincerely,

Doug Heiken
Doug Heiken

J.C. Penney Company, Inc.

Store Manager

Alaska Retail Association

174 S. Franklin St. #205

Juneau, Alaska 99801

(907) 586-6706

To: All Members of the House of Representatives

From: Don Magnusson, Executive Director *DEM*

Subject: HB 246 "An Act relating to the deregulation of interest rates"

The Alaska Retail Association supports passage of HB 246 which would deregulate interest and service charge rates in retail credit transactions.

The fixing of statutory ceilings on rates is a form of governmental price fixing - a practice which recent history shows inevitably leads to unintended harmful consequences. In the case of retail credit the consequence of governmental price fixing is the shifting of the cost of extending credit from credit using customers to all customers in the form of higher prices for goods and services.

Granting credit is costly to retailers. First, they must, of course, finance the goods which they sell on credit. In addition they must pay the costs of preparing and processing monthly statements, of postage, of the salaries and benefits of credit department staffs, and of office space and equipment. They must also absorb losses resulting from bankruptcies and bad debts.

If a retailer cannot recover the costs of its credit operation from service charges it must - if it intends to remain in business - recover them in the price of its goods and services. When it does so the cost of a portion of its credit operation is shifted to its cash customers. This inherently unfair result is mandated by government when government intervenes in the

economic process and forbids a retailer to recover the costs of its credit operation from its credit customers when those costs exceed 1½% per month.

Eighteen states, including a majority of the western states, have deregulated statutory finance charge ceilings. (An illustrative map and a list of deregulated states are attached.) In those states competitive forces now set rate ceilings. Several recent studies have concluded that consumers have not been harmed by the removal of rate ceilings. Typical is a New York State Banking Department report on the effects, since 1980, of deregulation in that state. Commenting on that study in December 1982, the Banking Commissioner stated,

"The findings of our study indicate that passage of the Omnibus Banking Bill has led to a more highly competitive market for consumer loans and a broader range of choice for consumers as more institutions are competing for consumer credit business. The study also revealed that wide variations in interest rates exist among lenders in every metropolitan area in the State; that interest rates on many types of consumer loans have been reduced during 1982; and that more liberal credit standards and larger credit lines have been instituted at many banks and there is greater participation in consumer lending."

Similarly, in California, where interest rates on bank credit cards have never been regulated, competition is intense enough that the papers now publish weekly charts showing the current rates. (An example is attached.)

HB 246 does not remove any of the consumer protections contained in the federal Truth-In-Lending Law and regulations or Alaska state statutes. It is fair to retailers and their customers. We urge your support for passage.





WESTERN UNITED STATES

MAXIMUM FINANCE CHARGE RATES

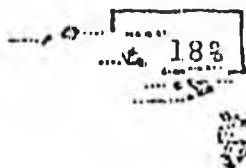
For Retail Revolving Credit
as of April 1, 1983



18% to \$1000 - 5% above Federal Discount Rate above \$1000, but all retail extensions of credit observe the former 12% limit above \$1000.

-  18%
-  19.2%
-  21%
-  No Statutorily Imposed Ceiling

- * Ceiling Removed in 1983
- ** Sunset Provision Removed in 1983



California 19.2% to \$3000 - 12% above
Washington, Hawaii Colorado and Wyoming have no break point
California and Hawaii have deregulation and/or rate increase bills pending

Key Rates quoted by leading California financial institutions
 in percent for the week ended March 9, 1983.

Deposit Rates

MMA: Money-market deposit accounts are a type of savings account requiring a minimum balance of \$2,500 and allowing up to six fund transfers per month. Average annual rate during the 7 days ending Wednesday on a consumer account with a balance under \$100,000.

S-NOW: Super-NOW are checking accounts requiring a minimum balance of \$2,500. Average annual rate during the 7 days ending Wednesday.

Loan Rates

Mortgage (Mtg.): Rate for a 30-year, \$150,000 adjustable rate loan. Appraisal fees and loan origination charges vary with each institution.

Auto loan: Interest rate for an \$8,000, 48-month, new car loan.

Credit card: Annual percentage rate charged on credit card balance. Institutions charge an annual fee of \$10 to \$15 for the credit card.

Banks	Deposit Rates		Loan Rates		
	MMA	S NOW	Mtg.	Auto/loan	Credit card
Bank of America	8.25	7.90	11.25	15.25	19.80
California First Bank	8.25	7.75	NA	14.50	19.80
Crocker	8.00	7.00	11.75	11.75	21.00
First Interstate	8.00	7.00	NA	15.25	21.00
Lloyds Bank California	8.00	7.50	NA	15.25	20.00
Security Pacific	8.00	7.00	11.50	15.00	20.40
Sumitomo Bank of California	8.00	7.00	12.50	14.25	19.80
Wells Fargo	8.02	7.02	14.38	16.75	20.00
S&Ls					
California Federal	8.75	8.00	11.75	14.50	17.00
First Nationwide Savings	8.25	7.75	11.50	NA	18.00
Gibraltar Savings	8.54	8.04	12.50	13.50	21.00
Great Western	8.50	7.75	11.25	NA	19.80
Home Savings of America	8.50	7.50	11.75	NA	18.00
Home Federal Savings	8.82	7.82	11.75	15.25	18.00
Imperial Savings	8.50	7.93	11.75	NA	NA
World Savings	8.84	8.22	11.75	NA	19.80
† Through a subsidiary in Guam, California First Bank is able to offer the checking account with an opening minimum balance of \$1,000					

These rates are not regulated by statute. Range from 17% to 21%.

RETAIL REVOLVING CREDIT RATES

DEREGULATED STATES

States which prior to 1980 did not impose rate ceilings:

1. Kentucky
2. New Hampshire
3. Oregon

States which removed rate ceilings in 1980:

4. Arizona
5. New York (25% criminal usury ceiling)

States which removed rate ceilings in 1981:

6. Delaware
7. Illinois
8. Montana
9. Nevada
10. New Jersey
11. New Mexico
12. Ohio (25%)
13. Utah
14. Wisconsin (effective 1984)

States which removed rate ceilings in 1982:

15. South Carolina
16. South Dakota
17. Virginia (effective April 1, 1983)

States which have removed rate ceilings in 1983:

18. Idaho



Don't Blame the Bankers

MY TURN/IRWIN L. KELLNER

Bankers must be very responsible people. Whenever anything goes wrong in the economy, we seem to be responsible. Don't take my word for it: ask the Reagan administration. Its officials believe that the banks are responsible for high interest rates.

Initially, it does appear that the gap has widened between the rates banks charge on money they lend and the rates they pay for money they attract. In 1977, for example, little more than a single percentage point separated money-market rates from bank lending charges on prime business loans. Today that spread is as high as 3 percentage points.

But it is misleading to look at spreads in absolute terms. A bank, like any other business, sets its prices in accordance with its costs. Between 1977 and 1982, short-term interest rates doubled. Obviously, the same absolute spread in 1982 that existed in 1977 would result in a percentage markup only half as great.

Money Markets: But this is not all. While the prime rate is an important benchmark, it does not accurately represent the rates that banks charge on many short-term business loans. The Federal Reserve Board tells us that today the weighted-average interest rate on these business loans is nearly a whole percentage point below the posted prime. This reflects the ability of large, top-rated corporations to negotiate rates below the prime because they have access to the domestic and international money markets, where rates are lower.

