ALASKA LEGISLATURE COMMITTEE FILES 1983 - 1984 8672
2714 SLC HB 246 (FILE 3)
2714

TELEGRAM

ALASCOM, INC.
PHONE: 586-6442
JUNEAU, AK

#

C22212 ANCHORAGE AK 25 05-25 325P ADT

PMS SEN RICHARD ELIASON

POUCH V 4710

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

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, PETTYJOHN, 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 INFLICTING UNNECESSARY HARDSHIP UPON THEM.

MSG 84-00016706 PRTY 1 02/23/84 11:08:20 ORIG: LA09 IN= 0003 OUT= 0055
FROM: SHIRLEE ANC LIO 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 871550
WASILLA 99687
376-2372

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 MELODY 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= 0145
FROM: KIM / ANCH LIO TO: POM / JNU INFO
TARGET: LJHK SUBJ: P 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, SUTIE 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, SUTIE 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 36% APR ceiling). Lower-income Arkansas residents actually held more debt than similar consumers in Louisiana.

3. What adverse effects would usury 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 rachet their rates upward, further constricting credit availability and buying power for lower-income borrowers.

For more information, call or write AkPIRG, PO Box 1093, Anchorage, AK 99510, 278-3661.

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 seperate 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

Store Manager

J.C. Penney Company, inc.

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 DRM

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 <u>credit using</u> customers to <u>all</u> 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 metrolitan 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.)

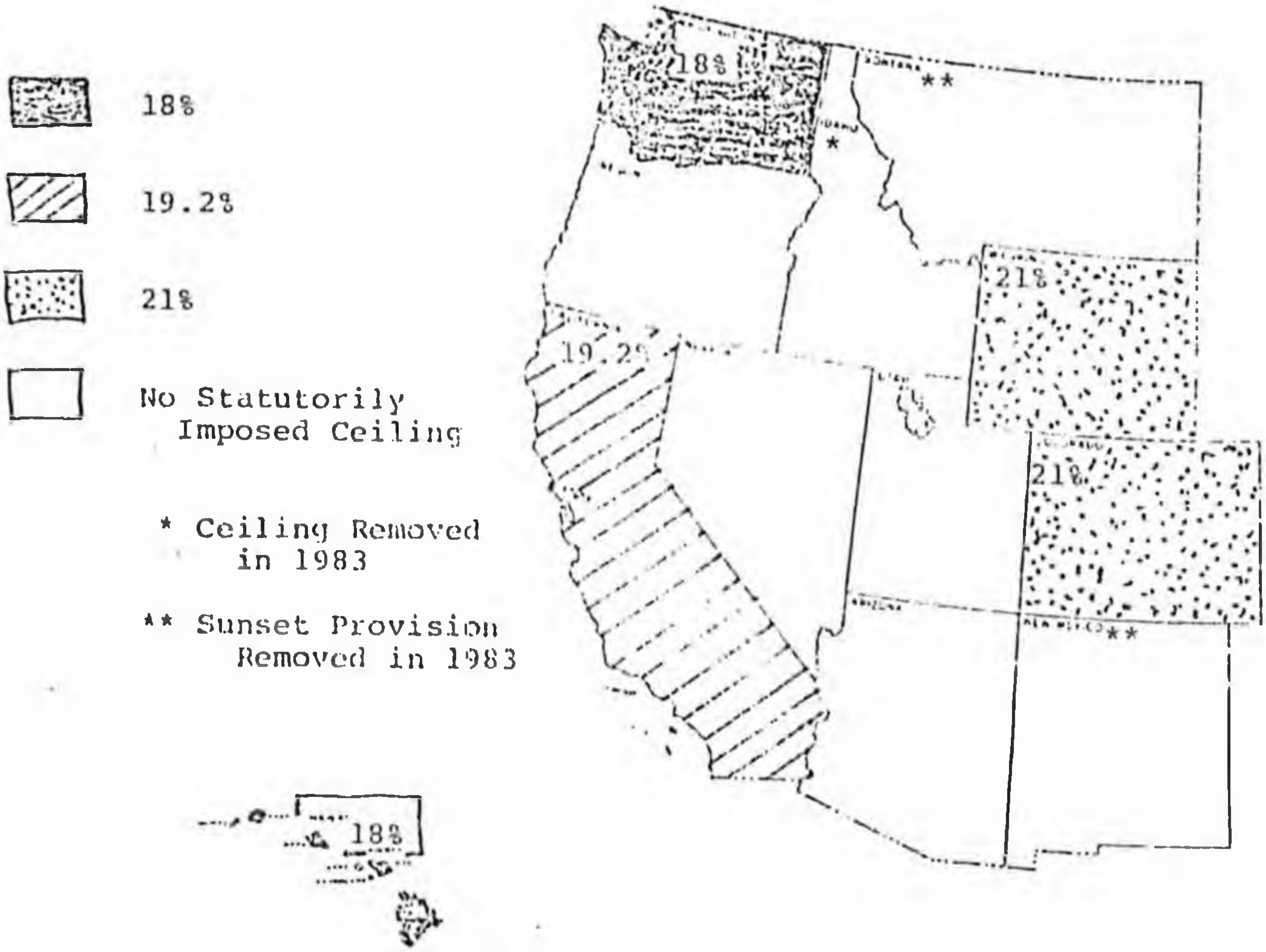
HB 246 does not remove any of the consumer protections contained in the federal Truth-In-Lending Law and regulations or Alaska state statutes. It is fair to retailers and their customers. We urge your support for passage.

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.



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.

	Deposit Rates		Loan Rates		
Banks	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	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	8.54	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

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. ~~Five~~ SIX (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 quality 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

ORC

OREGON RETAIL COUNCIL

1149 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

RECEIVED
JHR
JAN 26 1982
LEGAL
LOS ANGELES

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

Otto J. Wilson
Vice President, Retail
Associated Oregon Industries

paj

Enclosure

FRIDAY FLASH

NATIONAL ASSOCIATION OF INSURANCE BROKERS
311 First Street N.W. • Suite 700 • Washington, D.C. 20001 • Telephone (202)783-8880

Number 5 March 2, 1984

HOUSE BANKING CHAIRMAN WANTS TO GO SLOW ON NEW BANKING POWERS

Breaking a long silence on how he thinks financial services deregulation should proceed, House Banking Committee Chairman Ferdnand St. Germain (D-RI) has signaled he wants to proceed slowly and assess the impact on the public. In a February 29 Congressional speech, St. Germain, who firmly controls the path of all banking legislation in the House, argued that the Congress owes the public more than "a simple stamp of approval for the financial community's wish list," and announced that he plans to hold hearings this year.