When considering the banks' costs, it is important to remember that the latest interest rate on federal funds, commercial paper or certificates of deposit does not represent the average cost to a bank at a given moment. This is because banks get their money from a variety of sources, with maturities ranging from overnight to several years. It is necessary to combine these sources into a blend to get the true picture of a bank's

costs—and anyone who takes the trouble will find that these costs are above the current money-market rate.

Even this is not the whole story. As a result of both deregulation and a change in corporate deposit habits, banks have seen a recent dramatic decline in interest-free deposits by corporations. Add to this the deregulation of consumer deposits, which replaced interest-free checking accounts and low-interest savings accounts with NOW accounts, money-market accounts and Super NOW's, and you can see that costs are even higher than they look.

Consumer lending rates are high for several other reasons. First, consumer

Yes, consumer interest rates remain high, but there are reasons beyond the banks' control.

loans tend to be smaller than business loans, and therefore involve more paperwork per dollar. Second, such loans tend to be at fixed rates of interest for several years and could become unprofitable if rates rise again. Finally, there are greater risks involved in consumer loans than in loans to businesses, and this too must be factored into the bank's costs.

In the final analysis, banks can squeeze their interest-rate spreads only so far in order to bring down the cost of borrowing. If the level of interest rates in the money markets is high, there's no way bank lending charges can come down enough to satisfy the administration—or anyone else. And market interest rates are high because the markets got scared in the summer of 1981, when Washington revealed that budget deficits were not going to get smaller

and disappear by mid-decade, but were going to get bigger and expand into the 12-digit range.

In the money markets, there is fear of a renewed credit squeeze if the Federal Reserve becomes concerned again over rapid money-supply growth and seeks to slow it down in the face of the huge amount of money that Washington will have to borrow to finance its deficits. Meanwhile, the bond markets are worried about the higher inflation we're likely to see if the Fed does *not* slow the growth of money.

If the administration is serious about lowering interest rates, it must slash these budget deficits. Let me suggest how it should be done.

Tax Base: The Office of Management and Budget estimates that between 1982 and 1986, the Economic Recovery Tax Act (ERTA) of 1981 will cost the government \$609 billion in tax revenues. That's 72 percent of the \$850 billion cumulative deficit that the administration believes it will run during this time! It should be clear from this that the original plan to boost government revenues by cutting taxes has not worked and will not work. It should also be obvious that using lower revenues as a club to force Congress to cut spending has only a limited effect. If you don't believe me, take a look at the record: with only two budget surpluses in the past quarter of a century, when did lack of revenues ever prevent the government from spending? The deficit will not be cut significantly until ERTA is rescinded and the tax base restored.

Bankers like to be considered responsible people. But it's the administration that's responsible for keeping interest rates high, not us. And it's the administration's responsibility to do something about it.

Dr. Irwin L. Kellner is senior vice president and chief economist of Manufacturers Hanover Trust Co.



Bank Instalment Lending Newsletter

MARCH 1983
VOLUME 16, NUMBER 5

In This Issue: Interest Rate Deregulation: New York Bankers Argue for Permanent Extension of the Law • Credit Insurance Is Being Expanded to Cover Unemployment • RV Lending: An Attractive Market for Consumer Bankers • Coast Guard Will Continue to Provide Documentation Services for Pleasure Boats • How Banks Are Filling the Credit Card Gap at Gas Stations • Plus Legal Report

Interest Rate Deregulation: New York Bankers Argue for Permanent Extension of the Law

New York State bankers and other consumer creditors have been busy testifying for permanent deregulation of interest rates at hearings held across the state. Interest rate deregulation provisions were incorporated in the Omnibus Banking Law of 1980, but will expire June 30, 1983 under a sunset provision. The leadership of the Senate and Assembly Banking Committees have endorsed permanent deregulation and the issue is expected to go before the legislature soon.

Surveys show increased competition. The bankers' legislative effort is being aided by surveys that show that consumer loan deregulation has resulted in good price competition and more options for the consumer. A survey of New York State Bankers Association members revealed that in practically every category of loan surveyed, there is a reasonable range of rates or fees being charged, and rates have been decreasing for new and used car loans and home improvement loans. The Association's survey indicates that from November

1, 1982 to January 1, 1983, rates decreased slightly for all loan categories.

The New York State Banking Department also reviewed the effects of the 1980 law and surveyed some 898 banks, savings banks, S&Ls, credit unions, licensed lenders, retailers, and automobile dealers. Responses were received from 475 of these. The results showed:

- A more highly competitive market for consumer loans;
- A broader range of choice for consumers;
- Wide variations in interest rates among lenders in every metropolitan area in the state;
- Reduced interest rates on many types of consumer loans;
- More liberal credit standards and larger credit lines instituted at many banks; and
- Greater lender participation in consumer lending.

"The findings in our study indicate that passage of the Omnibus Banking Bill has led to a more highly competitive market for consumer loans and a broader range of choice for consumers as more institutions are competing for consumer credit business," said Alan R. Cohen, New York's acting bank superintendent. He testified that an extension is a vital element in achieving the goals set by the law.

Keeping banks in New York. There has been some opposition from consumer groups, but politicians seem to be acutely aware that the state once came close to losing consumer banking business to states with more favorable interest rate and tax laws. Citibank moved its credit operations to South Dakota to avoid New

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Provided by Wes Coyner

Bank Instalment Lending Newsletter

York's unrealistic usury law, and Delaware's 1981 Financial Center Development Act, which removed usury ceilings and did not attach a sunset provision, has attracted banks to that state. When Chase Manhattan Bank chose to locate a subsidiary in Wilmington, Frederick S. Hammer, executive vice-president of Chase commented, "We cannot base long-term business plans on the climate of the New York legislature three years from now."

Apparently the message came through loud and clear because Herman D. Farrell, Jr., the democratic chairman of the Assembly Banking Committee said at hearings held in Albany, the state's capital, "I don't want bankers sitting around in their board rooms getting nervous and saying, 'Let's go to a more receptive state,' I want them to understand that this state knows it needs them."

Other amendments sought. According to James P. Murphy, executive vice president of the New York State Bankers Association, once the extension issue is resolved, bankers will seek amendments to remove inconsistencies in the law, including permitting new products such as simple interest variable rate loans, increased instalment and revolving loan limits, and open-end mortgages.

Alaska Retail Association
Proposed

DEREGULATION OF INTEREST

1. Interest is one of the basic elements of the free enterprise economic system, and it should find a natural level governed by risk, supply, and demand. Unnatural fixed rates cause inequitable distribution of capital and serious distortions in the economy.
2. ^{SIX} ~~FIVE~~ (6) Western states (Montana, ^{OREGON} Nevada, Utah, Arizona, and New Mexico) have no statutorily imposed ceiling. Idaho, Wyoming, and Colorado have now established a 21% minimum. Illinois, Iowa, Ohio and Louisiana have introduced deregulation bills.
3. The most comprehensive recent study we have indicates that retailers incurred an average of \$1.29 of the expense for each \$100 of finance charge income. It should be remembered that 18% interest generates only \$9.00 in finance charge income on a \$100 purchase paid off over one year because the charge is assessed on the declining balance.
4. Losses from credit operations must be included in the cost of goods and services which are sold. This cost is born of everyone--including those who don't use credit (such as retired persons and those who don't qualify for credit). Retailers believe that only those who choose to use credit services should pay for it.
5. If a retailer is losing money in his credit operation, some applicants who are credit worthy will not receive credit, and those who do will receive less. Many rejected customers will then borrow at small loan rates which are far higher.

Don Magnusson
Executive Director
586-6706

Larry Snider
President
Nerlands
349-1572

Bob Stevenson
Vice President
Montgomery Ward
279-4444



OREGON RETAIL COUNCIL

1148 COURT ST. N.E. / P.O. BOX 12519 / SALEM, OREGON 97309 / 503 588-0050
PORTLAND AREA 503 227-5636

Director
Otto J. Wilson

A Division of Associated Oregon Industries

January 22, 1982



John Andrew, Esq.
J. C. Penney Company, Inc.
333 S. Hope Street, #3720
Los Angeles, California 90071

Dear John:

You will find enclosed a list of 20 stores in Oregon, showing the finance charge rate for their charge accounts and the date the rate became effective, if that information was available. Most of those on the 18% rate have maintained that level for a long period.

The stores include several of the larger chain department stores, some small Oregon chains, and some independents with a mix of jewelry, clothing, furniture and automotive.

We hope this will give you sufficient information.

Sincerely,

Otto J. Wilson
Vice President, Retail
Associated Oregon Industries

paj

Enclosure

China 5115

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

May 31, 1983

SUBJECT: Deregulation of interest rates
(SCS CSHB 246 (L&C))

TO: Senator Richard I. Eliason
Chairman, Senate Labor and
Commerce Committee

FROM: Thomas A. Sofo *TS*
Legislative Counsel

You have requested this office to prepare a sectional analysis of SCS CSHB 246 (L&C).

Section 1 of the bill removes the fixed numerical interest rate ceiling on small loans. It allows Alaska small loans lenders a rate as high as can be mutually agreed on by contract.

Section 2 does the same thing for premium financing agreements by removing the numerical percentage interest ceiling and replacing it with a rate agreed on by contract.

Section 3 increases the interest paid on eminent domain judgments from six percent a year to five percent above the lawful rate of interest. The lawful rate of interest referred to is the rate set in AS 45.45.010(a) which presently is 10.5 percent a year.

Section 4 removes the interest ceiling from retail installment contracts and replaces it with a rate agreed on by contract. An example of retail installment contracts are the types of agreements typically used by furniture stores.

Section 5 removes the ceiling formerly contained in subsection (b) to AS 45.45.010. That ceiling was a limit on interest charged by the express agreement of the parties to five percentage points above the Twelfth Federal Reserve district rate. The bill does not change the rate of interest in state in the absence of an agreement, which

remains at 10.5 percent a year, but removes the floating ceiling rate formerly contained in subsection (b) which was the upper limit for the legal rate of interest to be charged when there is an express agreement by the parties.

Section 6 merely reenacts the changes deleted in sec. 1 of the bill.

Section 7 undoes the amendments made in sec. 2 of this bill.

Section 8 undoes the amendments made in sec. 3 of this bill.

Section 9 is the first half of the amendment which returns to the original the legal rate of interest language which was changed in sec. 5 of the bill.

Section 10 reenacts the open-end loans statute which is repealed in sec. 14 of the bill.

Section 11 reenacts AS 06.45.060(5)(A)(vi) which is the section dealing with interest rates for credit unions.

Section 12. The addition of subsection (i) to AS 45.45.010 is merely a reinsertion of the language which was formerly contained in AS 45.45.010(b).

Section 13 requires the division of banking to make a report to the legislature on or before March 15, 1985, concerning the effects of this legislation.

Section 14. This section repeals the interest rate ceilings on open-end loans (AS 06.20), credit unions (AS 06.45), and general interest ceiling for private agreements contained in AS 45.45.010(b).

Section 15. This section makes the first five sections of the Act as well as secs. 13 - 15 effective on July 1, 1983.

Section 16. This section makes secs. 6 - 12 of the bill effective on July 1, 1985. The intended effect of this section is to return the language to the original by undoing the amendments that were made in the other portions of the bill (with the exception of the amendment made to the interest rate on eminent domain judgments). The statutes would return to their present wording on July 1, 1985 in the absence of further action by the legislature.

Alaska State Legislature


Advisory Council Members
Senator Kerttula, Chairman
Senator Bennett
Senator Vic Fischer
Senator Fahrenkamp



Pouch V
State Capital
Juneau, Alaska 99811
Phone: (907) 465-3114

SENATE ADVISORY COUNCIL

MEMORANDUM

TO: Senator Josephson
FROM: Pete Jean 
DATE: June 8, 1983
RE: SB276, Deregulation of Interest Rates

SB276 deregulates interest rates on various types of consumer loans that are now regulated by statutes.

Sect. 1. Deregulates the interest rate charged by a licensed "Lender of money" for any sum of money not exceeding \$25,000. Any person engaged in the business of making loans of money, credit, etc., must be licensed under the Alaska Small Loans Act. The interest rate must be agreed on by contract.

Sect. 2. Deregulates the interest rate charged by a licensed premium finance company. Any person engaged in this business must be licensed under the Premium Financing Act. The interest rate must be agreed on by contract.

Sect. 3. Deregulates the interest rate charged on funds exceeding

those deposited with the court in a civil procedures at the time of the judgment. The judgment shall include lawful interest?

Sect. 4. Deregulates the interest rate charged on retail installment contracts to a rate agreed on by contract.

Sect. 5. Deregulates the interest rate charged on a retail charge agreement, revolving charge agreement or other retail charge agreement to a rate agreed on by contract.

Sect. 6. For interest rates in the state to exceed 10.5 percent a year it must be by express agreement of the parties in a contract or loan commitment.

Sect. 7. Repeals specific interest rates an open-end loans and rates charged by credit unions. Repeals specific interest rates on a contract or loan commitment on which the principal amount is less than \$25,000.

Under existing statutes, interest rates on all of the above are regulated.

Usury is lending money at excessively high interest rates. Usury laws place a maximum limit, or ceiling, on interest charges. Proponents argue that these laws are necessary to protect borrowers from paying excessive interest rates since borrowers are often inexperienced with the credit

market, unaware of alternatives, or not in a bargaining position because borrowing is unavoidable. They also contend that usury laws are necessary to provide balance, since lenders have relatively more market power than individual borrowers and may even control certain markets because of a lack of competition.

Opponents contend that usury laws do not protect borrowers as intended and make credit allocation less efficient. When average mortgage interest rates rise above state usury ceilings, mortgage funds disappear as lenders invest in more profitable government securities or finance mortgages in other states with less restrictive usury ceilings. And lenders take measures to lower their costs, reduce risks, and otherwise increase profitability on loans that they do make by eliminating smaller-sized loans, shortening loan maturities, requiring higher downpayments, charging higher loan fees, and denying credit to potential borrowers considered relatively high-risk. Rather than protect borrowers from excessively high interest charges, opponents contend that usury laws often prevent persons who need credit from borrowing at all.

State usury laws establish limits, or ceilings, on interest rates lenders may charge borrowers on various types of loans.