St. Germain sharply criticized banking practices which he says favor the affluent, such as charges for cashing social security checks or cutting back on branches serving low income customers. He suggested that federal deposit insurance be limited to institutions that serve the broad public interest, and seems to believe that federal support of the banking system should hinge on banks staying separate from general commerce.

St. Germain's philosophy directly contrasts with Senate Banking Committee Chairman Jake Garn (R-UT) who is now holding hearings on various bills that would allow bank entry into insurance, securities, and real estate. The House chairman's position casts doubts on whether any legislation can pass this year.

COIL Opposes New Powers for Banks

At a Feb. 29 Senate Banking Committee hearing, the Conference of Insurance Legislators (COIL) announced that it opposes Garn's banking deregulation bill. New York State Senator John Dunne said, "It is the reality of risk, weighed against the public interest in solvency of our financial institutions which is the main basis for COIL's opposition." COIL argued that the risks of each financial services industry vary greatly and "their combination in a single entity could threaten the solvency of the institution."

COIL also charged that none of the financial industries has managed its own risks well enough to justify the expansion and expansion could compound risks, lead to unprecedented concentrations of power, and result in a diminution of the underwriting disciplines.

LENT SPONSORS BASIC SUPERFUND REAUTHORIZATION

Rep. Norman F. Lent (R-NY) has introduced his version of a proposal to reauthorize the Superfund Act. Lent said HR 4915 is a "straightforward legislative package". It avoids highly controversial provisions such as victims compensation and expanded rights for citizens to sue for cleanup. The bill deletes language that subjects insurers to unlimited liability if courts find they are not acting in good faith.

Insurance
Information
Institute

New York, N.Y. 10038
(212) 669-9200

Insurance Overview

March 7, 1984

Volume 6 No. 39

MARATHON BANK DEREG HEARINGS ENTER 2ND WEEK

Legislation which would allow banks to underwrite insurance goes too far, the National Association of Insurance Commissioners (NAIC) told the Senate Banking Committee last week. Testifying for the NAIC, Iowa Comm. Bruce Foudree expressed concern about the safety of depositors' funds if banks underwrite insurance risks. And he said the states aren't convinced integration of financial services will improve competition. "Longstanding solvency safeguards should not be sacrificed for the sake of consumer convenience," Foudree said.

The Conference of Insurance Legislators (COIL) also submitted written testimony opposing the bank deregulation bill (S2181). New York State Sen. John R. Dunne, who presented the testimony, said, "It is the nest eggs of our constituents which may be broken if we let deregulation move too far too fast."

Senate Banking Committee Chairman Jake Garn (R-Utah) commented that insurers are entering the banking business and asserted, "You can't have it both ways." Meanwhile, Rep. Fernand St Germain (D-R.I.), the House Banking Committee chairman, announced he will be holding hearings on banking deregulation later this year. St Germain, who is known to oppose expanded powers for banks, has suggested that if banks are broadly deregulated as proposed, they should lose federal deposit insurance.

SEC PROPOSES CHANGES IN DISCLOSURE RULES FOR INSURERS

The Securities and Exchange Commission, expressing concern about the ability of investors to evaluate the reserve liabilities of property/casualty insurance companies, has proposed rule changes for disclosures by publicly-held insurers. The SEC said the new rules would require "disclosure of past estimating experience, information concerning loss reserving methods currently employed and a discussion of any recent changes in circumstances and reserving methods." The SEC said the changes would provide investors with information on inflation accounting, on the effect of any reserve discounting and on adjustments to reserves. Interested parties have until May 31 to comment.

Semi-Annual Statement of Condition

Assets

First mortgage loans	$ 94,760,964
Other loans	7,105,881
Real estate owned	4,294,550
Stock in Federal Home Loan Bank	879,000
Cash on hand in banks	443,900
Investment securities	16,979,056
Office building & equipment (net)	2,650,794
Other assets	3,674,938
Total Assets	**$130,789,083**

Liabilities

Savings accounts	$105,215,578
Advances Federal Home Loan Bank	10,940,000
Loans in process	6,229,321
Specific reserves & deferred credits	740,311
Other liabilities	472,307
Reserves & undivided profits	7,191,566
Total Liabilities & Net Worth	**$130,789,083**

President's Message:

We are proud to mark the 50th anniversary of Alaska Federal with $130 million in assets. Our rapid success is also shown in our $2 million increase in net worth in 1983—an increase unprecedented in our history.

We attribute our recent gains to our customers' growing confidence in using Alaska Federal for all of their banking needs. This attitude is reflected in the dramatic rise in checking accounts in 1983. Our new consumer lending program which has incorporated such offerings as boat and airplane loans, and the addition of credit cards to our list of products, have also been greatly received.

We are presently working toward continued growth and success with the restructuring of our assets and liabilities, a move toward insuring our future prosperity. And the end of 1984 will bring a further example of our rapid growth as we complete our new corporate headquarters building.

We thank you for your response in 1983 to our improved offerings, and hope that you continue to view Alaska Savings as the single source for your financial needs.

And as we look to the future on this, our 50th anniversary, we foresee both increased growth and the continuance of our commitment to giving you, the people of Southeast Alaska, the type of products and level of service you've come to expect from Alaska Federal.

Sincerely,

L.C. Coffman
President

Directors

O. F. Benecke, Chairman
L. C. Coffman
Don Dickey
William Flint
Avrum Gross
Lucile J. Rountree
K. E. Showalter
T. A. Morgan, Chairman Emeritus
Dr. J. O. Rude, Director Emeritus

Officers and Branches

Administrative Offices
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Juneau, Alaska 99801
Phone (907) 586-1015

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Edward Van Patten, Executive Vice President, Treasurer
Bonita Haines, Secretary
Paul Driscoll, Vice President
Margaret O'Neal, Assistant Vice President

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Phone (907) 225-6146

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Lynch & Front Streets
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Phone (907) 874-2356

MEMBER FSLIC

EQUAL HOUSING LENDER

RAISE BREAK POINT TO $3,000

Sec. 45.10.120. Extent of service charge. (a) The service charge shall include all charges incident to investigating and making the retail installment contract or charge agreement and for the privilege of making the installment payments under the contract or agreement. No other fee, expense, or charge may be taken, received, reserved, or contracted for investigating and making the contract or agreement, or for the privilege of making the payments.

(b) A seller or holder of a retail installment contract may charge, receive and collect a service charge which shall not exceed the following rates multiplied by the number of months, including a fraction of a month in excess of 15 days as one month, elapsing between the date of the contract and the due date of the last installment,

(1) on so much of the unpaid balance as does not exceed ~~$1,000,~~ $3,000 five-sixths of one per cent;

$3,000

(2) if the unpaid balance exceeds ~~$1,000~~, on so much of the unpaid balance as exceeds $1,000, two-thirds of one per cent;

(3) if the total service charge so computed is less than $12, but if the due date of the last installment of the contract is eight months or less after its effective date, $10.