States can be divided into three general categories regarding usury ceilings on interest rates on mortgage loans. These are: (1) states with no ceilings, (2) states with statutory fixed-rate ceilings, and (3) states with floating-rate ceilings. Some state usury ceilings are temporary, and recently enacted Federal legislation preempts all state-imposed mortgage

interest rate ceilings.¹ Table I shows what type of usury ceiling was in effect as of prior to Federal legislation for each of the 50 states. There are floating usury ceilings in 18 states, fixed ceilings in 20 states,² and no ceilings on mortgage interest rates in 12 states.

¹ HR 4998 - PL 96-161.

² Fixed-rate ceilings range from 10 percent (Arkansas, Mississippi, and New Mexico) to 21 percent (Rhode Island). Oregon's ceiling on interest rates on residential mortgage loans of \$50,000 or less is fixed at 12 percent (ORS 82.010). There is no ceiling on loans over \$50,000.

MEMORANDUM

July 27, 1983

SUBJECT: Interest rates
(SB 316)

TO: Senator Richard I. Eliason
Chairman, Senate Labor and
Commerce Committee

FROM: Thomas A. Sofo
Legislative Counsel

You have requested this office to prepare a comparative sectional analysis of SCS CSHB 246 (L&C) and SB 316.

SCS CSHB 246 (L&C)

SB 316

Section 1 of the bill removes the fixed numerical interest rate ceiling on small loans. It allows Alaska small loans lenders a rate as high as can be mutually agreed on by contract.

Section 2 of the bill does the same thing for premium financing agreements by removing the numerical percentage interest ceiling and replacing it with a rate agreed on by contract.

Section 3 of the bill increases the interest paid on eminent domain judgments from six percent a year to five percent above the lawful rate of interest. The lawful rate of interest referred to is the rate set in AS 45.45.010(a) which presently is 10.5 percent a year.

Section 4 of the bill removes the interest ceiling from retail installment contracts and replaces it with a rate agreed on by contract. An example of retail installment contracts are the

The bill contains no comparable section.

Section 1 of the bill increases the present rate of 15 percent a year to a rate of two percent a month on the first \$10,000 and deregulates interest only for that part of the loan in excess of \$10,000.

Section 2 of the bill replaces the six percent a year rate with a floating rate set at five percentage points above the federal reserve rate.

Section 3 of the bill increases the effective interest chargeable on retail installment contracts by increasing the percentages from five-sixths to

SCS CSHB 246 (L&C)

SB 316

types of agreements typically used by furniture stores.

one and three-fourths and removing the two tiered interest ceiling by raising the \$1,000 ceiling to \$10,000 and deregulating interest on that part of the balance which exceeds \$10,000.

No comparable provision in the bill for retail charge agreements.

Section 4 of the bill increases the effective interest rate interest for retail charge agreements from one and one-half to one and three-fourths percent per month and deregulates interest on balances over \$10,000.

Section 5 of the bill removes the ceiling formerly contained in subsection (b) to AS 45.45.010. That ceiling was a limit on interest charged by the express agreement of the parties to five percentage points above the Twelfth Federal Reserve district rate. The bill does not change the rate of interest in state in the absence of an agreement, which remains at 10.5 percent a year, but removes the floating ceiling rate formerly contained in subsection (b) which was the upper limit for the legal rate of interest to be charged when there is an express agreement by the parties.

Section 5 of the bill changes interest ceiling for agreements between parties generally to two percent a month and deregulates loans in which the principal amount is greater than \$10,000.

Section 6 merely reenacts the changes deleted in sec. 1 of the bill.

The bill contains no comparable section.

Section 7 undoes the amendments made in sec. 2 of this bill.

The bill contains no comparable section.

Section 8 undoes the amendments made in sec. 3 of this bill.

The bill contains no comparable section.

Section 9 is the first half of the amendment which returns to the original the legal rate of interest language which was changed in sec. 5 of the bill.

The bill contains no comparable section.

Section 10 reenacts the open-end loans statute which is repealed in sec. 14 of the bill.

The bill contains no comparable section.

SCS CSHB 246 (L&C)

Section 11 reenacts AS 06.45.060(5) (A) (vi) which is the section dealing with interest rates for credit unions.

Section 12. The addition of subsection (i) to AS 45.45.010 is merely a reinsertion of the language which was formerly contained in AS 45.45.010(b).

Section 13 requires the division of banking to make a report to the legislature on or before March 15, 1985, concerning the effects of this legislation.

Section 14. This section repeals the interest rate ceilings on open-end loans (AS 06.20), credit unions (AS 06.45), and general interest ceiling for private agreements contained in AS 45.45.010(b).

Section 15. This section makes the first five sections of the Act as well as secs. 13 - 15 effective on July 1, 1983.

Section 16. This section makes secs. 6 - 12 of the bill effective on July 1, 1985. The intended effect of this section is to return the language to the original by undoing the amendments that were made in the other portions of the bill (with the exception of the amendment made to the interest rate on eminent domain judgments). The statutes would return to their present wording on July 1, 1985 in the absence of further action by the legislature.

TAS:ljb
26/018

SB 316

The bill contains no comparable section.

The bill contains no comparable section.

The bill contains no comparable section.

Section 6 of the bill repeals interest rate ceiling for credit unions.

Section 7 of the bill gives an immediate effective date to the entire bill.

2 #

246

H B

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

Bill Sheffield, Governor

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2500

April 25, 1983

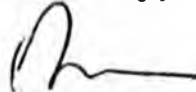
Honorable Richard I. Eliason, Chairman
Senate Labor and Commerce Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

It is the position of our Division of Banking, Securities and Corporations that SB 276, deregulation of interest rates, should be passed into law. This recommendation is based partly upon the following:

1. Inflation and high interest rate squeezes the lender and the borrower in the supply of credit. No lender can lend money out at a rate below his cost of the monies to lend.
2. There is little or no evidence of abuse in financial institutions' policies as money is consistently lent out lower than usury rates.
3. Ceiling rates too low can dry up credit. This was noted in the early 1970's when the Legislature failed to set usury rates therefore limiting housing loans to the State rate of 8%.
4. Rates should be determined by
 - a. cost of money to lend
 - b. risk involved in lending
 - c. competition (supply & demand).

Sincerely,



Richard A. Lyon
Commissioner

RAL/va1A28

May 25, 1983

ANALYSIS OF HB 246
RELATING TO THE DEREGULATION OF INTEREST RATES

The text of CSHB 246 (L&C) is particularly confusing because of the "negative sunset" arrangement. The first six sections of this bill effectively repeal all statutory limitations on interest and service charge rates for a whole range of defined loans in Alaska. By the terms of Section 17 of the bill these sections go into effect on July 1, 1983.

Sections 7 through 14, though, go into effect on July 1, 1987. These sections re-impose all of the statutory rate limitations repealed by the first six sections. This arrangement is instituted in order to "experiment" with this deregulation.

Section 15 requires Legislative Audit to report on "the effects of the amendments made in secs. 1 - 6...on the people of the state and in particular those persons seeking or receiving credit." This information will give the legislature the opportunity to repeal Sections 7-14 and leave the deregulation in place.

SECTIONAL ANALYSIS OF SECTIONS 1 THROUGH 6 AND 16

- Sec. 1 Deregulates the interest rate charged by a licensed lending institution. [Beneficial Finance is the only such business now operating in the state.] Interest rates now allowed are up to 36%/year.
- Sec. 2 Deregulates interest rates charged by licensed premium finance companies. This type of service is used by businesses and this section has little effect on consumers.
- Sec. 3 Removes 6%/year interest rate on money deposited with a court in satisfaction of a judgement after the state or a local government has condemned property and replaces with "lawful" interest of 10.5%. Does not affect consumers.
- Sec. 4 Deregulates the interest rate on retail installment contracts. These are those special cases where the seller is also the lender. Examples include furniture stores and car dealers. Interest limit is now 19.5%. The identity between the "lender" and the "seller" means that this is an area where credit is not likely to dry up, as the lender needs to continue to provide credit to continue to sell.

The lender here also has a special security interest in the item sold which allow instant repossession if a payment is missed. This justified by the higher risks involved in these sales. Prices are frequently higher in these stores to reflect the "costs" of providing this kind of credit.

Sec. 5 Deregulates the interest rate on retail charge agreements, revolving charge agreements or other retail charge agreements. This applies to all charge cards and also to charge accounts at stores. This provision will have a special impact on credit customers at bush general stores, cannery stores, fishing gear stores, fuel suppliers, etc. The present allowed interest rate is 18%. This is another situation where selling on credit is an essential part of the business, and credit is not likely to "dry up." Here, and in the section 4 situation, the consumer has almost no bargaining power and is dependent on doing business with these institutions if they need the goods provided. This imbalance in bargaining power was a prime reason for this credit being regulated in the first place, and nothing has happened to relieve the need for consumer protection in these situations.

Sec 6. If interest rates are to exceed 10.5%/year it must be by express agreement of the parties in a contract or loan commitment. This section may have an effect on medical bills, interest on other unpaid bills, etc. If the original contract or agreement of sale contains an interest rate provision this could impose extremely high interest rates.

Sec 16. Aside for adjusting the general usury rate, this section deletes the upper limit for credit union loans. This should not have much effect on consumers as pressure from customer/members should keep these rates reasonable.

STATE OF ALASKA
FISCAL NOTE

Revision Date April , 1983

I. REQUEST

Bill/Resolution No.: SB 276/HB 246
 Title: Deregulation of Interest Rates
 Sponsor: Josephson
 Requestor: _____

II. FISCAL DETAIL

Agency Affected: Commerce & Econ. Development
 Program Category Affected: Banking
 BRU, Program of Subprogram(s) Affected: None

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC						
TOTAL OPERATING		0	0	0	0	0
CAPITAL		0	0	0	0	0
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: Willis F. Kirkpatrick, Director Phone: 465-2521
 Division: Banking, Securities & Corporations Date: _____
 Approved by Commissioner: Richard A. Lyon Date: 5/5/83
 Department: Commerce and Economic Development

Distribution:

Original to Legislative Finance
 Copy to Office of Management and Budget (for Legislature introduced bills)
 Copy to Department (for Governor introduced bills)
 Copy to Sponsor
 Copy to Requestor (if different from Sponsor)

3/8/83

Alaska House Bill No. 246

The Alaska Retail Association supports House Bill No. 246 which would deregulate interest and service charges rates in retail credit transactions.

The fixing of statutory ceilings on rates is a form of governmental price fixing - a practice which recent history shows inevitably leads to unintended harmful consequences. In the case of retail credit the consequence of governmental price fixing is the shifting of the cost of extending credit from credit using customers to all customers in the form of higher prices for goods and services.

Granting credit is costly to retailers. First, they must, of course, finance the goods which they sell on credit. In addition, they must pay the costs of preparing and processing monthly statements, of postage, of the salaries and benefits of credit department staffs, and of office space and equipment. They must also absorb losses resulting from bankruptcies and bad debts.

If a retailer cannot recover the costs of its credit operation from service charges it must - if it intends to remain in business - recover them in the price of its goods and services. When it does so the cost of a portion of its credit operation is shifted to its cash customers. This inherently unfair result is mandated by government when government intervenes in the economic process and forbids a retailer to recover the costs of its credit operation from its credit customers when those costs exceed 1 1/2% per month.

Eighteen states, including a majority of the western states, have deregulated statutory finance charge ceilings. (An illustrative map and a list of deregulated states are attached). In those states competitive forces now set rate ceilings. Several recent studies (copies of which ARA would be happy to share with the committee) have concluded that consumers have not been harmed by the removal of rate ceilings. Typical is a New York State Banking Department report on the effects, since 1980, of deregulation in that state. Commenting on that study in December 1982, the Banking Commissioner stated,

"The findings of our study indicate that passage of the Omnibus Banking Bill has led to a more highly competitive market for consumer loans and a broader range of choice for consumers as more institutions are competing for consumer credit business. The study also revealed that wide variations in interest rates exist among lenders in every metropolitan area in the State; that interest rates on many types of consumer loans have been reduced during 1982; and that more liberal credit standards and larger credit lines have been instituted at many banks and there is greater participation in consumer lending."

Similarly, in California, where interest rates on bank credit cards have never been regulated, competition is intense enough that the papers now publish weekly charts showing the current rates (an example is attached).

H.B. 246 does not remove any of the consumer protections contained in the federal Truth-in-Lending Law and regulations or this state's statutes. It is fair to retailers and their customers. We urge its passage.

RETAIL REVOLVING CREDIT

States which do not regulate finance charge rates or which have ceilings higher than Alaska's.

1. Alabama
2. Arizona
3. California
4. Colorado
5. Delaware
6. Georgia
7. Idaho
8. Illinois
9. Indiana
10. Kansas
11. Kentucky
12. Maryland
13. Michigan
14. Mississippi
15. Montana
16. Nebraska
17. Nevada
18. New Hampshire
19. New Jersey
20. New Mexico
21. New York
22. Ohio
23. Oklahoma
24. Oregon
25. Rhode Island
26. South Carolina
27. South Dakota
28. Tennessee
29. Texas
30. Utah
31. Wisconsin (effective 11/1/83)
32. Wyoming
33. Virginia

October 1, 1983

Key Rates quoted by leading California financial institutions
in percent for the week ended March 9, 1983.

Deposit Rates

MMA: Money-market deposit accounts are a type of savings account requiring a minimum balance of \$2,500 and allowing up to six fund transfers per month. Average annual rate during the 7 days ending Wednesday on a consumer account with a balance under \$100,000.

E-NOW: Super-NOW are checking accounts requiring a minimum balance of \$2,500. Average annual rate during the 7 days ending Wednesday.

Loan Rates

Mortgage (Mtg.): Rate for a 30-year, \$150,000 adjustable rate loan. Appraisal fees and loan origination charges vary with each institution.

Auto loan: Interest rate for an \$8,000, 48-month, new car loan.

Credit card: Annual percentage rate charged on credit card balance. Institutions charge an annual fee of \$10 to \$15 for the credit card.