(c) A seller or holder of a retail charge agreement, revolving charge agreement or other retail charge agreement may charge, receive and collect a service charge not to exceed the following rates computed on the outstanding balances from month to month,

(1) on so much of the outstanding balance as does not exceed ~~$1,000,~~ $3,000 one and one-half per cent per month;

$3,000

(2) if the outstanding balance is more than ~~$1,000~~, one-twelfth of the annual rate permitted under AS 45.45.010(b) per month on the excess over $1,000 of the outstanding balance;

(3) if the service charge so computed is less than $1 for any month, $1;

(4) the service charge may be computed on a schedule of fixed amounts if as so computed it is applied to all amounts of outstanding balances equal to the fixed amount minus a differential of not more than $5 provided that it is also applied to all amounts of outstanding balances equal to the fixed amount plus at least the same differential. (§ 13 ch 141 SLA 1962; am § 1 ch 154 SLA 1966; am § 2 ch 79 SLA 1980)

Cross reference. — As to revolving credit plans, see AS 06.05.208.

Effect of amendment. — The 1980 amendment substituted "one-twelfth of the annual rate permitted under AS 45.45.010(b)" for "one per cent" following "more than $1,000" in paragraph (2) of subsection (c).

Sec. 45.10.130. Insurance. If the cost of insurance is included in the retail installment contract or retail charge agreement and a separate charge is made to the buyer for the insurance,

provided by Don Magnuson

4/18/84

ELIMINATE BREAK POINT

Sec. 45.10.120. Extent of service charge. (a) The service charge shall include all charges incident to investigating and making the retail installment contract or charge agreement and for the privilege of making the installment payments under the contract or agreement. No other fee, expense, or charge may be taken, received, reserved, or contracted for investigating and making the contract or agreement, or for the privilege of making the payments.

(b) A seller or holder of a retail installment contract may charge, receive and collect a service charge which shall not exceed ~~the following rates~~ five-sixths of one percent multiplied by the number of months, including a fraction of a month in excess of 15 days as one month, elapsing between the date of the contract and the due date of the last installment~~;~~, provided that

~~(1) on so much of the unpaid balance as does not exceed $1,000, five-sixths of one per cent;~~

~~(2) if the unpaid balance exceeds $1,000, on so much of the unpaid balance as exceeds $1,000, two-thirds of one per cent;~~

~~(3)~~ if the total service charge so computed is less than $12, but if the due date of the last installment of the contract is eight months or less after its effective date, $10.

(c) A seller or holder of a retail charge agreement, revolving charge agreement or other retail charge agreement may charge, receive and collect a service charge not to exceed ~~the following rates~~ one and one-half per cent computed on the outstanding balances from month to month; provided that

~~(1) on so much of the outstanding balance as does not exceed $1,000, one-and-one-half per cent per month;~~

~~(2) if the outstanding balance is more than $1,000, one-twelfth of the annual rate permitted under AS 45.45.010(b) per month on the excess over $1,000 of the outstanding balance;~~

~~(3)~~ if the service charge so computed is less than $1 for any month, $1;

(4) the service charge may be computed on a schedule of fixed amounts if as so computed it is applied to all amounts of outstanding balances equal to the fixed amount minus a differential of not more than $5 provided that it is also applied to all amounts of outstanding balances equal to the fixed amount plus at least the same differential. (§ 13 ch 141 SLA 1962; am § 1 ch 154 SLA 1966; am § 2 ch 79 SLA 1980)

Cross reference. — As to revolving credit plans, see AS 06.05.208.

Effect of amendment. — The 1980 amendment substituted "one-twelfth of the annual rate permitted under AS 45.45.010(b)" for "one per cent" following "more than $1,000" in paragraph (2) of subsection (c).

Sec. 45.10.130. Insurance. If the cost of insurance is included in the retail installment contract or retail charge agreement and a separate charge is made to the buyer for the insurance, American Banker

New Jersey Commissioner Seeks To Continue Ban on Rate Ceilings

Special to the American Banker

TRENTON, N.J. — The New Jersey banking commissioner has recommended to the legislature that a state ban on interest rate ceilings on all types of consumer loans be continued.

"Based on available evidence, it is my determination that elimination of the interest rate ceilings over the past three years has served to increase the availability of consumer loans and to lower the interest rates charged," the commissioner, Michael M. Horn, said in a report to the legislature. Mr. Horn is leaving office March 20 to become state treasurer.

Ceilings were eliminated by law in 1981 in an attempt to ease the state's tight money market and to make credit more readily available to the consumer, Mr. Horn said. Since then, interest rates have dropped for three consecutive years, he said.

The legislation has required the commissioner to monitor interest rates charged by banks and savings and loan associations and to determine whether the elimination of the interest rate ceilings is in the best interests of the public. The annual surveys that he has conducted include checking rates charged by licensed companies engaging in home repairs, insurance premium financing, secondary mortgages, small loans, and retail installment sales.

Report Shows Sufficient Competition

Mr. Horn, who has been making annual reports to the legislature about consumer credit — another requirement of the 1981 statute — said the latest survey shows:

- That a substantial degree of competition does exist in the state, as indicated by the "reasonable" levels of interest rates charged.
- That interest rates on consumer credit loans in New Jersey have fallen. In October 1983, for instance, rates were generally 1.3% below comparable levels for October 1982. The decline was greater than the national drop, Mr. Horn said.
- That the elimination of interest rate ceilings serves to increase availability of consumer loans. For the 12 months ending Sept. 30, 1983, consumer credit loans by New Jersey commercial banks rose 14.8%, from $4.629 billion to $5.314 billion.

"The last increase cited represented the largest percentage rise during the last five years," Mr. Horn said. "In 1980, a year before statutory rate ceilings on these types of loans were removed, a decline was recorded, even without adjustment for inflation.