Banks	Deposit Rates		Loan Rates		
	MMA	E-NOW	Mtg.	Auto loan	Credit card
Bank of America	8.25	7.90	11.25	15.25	19.80
California First Bank	8.25	7.75	NA	14.50	18.80
Crocker	8.60	7.00	11.75	11.75	21.00
First Interstate	8.00	7.00	NA	15.25	21.00
Lloyds Bank California	8.00	7.60	NA	15.25	20.00
Security Pacific	8.00	7.00	11.50	15.00	20.40
Sumitomo Bank of California	8.00	7.00	12.00	14.25	19.80
Wells Fargo	8.02	7.02	14.30	15.75	20.00
S&Ls					
California Federal	8.75	8.00	11.75	14.50	17.00
First Nationwide Savings	8.25	7.75	11.50	NA	18.00
Gibraltar Savings	8.60	8.00	12.50	13.50	21.00
Great Western	8.50	7.75	11.25	NA	19.00
Home Savings of America	8.50	7.50	11.75	NA	18.00
Home Federal Savings	8.82	7.82	11.75	15.25	18.00
Imperial Savings	8.50	7.93	11.75	NA	NA
World Savings	8.84	8.22	11.75	NA	19.00

† Through a subsidiary in Glendale, California First Bank is able to offer the checking account with an opening minimum balance of \$1,000.

These rates are not regulated by statute. Range from 17% to 21%.

NATIONAL CONSUMER LAW CENTER M L
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ELIZABETH HICKERSON
1024 WEST 6 AVE
ANCHORAGE AK 99501

AT THE REQUEST OF SENATOR FISCHER:

AS THE SOLE LEGAL SUPPORT CENTER FOR CONSUMER LAW PROBLEMS OF LOW-INCOME AMERICANS WHO GO TO LEGAL AID OR LEGAL SERVICES PROGRAMS THROUGHOUT THE NATION, WE HAVE PERSISTENTLY SOUGHT INFORMATION ON CREDIT AVAILABILITY EFFECTS OF USURY DEREGULATION ON THE POOR, AND FIND IT DOES NOT EXIST. THERE IS NO RELIABLE DATA ON IMPACT BY INCOME GROUP, THOUGH THE 1982 FEDERAL RESERVE BOARD CONSUMER SURVEY MAY CONTAIN SOME INFORMATION, IT IS UNAVAILABLE UNTIL FALL AT THE EARLIEST. IN THE PUBLIC DOMAIN, THERE IS LITTLE MORE THAN SELF-SERVING THEORY ON AVAILABILITY AT ANY INCOME. ONLY THE 1982 NEW YORK BANKING DEPARTMENT REPORT DESCRIBES AVAILABILITY AT ALL: IT FOUND MASSIVE RATE INCREASES DID NOT EFFECTIVELY IMPROVE EITHER THE EASE OF QUALIFYING FOR CREDIT OR INCREASE THE AMOUNT OF CREDIT LINES FOR EXISTING BORROWERS. THAT FAILURE IS CONSISTENT WITH OUR EXPERIENCE IN A NUMBER OF OTHER STATES.

IF THE FRB'S FUNCTIONAL COST ANALYSIS FOR BANK CREDIT CARDS IS TYPICAL, CREDIT CARD RATES INCREASE WITH DEREGULATION: FULLY ALLOCATED RETURN HAS GROWN FROM 25.4 PERCENT APR BEFORE DEREGULATION TO ABOUT 29.5 PERCENT AT PRESENT. MUCH OF THIS RETURN IS HIDDEN IN RETAIL PRICES SUCH AS THE SUBSIDY THAT CASH CUSTOMERS PAY BECAUSE LEGAL DISCOUNTS FOR PAYING CASH ARE NOT OFFERED. A LITTLE REPORTED NATIONAL SCIENCE FOUNDATION STUDY OF ARKANSAS FOUND MUCH MORE CREDIT SUPPLIED TO WORKING CLASS AND POOR BORROWERS UNDER A 10 PERCENT RATE CEILING THAN IN LOUISIANA WHERE 3 TIMES THAT RATE WAS LEGAL. AS I MENTIONED, CALIFORNIA DECIDED NOT TO DEREGULATE ITS RETAIL CREDIT RATES 2 YEARS AGO, APPARENTLY BECAUSE IT WAS INAPPROPRIATE.

FOR THE POOR, DEREGULATION OF LENDING UNDER \$25,000 HAS PROBABLY WORSENED CREDIT AVAILABILITY, SINCE FINANCE COMPANIES HAVE ABANDONED THE SMALL LOAN MARKET AND MOVED MOST OF THEIR MONEY INTO PREVIOUSLY ILLEGAL, HIGH RATE, HOME EQUITY LENDING TO THE MORE UPSCALE CONSUMERS WHO OWN THEIR HOMES. FOR POOR, RETIRED HOMEOWNERS, DEREGULATION HAS PERMITTED VARIOUS NEW ABUSES SUCH AS DISGUISED INTEREST VIA BROKERAGE FEES AND TRICKERY, SINCE BUYERS OF HOME IMPROVEMENTS SOMETIMES GRANT SECOND MORTGAGES WITHOUT REALIZING IT, HIGH RATES NOT WITHSTANDING.

MARK LEYMASTER
NATIONAL CONSUMER LAW CENTER

TO REPLY BY MAILGRAM, SEE INSTRUCTIONS ON REVERSE SIDE

Alaska State Legislature

Advisory Council Members
Senator Kerttula, Chairman
Senator Bennett
Senator Vic Fischer
Senator Fahrenkamp



Pouch V
State Capital
Juneau, Alaska 99811
Phone: (907) 465-3114

SENATE ADVISORY COUNCIL

MEMORANDUM

TO: SENATOR VICTOR FISCHER
FROM: ELIZABETH HICKERSON and ELIZABETH BERBERICH
RE: INTEREST RATE CEILINGS
DATE: MARCH 2, 1984

You requested that the following questions be researched by the Senate Advisory Council.

1. What effect does raising the interest rate ceiling on credit cards have on the availability of credit cards to low-income applicants?
2. In states that have no interest rate ceiling on loans given by retail outlets, if possible find out what the average interest rate charged to a customer is? If the interest rate charged can be broken down by income of the recipient, please forward that information also.
3. What effect does raising the interest rate ceiling on loans under \$25,000 have? Have loans under \$25,000 become more available to low-income applicants in States that have raised their interest rate ceiling for loans of \$25,000 or less?

Numerous publications, reports, and testimony were reviewed. These resources did not contain specific information on questions one or three. A number of states were contacted for updated information. The following states responded that no data was available on questions one and three: Connecticut, Florida, Illinois, Kentucky, Massachusetts, Michigan, Arizona, New Hampshire, North Carolina, New Jersey, Virginia, New York and New Mexico (see attached summary of responses). The following states were contacted but no one was available to respond: Maine, Texas, South Carolina, South Dakota, Delaware, and Montana.

Apparently, the current authority on availability of credit is "The Price and Availability of Consumer Credit in New York State", conducted by the New York State Banking Department, December 1982. (see attachment). In 1980, the New York State Omnibus Banking Bill became

effective. Virtually all interest rate ceilings, except criminal usury, on consumer loans in New York State were eliminated. The Banking Department conducted two surveys of financial institutions and others who extend credit to consumers in New York State. The first survey, conducted in January-February 1981 found:

1. the interest rates on consumer credit had risen after passage of the bill since the previous rate ceilings had been unrealistically low;

2. that there was an increase in the availability of consumer credit for New Yorkers;

3. and that banks were offering a wide range of rates and fees, thereby providing consumers with alternative choices which they could take advantage of by shopping for credit.