"With the recession and high interest rates of 1981 and 1982, no meaningful gains were made in consumer lending by consumer banks as a whole. However, in the year just passed, all three major types of depository institutions — commercial banks, savings banks, and savings and loan associations — showed markedly increased activity in most areas of consumer lending, while the rates they charged were generally falling." ■

Offered: 4/28/83
Referred: Rules

Original sponsor: Bettisworth

Provided by
Connie Sipe

IN THE HOUSE

BY THE LABOR AND COMMERCE COMMITTEE

CS FOR HOUSE BILL NO. 246 (L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the deregulation of interest rates; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 06.20.230(a) is amended to read:

(a) A licensee may lend any sum of money not exceeding $25,000 and may charge, contract for, and receive on the loan interest at a rate agreed on by contract [NOT EXCEEDING THREE PERCENT A MONTH ON THAT PART OF THE UNPAID PRINCIPAL BALANCE OF A LOAN NOT IN EXCESS OF $850; TWO PERCENT A MONTH ON THE UNPAID PRINCIPAL BALANCE EXCEEDING $850 BUT NOT EXCEEDING $10,000; AND AT A RATE AGREED BY CONTRACT ON THE REMAINDER OF ANY UNPAID PRINCIPAL BALANCE EXCEEDING $10,000 BUT NOT EXCEEDING $25,000].

This group of consumers probably most needs government oversight.

This is the Small Loan Act - covers consumer finance companies (like ~~Beneficial~~ Household Finance who provide credit, usually, to a lower-income and higher risk group of consumers. These finance companies are compensated (already) for their higher risk by being allowed to charge between 24% - 36% per annum, up to $10,000 - and by contract over $10,000. These ~~comp~~ lenders are also allowed and do take security interests in household possessions, etc. as security for loan. (For instance, if consumer borrows $1000 to buy a refrigerator, consumer may also have to give security interest in all other household appliances as additional collateral.)

p. 2

* Sec. 2. AS 06.40.120(c) is amended to read:

(c) The service charge may not exceed interest at a rate agreed on by contract. A [THE NOMINAL ANNUAL RATE OF 15 PERCENT PLUS AN ADDITIONAL CHARGE OF $10 PER PREMIUM FINANCE AGREEMENT WHICH NEED NOT BE REFUNDED UPON CANCELLATION OR PREPAYMENT. HOWEVER, ANY] borrower may prepay the [HIS] premium finance agreement in full at any time before the due date of the final payment and in that event the unearned service charge shall be refunded. The amount of any refund shall be calculated in accordance with regulations adopted by the commissioner.

This is Premium Financing (not on consumer insurance or loans). I think this mostly affects larger business or commercial entities as the borrowers or agents financing premiums for such clients.

* Sec. 3. AS 09.55.440(a) is amended to read:

(a) Upon the filing of the declaration of taking and the deposit with the court of the amount of the estimated compensation stated in

Page 2 of Bill

the declaration, title to the estate as specified in the declaration vests in the plaintiff, and that property is condemned and taken for the use of the plaintiff, and the right to just compensation for it vests in the persons entitled to it. The compensation shall be ascertained and awarded in the proceeding and established by judgment. The judgment shall include lawful interest [AT THE RATE OF SIX PERCENT PER YEAR] on the amount finally awarded which exceeds the amount paid into court under the declaration of taking. The interest runs from the date title vests to the date of payment of the judgment.

This affects the State and all ~~public~~ political subdivisions when they condemn land by "eminent domain." The condemning government unit will pay "lawful" prejudgment interest to the citizen whose land is taken.

10.5%

LP 4

Page 2 of Bill

* Sec. 4. AS 45.10.120(b) is amended to read:

(b) A seller or holder of a retail installment contract may charge, receive and collect a service charge on the outstanding balance at a rate agreed on by contract [WHICH SHALL NOT EXCEED THE FOLLOWING RATES MULTIPLIED BY THE NUMBER OF MONTHS, INCLUDING A FRACTION OF A MONTH IN EXCESS OF 15 DAYS AS ONE MONTH, ELAPSING BETWEEN THE DATE OF THE CONTRACT AND THE DUE DATE OF THE LAST INSTALLMENT,

(1) ON SO MUCH OF THE UNPAID BALANCE AS DOES NOT EXCEED $1,000, FIVE-SIXTHS OF ONE PERCENT; = 10% per annum *

(2) IF THE UNPAID BALANCE EXCEEDS $1,000, ON SO MUCH OF THE UNPAID BALANCE AS EXCEEDS $1,000, TWO-THIRDS OF ONE PERCENT; = 8% per annum *

(3) IF THE TOTAL SERVICE CHARGE SO COMPUTED IS LESS THAN $12, BUT IF THE DUE DATE OF THE LAST INSTALLMENT OF THE CONTRACT IS EIGHT MONTHS OR LESS AFTER ITS EFFECTIVE DATE, $10].

This affects every consumer who purchases a "good" (like a car or Furniture) (not real estate) on time payments and who gives the lender a security interest (or lien) on the "good" being purchased. Also, the lender is also the seller of the good, and has other incentives for making credit available besides the interest rate.

This includes all consumer car purchases through Ford Motor Credit, GMAC, etc. and things like furniture from McMahan's.

The lender gets to charge up to 18% * per annum under present law, plus lender has additional protection of being legally entitled to repossess the item (without any court costs) if the customer defaults.

Page 2 of Bill

* Sec. 5. AS 45.10.120(c) is amended to read:

(c) A seller or holder of a retail charge agreement, revolving charge agreement or other retail charge agreement may charge, receive and collect a service charge at a rate agreed on by contract [NOT TO EXCEED THE FOLLOWING RATES COMPUTED] on the outstanding balance [BALANCES FROM MONTH TO MONTH,

Page 3 of Bill

(1) ON SO MUCH OF THE OUTSTANDING BALANCE AS DOES NOT EXCEED $1,000, ONE AND ONE-HALF PERCENT PER MONTH;

(2) IF THE OUTSTANDING BALANCE IS MORE THAN $1,000, ONE-TWELFTH OF THE ANNUAL RATE PERMITTED UNDER AS 45.45.010(b) PER MONTH ON THE EXCESS OVER $1,000 OF THE OUTSTANDING BALANCE;

(3) IF THE SERVICE CHARGE SO COMPUTED IS LESS THAN $1 FOR ANY MONTH, $1;

(4) THE SERVICE CHARGE MAY BE COMPUTED ON A SCHEDULE OF FIXED AMOUNTS IF AS SO COMPUTED IT IS APPLIED TO ALL AMOUNTS OF OUTSTANDING BALANCES EQUAL TO THE FIXED AMOUNT MINUS A DIFFERENTIAL OF NOT MORE THAN $5 PROVIDED THAT IT IS ALSO APPLIED TO ALL AMOUNTS OF OUTSTANDING BALANCES EQUAL TO THE FIXED AMOUNT PLUS AT LEAST THE SAME DIFFERENTIAL].

This affects all consumer charge card accounts and all charge account agreements (like at the Bethel N.C. store for groceries and fishing gear).

Page 3 of Bill

* Sec. 6. AS 45.45.010(a) is amended to read:

(a) The rate of interest in the state is 10.5 percent a year and no more on money after it is due except as provided by express agreement of the parties in a contract or loan commitment [IN (b) OF THIS SECTION].

This is the general, non-specific usury rate. This could be changed without changing other sections, if the legislature so desired.

credit union

* Sec. 7. AS 06.20.230(b) and (c), AS 06.45.060(5)(A)(vi), and AS 45.45.010(b) are repealed.

* Sec. 8. This Act takes effect immediately in accordance with AS 01.10.070(c).

7 – 8 ~~a~~ to 16 – put them back

STATE OF ALASKA
DEPARTMENT OF LAW

1031 WEST 4TH AVE. SUITE 110
ANCHORAGE, ALASKA 99501
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annual rate of 15 percent plus an additional charge of $10 per premium finance agreement which need not be refunded upon cancellation or prepayment. However, any [A RATE AGREED ON BY CONTRACT. A] borrower may prepay the premium finance agreement in full at any time before the due date of the final payment and in that event the unearned service charge shall be refunded. The amount of any refund shall be calculated in accordance with regulations adopted by the commissioner.

☆ Sec. 9. AS 45.10.120(b) is amended to read:

(b) A seller or holder of a retail installment contract may charge, receive and collect a service charge which shall not exceed the following rates multiplied by the number of months, including a fraction of a month in excess of 15 days as one month, elapsing between the date of the contract and the due date of the last installment,

(1) on so much of the unpaid balance as does not exceed $1,000, five-sixths of one percent;

(2) if the unpaid balance exceeds $1,000, on so much of the unpaid balance as exceeds $1,000, two-thirds of one percent;

(3) if the total service charge so computed is less than $12, but if the due date of the last installment of the contract is eight months or less after its effective date, $10 [ON THE OUTSTANDING BALANCE AT A RATE AGREED ON BY CONTRACT].

☆ Sec. 10. AS 45.10.120(c) is amended to read:

(c) A seller or holder of a retail charge agreement, revolving charge agreement or other retail charge agreement may charge, receive and collect a service charge not to exceed the following rates computed [AT A RATE AGREED ON BY CONTRACT] on the outstanding balances from month to month, [BALANCE]

(1) on so much of the outstanding balance as does not

exceed $1,000, one and one-half percent per month;

(2) if the outstanding balance is more than $1,000, one-twelfth of the annual rate permitted under AS 45.45.010(b) per month on the excess over $1,000 of the outstanding balance;

(3) if the service charge so computed is less than $1 for any month, $1;

(4) the service charge may be computed on a schedule of fixed amounts if as so computed it is applied to all amounts of outstanding balances equal to the fixed amount minus a differential of not more than $5 provided that it is also applied to all amounts of outstanding balances equal to the fixed amount plus at least the same differential.

Sec. 11. AS 45.45.010(a) is amended to read:

(a) The rate of interest in the state is 10.5 percent a year and no more on money after it is due except as provided in (i) of this section [BY EXPRESS AGREEMENT OF THE PARTIES IN A CONTRACT OR LOAN COMMITMENT].

Sec. 12. AS 06.20.230 is amended by adding new subsections to read:

(b) Notwithstanding the provisions of (a) of this section, a licensee who makes open-end loans under this chapter may charge, contract for, and receive interest at a rate not exceeding three percent a month on that part of the unpaid principal balance of a loan not in excess of $850; two percent a month on the unpaid principal balance exceeding $850 but not exceeding $10,000; and at a rate agreed by contract on the remainder of any unpaid principal balance exceeding $10,000 but not exceeding $25,000.

(c) Interest on loans under (b) of this section shall be computed according to the actuarial method on the entire unpaid principal balance as determined in AS 06.20.285(b).

* Sec. 13. AS 06.45.060(5)(A) is amended by adding a new subparagraph to read:

(xii) the rate of interest may not exceed the greater of 15 percent a year or the rate specified as AS 45.45.010(b);

* Sec. 14. AS 45.45.010 is amended by adding a new subsection to read:

(i) No interest may be charged by express agreement of the parties in a contract or loan commitment which is more than five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District on the day on which the contract or loan commitment is made. A contract or loan commitment in which the principal amount exceeds $25,000 is exempt from the limitation of this subsection.

* Sec. 15. The legislative audit division shall report to the First Session of the Fifteenth Legislature on or before March 15, 1987 concerning the effects of the amendments made in secs. 1 - 6 of this Act on the people of the state and in particular those persons seeking or receiving credit.

study

* Sec. 16. AS 06.20.230(b) and (c), AS 06.45.060(5)(A)(vi), and AS 45.45.010(b) are repealed.

* Sec. 17. Sections 1 - 6 and secs. 15 and 16 of this Act take effect July 1, 1983.

* Sec. 18. Sections 7 - 14 of this Act take effect July 1, 1987.

credit unions

KEY CONSUMER PROTECTION LAWS OF ALASKA

1. SMALL LOANS ACT, Title 6, Banks and Financial Institutions, Chapter 20, §§ 6.20.010-6.20-920. Requires that any person engaged in the business of making loans of money, credit, goods, or things in action in the amount of $5,000 or less must have a license if he wishes to charge a greater rate of interest than otherwise provided by law. The Act provides for the licensing of lenders of money and sets forth the maximum amount of interest permitted on these loans.

2. ALASKA RETAIL INSTALLMENT SALES ACT, Title 45, Trade and Commerce, Chapter 10, §§ 45.10.010-45.10.230. Sets forth the requirements of the form and content of a retail installment contract, the amount of service charge allowed on the contract and defines the terms used in the contracts (i.e. cash sale price, goods, retail buyer, retail installment contract, etc.). Also sets forth penalties for violating the Act.

3. TRADE PRACTICES (Legal Rate of Interest, Usury), Title 45, Trade and Commerce, Chapter 45, §§ 45.45.010-45.45.060. Sets forth the legal rate of interest of 10.5% a year and exceptions to this rate, prohibits a higher rate of interest, and provides for penalties if this Act is violated. Provides for collection of interest in advance.

4. COMPETITIVE PRACTICES AND REGULATION OF COMPETITION (Unfair Trade Practices and Consumer Protection), Title 45, Trade and Commerce, Chapter 50, §§ 45.50.471-45.50.561. Prohibits unfair methods of competition and unfair or deceptive acts or practices, prohibits junk telephone calls without the prior written consent of the person called and provides penalties for violation of this article. If the contract for sale or lease of consumer goods or services on credit between a retail seller and retail buyer requires or involves the execution of a promissory note or instrument, the note or instrument must have printed on its face the words "consumer paper."