The second survey, conducted in September 1982, found:

1. because the Omnibus Banking Bill granted additional consumer lending powers to savings banks and savings and loan associations, the number of banking institutions offering consumer loans has increased substantially, this resulted in a greater degree of competition in consumer lending and a wider range of choice for consumers among different types of banking institutions;

2. there are wide variations in rates charged by different institutions in the same market area for the same type of loan, thereby providing consumers with alternative choices;

3. as market rates have fluctuated there have been changes in rates charged on consumer loans; rates generally increased for most types of consumer loans during 1981 but eased off and then fell sharply during the second half of 1982;

4. and more liberal credit standards for consumer lending, larger credit lines and greater participation in consumer loan activity by banks has continued since 1981.

Although not stated as a formal report finding, there has been very little increase in maximum lines of consumer credit and almost no liberalization of consumer loan standards. Carmen J. Carlo, co-author of the report, told Ms. Hickerson on March 1, 1984, that while more credit has been available since the passage of the bill, the income class of borrowers has not been expanded. She clarified this by stating that there is more money available today but generally it is going to the same economic class of borrowers as before. Ms. Berberich contacted Glen Nishimura, legislative representative for the Consumer Federation of America, and Mark Leymaster, National Consumer Law Center, Inc., on March 2, 1984 and both agreed with Ms. Carlo's analysis. A statement from Mr. Leymaster on this issue is attached.

While these are the major findings of the survey it is important to note the following specific information contained in the report.

COMMERCIAL BANK FINDINGS

1. Rates and fees on credit cards have not been reduced, and in fact were increased at some banks during 1982. (p.11)
2. Almost all banks indicated that they charged the same rates at all offices and almost two-thirds of the respondents stated that their rates were the same for all customers. Among New York City Banks, however, slightly over half reported that they charged different rates for different customers. Generally, persons who had no other deposits or loan accounts with the bank were charged a higher rate on their consumer loans than those who did have such accounts. (p.12)
3. Only 38% of the respondents statewide indicated that they had increased their participation in consumer lending since February 1981. Only 17% of the respondents raised their maximum lines of credit since February 1981. Only 7% of the respondents liberalized their consumer loan standards. (p.12)

SAVINGS BANKS FINDINGS

1. On conventional home improvement loans, the average interest rate statewide rose from 15.6% on January 2, 1981 to 18.6% by January 2, 1982, many banks reduced their rates during 1982 so that the average declined to 17.8% by September 15, 1982.
2. Most savings banks reported that they had not altered their credit standards or increased their maximum credit lines since February 1981. (p. 40)
3. Three-quarters of the banks indicated that they had increased their participation in consumer lending. This largely reflected the fact that the number of savings banks making car loans, second mortgage loans, overdraft loans, unsecured personal loans and educational loans increased during the period covered by the survey. (pp. 40-41)

SAVINGS AND LOAN ASSOCIATIONS FINDINGS

1. On conventional home improvement loans, the average interest rate statewide rose from 15.6% on January 2, 1981 to 18.1% by January 2, 1982. Many associations reduced their rates during 1982 so that the average decline to 17.6% by September 15, 1982. (p.48)
2. All respondents indicated that their loan rates were uniform at all offices and almost all indicated that their rates for any specific type of loan were the same for all customers. (p. 49)

3. Only a few institutions indicated they had liberalized their credit standards or increased their maximum credit lines since February 1981, although 29% reported they had increased their participation in consumer lending.

CREDIT UNIONS FINDINGS

1. Generally, interest rates on the various types of consumer loans trended upward during the period covered by the survey. Rates in New York City usually averaged higher than those upstate and there were substantial variations in rates charged by different institutions. (p. 56)

2. All respondents indicated that their loan rates were uniform at all offices and almost all indicated that their rates were the same for all customers. (p. 56)

3. Most credit unions reported that they had not altered their credit standards or increased their maximum credit lines since February 1981. However, 30% of the respondents indicated that they had increased their participation in consumer lending. (p. 57)

LICENSED LENDERS FINDINGS

1. All but one of the respondents (total of 31) indicated that their rates on all types of loans were uniform at all offices for all customers. (p. 63)

2. Most lenders reported that, since February 1981, they have not liberalized credit standards or raised credit lines although 40% stated they had increased their participation in consumer lending. (p. 63)

RETAILERS FINDINGS

1. The rates charged on their revolving credit accounts generally trended upward during the period covered by the survey. On indebtedness of \$500 or less, the average rate statewide was almost 18% in January 1981, rose to 20.1% in January 1982 and to 20.6% in September 1982. On balances over \$500, the average rates were 12.9%, 17.9% and 19.1% on the three dates. (p. 67)

2. The respondents reported that their rates were uniform at all their places of business in New York State. (p. 67)

3. Most of the respondent retailers did not offer close-end credit. Of the few that did, all indicated their rates were the same as for their revolving credit accounts. (p. 67)

4. Virtually all the retailers indicated that they did not change their credit standards or credit line since February 1981 nor did they increase their participation in consumer lending. (p. 67)

AUTOMOBILE DEALERS FINDINGS

1. Virtually all the respondents indicated that their rates were uniform at all their places of business for all their customers.
(p. 70)
2. The preponderance of the dealers reported no liberalization of credit standards since February 1981 although 26% of them reported increased participation in consumer lending activities since that date.
(p. 70)
3. During 1982 the financing arms of the major automobile manufacturers cut their rates for various periods of time for certain of their cars. (p. 70)

QUESTION 1 & 3

STATE BANKING/COMMERCE DEPARTMENTS
REPLIES TO AVAILABILITY OF CREDIT CARDS, LOANS UNDER \$25,000 AND
FINANCING THROUGH RETAIL OUTLETS TO LOW-INCOME APPLICANTS WITH
INTEREST INCREASES OR ABOLISHMENT OF USURY CEILINGS

CONNECTICUT

Harry Donnelly, Examiner
Banking Department

No data available.

FLORIDA

Ed Strippling, Administrator of Banks and Trust Companies
Department of Banking & Financing

No data available.

ILLINOIS

Mr. Stevens, Supervising Examiner
Banks and Trust Companies

No data available.

KENTUCKY

Jim Baker, General Counselor
Department of Banking & Securities
Public Protection & Regulation Cabinet

No data available.

MARYLAND

Steven Cole, Director
Consumer Protection

No data available.

MASSACHUSETTS

Mr. Flynn, Deputy Commissioner of Counsel
Division of Banks & Loan Agencies
Department of Banking & Insurance

No data available.

MICHIGAN

Russ LaCoursier, Economic Analyst
Financial Institutions Bureau
Department of Commerce

No data available.

ARIZONA

Howard Warner, Examiner
Banking Department

No data available.

NEW HAMPSHIRE

A. Roland Roberge, Bank Commissioner
Banking Department

No data available.

NORTH CAROLINA

Mr. Fred Alphin, Assistant to Commissioner of Banking
Banking Commission
Department of Commerce

No data available.

NEW JERSEY

Jerry Trimble, Banking Market Analyst
Banking Department

No data available.

VIRGINIA

John Sutton, Deputy Commissioner
Bureau of Financial Institutions
State Corporation Commission

No data available.