FEDERAL LAW

1. TRUTH IN LENDING ACT (including Fair Credit Billing Act), 15 U.S.C. § 1601 et seq., and Regulation Z, 12 C.F.R. § 226.1 et seq. Part of the Federal Consumer Credit Protection Act. Requires extensive disclosure of credit terms in the extension of consumer credit, regulates certain credit advertising, regulates issuance of credit cards with limitation on the cardholder's liability for unauthorized use; and is designed to assist consumers in resolving credit billing disputes. Regulation Z implements the Act by setting forth disclosure requirements. The Fair Credit Billing Act sets forth procedures for billing cycles, imposition of finance charges, and the correction of billing errors.

2. EQUAL CREDIT OPPORTUNITY ACT, 15 U.S.C. § 1691 et seq., and Regulation B, 12 C.F.R. § 202.1 et seq. Designed to prevent discrimination in the extension of credit on the basis of race, religion, national origin, sex, marital status, or age, or derivation of income. Sets forth penalties for violation of Act. Regulation B implements the Act by setting forth rules concerning applications and extensions of credit.

3. ELECTRONIC FUND TRANSFER ACT, 15 U.S.C. § 1693 et seq., and Regulation E, 12 C.F.R. § 205.1 et seq. Establishes the rights, liabilities, and responsibilities of participants in electronic fund transfer systems. Designed to protect individual consumer rights. Sets forth requirements and procedures in the terms and conditions of transfers, documentation of transfers, and periodic statements, and for the resolution of errors. Regulation E implements the Act.

4. FAIR CREDIT REPORTING ACT, 15 U.S.C. § 1681. Governs the procedures that consumer reporting agencies must follow in the use and disclosure of consumer credit reports. Sets forth procedures in resolving disputes of the reports.

5. FAIR DEBT COLLECTION PRACTICES ACT, 15 U.S.C. § 1692 et seq. Designed to protect consumers from abusive, deceptive and unfair debt collection practices by debt collectors. Provides procedures for redressing collection abuses.

6. MAGNUSON-MOSS WARRANTY ACT, 15 U.S.C. § 2301 et seq. Sets forth rules governing the content of consumer product warranties. Designed to improve the adequacy of information available to consumers and to prevent deception. Designed to explain to consumer in simple language the terms and conditions of the warranty.

7. EXTORTIONATE CREDIT TRANSACTIONS, 18 U.S.C. § 891 et seq. Sets forth penalties for extortionate extensions of credit (extension of credit with understanding that a delay in making repayment could result in use of violence or other criminal means to cause harm to the person, reputation, or property of any person), financing extortionate extensions of credit, and extortionate collections of extensions of credit.

8. FEDERAL TRADE COMMISION TRADE REGULATIONS RULES

(a) Door-To-Door Sales, 16 C.F.R. § 429.1. Regulates practices of door-to-door salespersons.

(b) Preservation of Consumers' Claims and Defenses, 16 C.F.R. §433.1 et seq. Protects buyers in consumer transactions against application of holder-in-due-course rule; similar to Alaska law in the Unfair Trade Practices and Consumer Protection Act.

undertaking a reasonable search. Dietrich-Post Co. v. Alaska Nat'l Bank, 638 F.2d 117 (9th Cir. 1981).

Where a financing statement and its

the corporation. Dietrich-Post Co. v. Alaska Nat'l Bank, 638 F.2d 117 (9th Cir. 1981).

Article 5. Default.

Sec. 45.09.504. Secured party's right to dispose of collateral after default; effect of disposition.

NOTES TO DECISIONS

Noncompliance with subsection (c). In accord with 1st paragraph in original. See Hoch v. Ellis, Sup. Ct. Op. No. 2346 (File No. 4475), 627 P.2d 1060 (1981).

If a sale was deficient with respect to either notice or commercial reasonableness, then a burden is placed upon the secured party to rebut the presumption that the fair market value of the collateral was at least equal to the amount of the outstanding debt. Hoch v. Ellis, Sup. Ct. Op. No. 2346 (File No. 4475), 627 P.2d 1060 (1981).

The burden is on the secured party to prove by clear and convincing evidence the value of the collateral. Hoch v. Ellis, Sup. Ct. Op. No. 2346 (File No. 4475), 627 P.2d 1060 (1981).

If the secured party fails to rebut the presumption that the fair market value of the collateral was at least equal to the amount of the outstanding debt, then the presumption leads to the conclusion that the entire debt is discharged. Hoch v. Ellis, Sup. Ct. Op. No. 2346 (File No. 4475), 627 P.2d 1060 (1981).

Factors in determining value of collateral. — The local economic market at the time of sale is a recognized factor in determining the value of the collateral. Hoch v. Ellis, Sup. Ct. Op. No. 2346 (File No. 4475), 627 P.2d 1060 (1981).

Chapter 45. Trade Practices.

Article

1. Interest (§ 45.45.010)

Article 1. Interest.

Section

10. Legal rate of interest

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

(b) No interest may be charged by express agreement of the parties in a contract or loan commitment which is more than five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District on the day on which the contract or loan commitment is made. A contract or loan commitment in which the principal amount exceeds $25,000 is exempt from the limitation of this subsection.

Sec. 45.02.301. General obligations of parties. The obligation of the seller is to transfer and deliver, and that of the buyer to accept and pay, in accordance with the contract. (§ 2.301 ch 114 SLA 1962)

Applied in A & G Constr. Co. v. Reid Bros. Logging Co., Sup. Ct. Op. No. 1244 (File Nos. 2360, 2388), 547 P.2d 1207 (1976).

Sec. 45.02.302. Unconscionable contract or clause. (a) If the court as a matter of law finds the contract or a clause of the contract was unconscionable at the time it was made, the court may refuse to enforce the contract, enforce the remainder of the contract without the unconscionable clause, or so limit the application of an unconscionable clause as to avoid an unconscionable result.

(b) If it is claimed or appears to the court that the contract or any clause of the contract may be unconscionable, the parties shall be given a reasonable opportunity to present evidence as to its commercial setting, purpose, and effect to aid the court in making the determination. (§ 2.302 ch 114 SLA 1962)

Applied in Morrow v. New Moon Homes, Sup. Ct. Op. No. 1253 (File No. 2206), 548 P.2d 279 (1976).

Sec. 45.02.303. Allocation or division of risks. Where AS 45.02.101 — 45.02.725 allocate a risk or a burden as between the parties "unless otherwise agreed," the agreement may not only shift the allocation but may also divide the risk or burden. (§ 2.303 ch 114 SLA 1962)

Am. Jur. 2d reference. — 67 Am. Jur. 2d, Sales, §§ 248-254.

Sec. 45.02.304. Price payable in money, goods, realty, or otherwise. (a) The price can be made payable in money or otherwise. If it is payable in whole or in part in goods, each party is a seller of the goods which he is to transfer.

(b) Even though all or part of the price is payable in an interest in realty, the transfer of the goods and the seller's obligations with reference to them are subject to AS 45.02.101 — 45.02.725 but not the transfer of the interest in realty or the transferor's obligations in connection with the transfer of the real interest. (§ 2.304 ch 114 SLA 1962)

Am. Jur. 2d reference. — 67 Am. Jur. 2d, Sales, § 405.

Title 45 Trade and Commerce

Offered: 4/8/82
Referred: Finance

Original sponsor: Special Committee on Banking by request

IN THE SENATE

BY THE LABOR AND COMMERCE COMMITTEE

CS FOR SENATE BILL NO. 750 (L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWELFTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to interest rates; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 06.40.120(c) is amended to read:

(c) The service charge may not exceed interest at a rate of two percent a month on that part of the balance of premiums due as does not exceed $10,000 and at a rate agreed by contract on the balance of premiums due exceeding $10,000. A [THE NOMINAL ANNUAL RATE OF 15 PERCENT PLUS AN ADDITIONAL CHARGE OF $10 PER PREMIUM FINANCE AGREEMENT WHICH NEED NOT BE REFUNDED UPON CANCELLATION OR PREPAYMENT. HOWEVER, ANY] borrower may prepay his premium finance agreement in full at any time before the due date of the final payment and in that event the unearned service charge shall be refunded. The amount of any refund shall be calculated in accordance with regulations adopted by the commissioner.

* Sec. 2. AS 09.55.440(a) is amended to read:

(a) Upon the filing of the declaration of taking and the deposit with the court of the amount of the estimated compensation stated in the declaration, title to the estate as specified in the declaration vests in the plaintiff, and that property is condemned and taken for the use of the plaintiff, and the right to just compensation for it vests in the persons entitled to it. The compensation shall be ascertained and awarded in the proceeding and established by judgment. The judgment shall include lawful interest [AT THE RATE OF SIX PERCENT PER YEAR] on the amount finally awarded which exceeds the amount paid into court under the declaration of taking. The interest runs from the date title vests to the date of payment of the judgment.

* Sec. 3. AS 45.10.120(b) is amended to read:

(b) A seller or holder of a retail installment contract may charge, receive and collect a service charge which shall not exceed the following rates multiplied by the number of months, including a fraction of a month in excess of 15 days as one month, elapsing between the date of the contract and the due date of the last installment,

(1) on so much of the unpaid balance as does not exceed $10,000, ~~two~~ 1 3/4 [$1,000, FIVE-SIXTHS OF ONE] percent;

(2) [IF THE UNPAID BALANCE EXCEEDS $1,000,] on so much of the unpaid balance as exceeds $10,000 at a rate agreed by contract [$1,000, TWO-THIRDS OF ONE PERCENT];

(3) if the total service charge so computed is less than $12, but if the due date of the last installment of the contract is eight months or less after its effective date, $10.

* Sec. 4. AS 45.10.120(c) is amended to read:

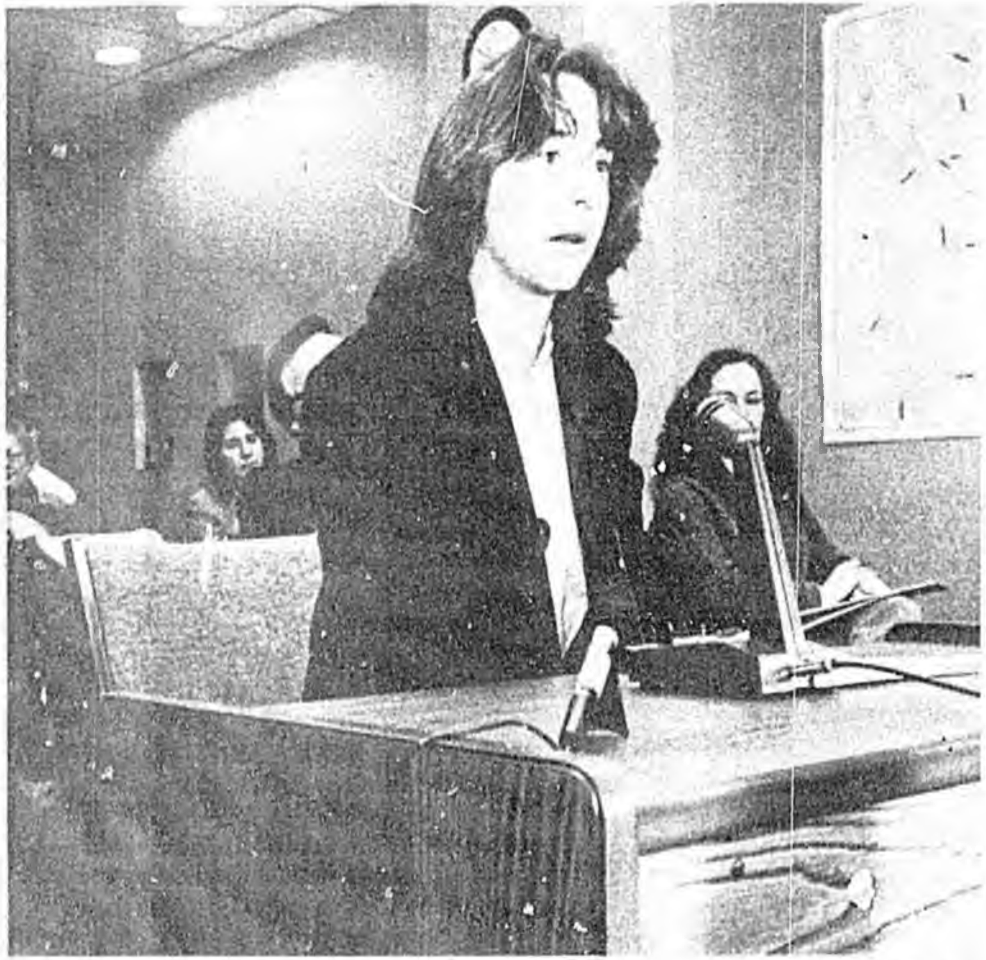
(c) A seller or holder of a retail charge agreement, revolving charge agreement or other retail charge agreement may charge, receive and collect a service charge not to exceed the following rates computed on the outstanding balances from month to month,

(1) on so much of the outstanding balance as does not exceed $10,000, ~~two~~ 1 3/4 [$1,000, ONE AND ONE-HALF] percent per month;

(2) at a rate agreed by contract [IF THE OUTSTANDING BALANCE IS MORE THAN $1,000, ONE-TWELFTH OF THE ANNUAL RATE PERMITTED UNDER AS 45.45.010(b) PER MONTH] on the excess over $10,000 [$1,000] of the outstanding balance;

(3) if the service charge so computed is less than $1 for any month, $1;

Proposal to deregulate interest rates draws fire



Tom Alvarez/Anchorage Daily News

Maureen Kennedy, of the Alaska Public Interest Group, testifies.