NEW MEXICO

Snyder Campbell, Savings & Loan Supervisor
Budget Division
Department of Finance & Administration

No data available.

CALIFORNIA

Banking Department

No data available.

STATES THAT WERE CONTACTED BUT WERE UNAVAILABLE FOR RESPONSE

MAINE
SOUTH CAROLINA
TEXAS
SOUTH DAKOTA
DELAWARE
MONTANA

QUESTION #2

STATE BANKING DEPARTMENT REPLIES TO AVERAGE INTEREST RATES BEING CHARGED
WITHIN THEIR STATES

CONNECTICUT

Harry Donnelly, Examiner
Banking Department

Unable to supply average interest rate information.

FLORIDA

Ed Strippling, Administrator of Banks and Trust Companies
Department of Banking & Financing

Average interest rates: credit cards - 22%; installment payments -
15%-16%.

ILLINOIS

Mr. Stevens, Supervising Examiner
Banks and Trust Companies

Unable to supply average interest rate information.

KENTUCKY

Jir. Baker, General Conselor
Department of Banking & Securities
Public Protection & Regulation Cabinet

Average interest rates: credit cards - 18%; general/consumer loans - 24%
- 36%.

MARYLAND

Steven Cole, Director
Consumer Protection

Unable to supply average interest rate information.

MASSACHUSETTS

Mr. Flynn, Deputy Commissioner of Counsel
Division of Banks & Loan Agencies
Department of Banking & Insurance

Average interest rates: mortgage - 13%; credit cards - 18%; 2nd mortgage
- 18%; auto - 23%.

MICHIGAN

Russ LaCoursier, Economic Analyst
Financial Institutions Bureau
Department of Commerce

Average interest rates: banks, credit unions and savings & loans - 18%;
retail - 20.4% per year on unpaid balance; and second mortgage -
15%-18%.

ARIZONA

Howard Warner, Examiner
Banking Department

Unable to supply average interest rate information.

NEW HAMPSHIRE

A. Roland Roberge, Bank Commissioner
Banking Department

"Shopper guides" are made available every three months to consumers telling them what level of interest different loaning institutions are charging.

Commissioner Roberge stated that experience with finance companies in the state of New Hampshire have shown that finance companies have charged as much as 30%-31%, he said that their business was low and made the other companies look bad. Since there are no laws on the books regulating the amount they charge for interest, he has found it effective to send a scolding letter from himself, causing the particular companies to drop their interest rates back down.

Commissioner Roberge reported that he knew of several horror stories involving small companies charging outlandish interest rates to people already in financial trouble.

Commissioner Roberge feels that so far finance companies have been on best behavior with deregulation because they do not want regulation back in effect.

Unable to supply specific data.

NORTH CAROLINA

Mr. Fred Alphin, Assistant to Commissioner of Banking
Banking Commission
Department of Commerce

Average interest rates: credit cards - 18% with 25 day grace period from time of billing (also included is a annual card fee not to exceed \$20); card fees charged by banks range between \$12-\$15; loans under \$25,000 - has continued to stay stable at 16% for sometime. Based on six month T bill plus 6 points or 16% which ever is greater/per month.

NEW JERSEY

Nancy Trimble, Banking Market Analyst
Banking Department

Average interest rates: equity - 12%; competitive average - 12%; personal - 12%-15%; credit cards - 19%; retail - 19.3% to 19.8%. (polled 10 major retail outlets in New Jersey)

VIRGINIA

John Sutton, Deputy Commissioner
Bureau of Financial Institutions
State Corporation Commission

Average interest rates: loans - 18%; credit cards - 18%-21%; retail - 18%-21%.

NEW MEXICO

Snyder Campbell, Savings & Loan Supervisor
Budget Division
Department of Finance & Administration

Average interest rates: loans (mortgage) - 14%; credit cards - 18%-21%.

PRICES OF CONSUMER CREDIT IN
THE ABSENCE OF RATE CEILINGS
(ILLINOIS AND ARIZONA)

A. Charleen Sullivan
Associate Director
Credit Research Center
Purdue University
1983

PRICES OF CONSUMER CREDIT IN THE
ABSENCE OF RATE CEILINGS

A. Charlene Sullivan*

Abstract

Many states have raised or removed legal restrictions on rates that may be charged for consumer credit in the last few years. These states provide opportunities to evaluate the behavior of rates in a "free" market setting and to observe the level of price competition which takes place among different types of lenders and lenders of a given type when they are unfettered by regulation.

In this study we analyzed the level and range of rates for various types of consumer credit contracts in two states--Arizona and Illinois. The analysis was based on observations of the "most likely" rates charged by a random sample of creditors during the last business week of March 1983.

The analysis shows that in markets with no legal rate ceiling for consumer loans:

- (a) The level of rates was consistent with that of benchmark rates depicting the prevailing general level of interest rates in the economy.

* Associate Director, Credit Research Center, Purdue University. The author thanks Robert W. Johnson for his helpful comments, Debra A. Drecnik and Margaret Woo for computational assistance, Martin Nichols for preparation of the graphs and Marty Lynch, Cindy Overman, and Betty Schoenhals for processing and coding the questionnaires. Any errors or opinions are the sole responsibility of the author.
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- (b) There was considerable diversity in rates charged by a particular type of creditor for a given type of loan, and rates charged by different types of creditors for a given type of credit contract were even more diverse.
- (c) Even with no rate ceilings, there was generally a low level of price competition between banks and consumer finance companies. The segmentation of rates charged by these creditors reflects active strategies to segment the market by risk characteristics of consumers or to differentiate loans made by the two types of creditors along the dimensions of service, atmosphere, readiness to recontract, etc.
- (d) Credit unions were the low-price leaders in the unregulated markets.
- (e) Savings and loan associations charged rates similar to those charged by banks.
- (f) Revolving credit plans from retailers had finance charges very similar to those of bank credit cards.

The two states selected for the study had widely divergent banking structures. Illinois, until 1982, was a unit banking state with approximately 1200 banks. Arizona allows statewide branching and has a highly concentrated banking system. These differences provided an opportunity to analyze the relationship between rates of charge and the level of competition in a state. The analysis shows that:

- (a) The average rates charged by banks for five of eight types of credit contracts during the study period were significantly higher in Arizona than in Illinois.

- (b) Average rates charged by banks with the largest portfolios of consumer credit in the two states were not markedly different. However, the average rates charged by all other size categories of banks in the two states were different by at least 100 basis points, with the banks in Illinois charging lower rates.
- (c) Banks with the smallest consumer credit portfolios (dollar value) in each state charged the lowest rates, on average, among banks.
- (d) The structure of banking in the two states did not have a systematic relationship with the level of rates charged by nonbank competitors in the two states.
- (e) The perceived number of bank competitors in a local market did not have a significant influence on rates charged by nonbank competitors in Illinois.

In the last few years, barriers to interstate banking have been circumvented for certain banking products, a development that could reduce interstate variation in prices of banking products. In retail banking, credit cards are issued at a fixed price by single banks to consumers across the country. In addition, nonbank creditors have used special credit programs to merchandise automobiles. In this study, we found that there was considerable variation in fees for bankcards within a state and across a state. However, the average stated finance charge for bankcards was not significantly different across the two states. Rates for new auto credit were different among markets within a state and between states for banks but not for credit unions.