By JIM ERICKSON
Daily News business reporter

A bill that would deregulate interest rates for virtually all forms of lending in Alaska encountered stiff opposition Saturday when representatives from Alaska consumer groups, business associations, labor unions and womens' organizations testified against the legislation at a Senate Labor and Commerce Committee hearing.

"Frankly, there seems to be little evidence of need (for the legislation) on the part of the banking community and the large retailers," said Gary Jenkins of the National Federation of Independent Business.

Jenkins said those institutions have managed to post healthy profits for the past several years. He also cited a survey of 3,700 Alaska member businesses which he said demonstrates overwhelming opposition to House Bill 246, which passed the House last session. Small businessmen feared that removal of interest-rate ceilings on loans less than $25,000 could stifle their borrowing ability and hence business expansion.

The legislation also calls for removal of interest rate ceilings on credit-card tranactions, currently set at 18 percent annually

"I think consumers have enough burdens to bear without increasing profits for lenders," said Bennie Barker, business representitive for Teamsters Local 959.

Sen. Richard Eliason, a Republican from Sitka and chairman of the Labor and Commerce committee, said after the statewide teleconference that further hearings on the bill were not likely.

"There's not a great deal of support in the Senate to move it out of committee," he said.

The banking industry backed the bill, arguing that the cost of obtaining funds to lend had risen markedly since federal deregulation, yet those increases could not be made up because of state usury laws. In addition, bankers said, regulation actually decreased the money supply to smaller borrowers when interest rates are high. In that case, he said, money is diverted from the regulated to the deregulated market — in Alaska, loans more than $25,000.

Win Gruening, president of the Alaska Bankers Association, said lawmakers should not wait for a crisis in the lending industry to make changes.

"This is an issue that needs to be examined now," he said.

Larry Snider, president of the Alaska Retail Association, said his organization, made up of small businesses as well as large department stores, supported HB 246.

"The statutory ceilings on rates is a form of governmental price-fixing, a practice which recent history shows inevitably leads to unintended harmful consequences."

Snider said credit lending is costly to stores, and that cost is spread to all consumers in the form of higher prices when lenders cannot adequately cover credit operation expenses.

The possibility that Ranier Bancorporation would move credit operations from Seattle to Alaska was raised with the introduction in February of Senate Bill 485, which would raise the interest rate ceiling on bank-administered credit cards from 18 to 24 percent annually. The bill's sponsor, Sen. Joe Josephson, D-Anchorage, said he did not necessarily support the legislation, but that he had been told by Ranier representatives that as many as 1,400 jobs would be created if the bill passed.

Nancy Groszek, testifying at the hearing for the Alaska Women's Lobby, said it would be "absurd to justify passage of this legislation on the basis of a credit-card company moving its services to Alaska." Groszek maintained that the high cost of doing business in Alaska would mitigate against such action.

Credit system based on points

By MARY H.J. FARRELL

A new credit-rating system is being adopted by more and more banks and large stores around the country. While the system has many pluses, it sometimes produces surprising ratings.

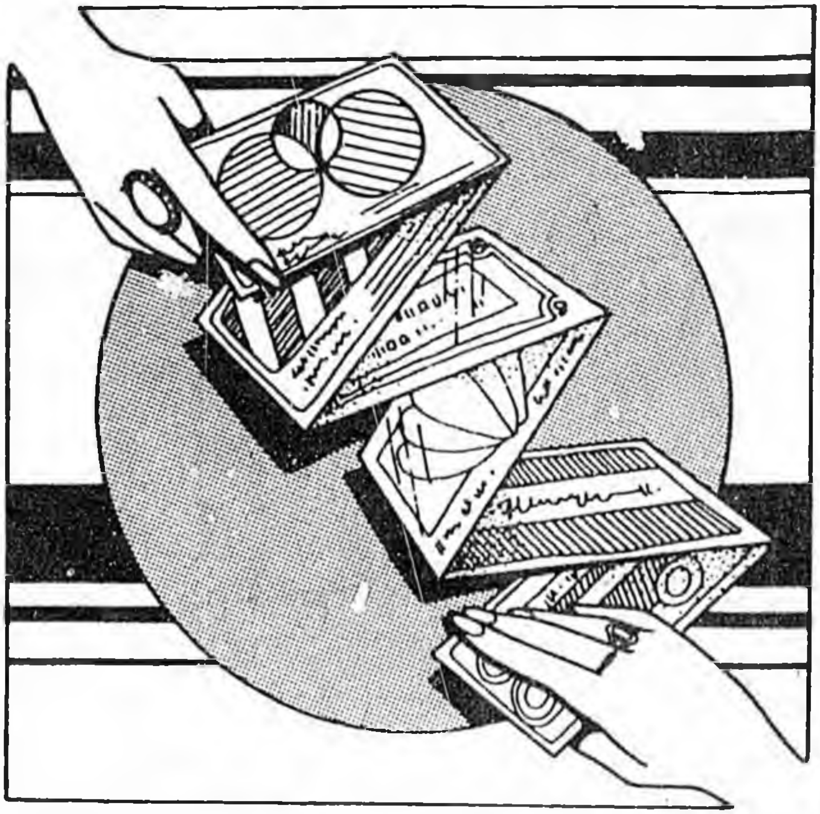
For example, two 46-year-old men, one a doctor, the other a mailman, applied for a loan from a major bank. Although the doctor had a higher income and the same ratio of debt to income, his loan application was rejected while the mailman's was accepted. The bank said the doctor was a poor credit risk because he had lived at his present address for only 2½ years. The mailman had lived at his current address for 15 years.

Stability (length of time at a job or address) is one characteristic considered by large creditors in a new credit-rating method called "credit scoring." The major bank required its applicants to score at least 105 points to qualify for a loan. The mailman scored 107; the doctor 88.

Occupation, income, financial history, and age are other factors considered in credit scoring. Each characteristic is assigned a numerical value, then all are totaled according to a formula used by the creditor.

The scoring system differs with each creditor because each bases its decisions on its own lending experience. A large department store may place more importance on income, while a bank may feel stability is more significant.

One major difference between the new credit-scoring system and the widely used credit-rating bureaus is that it considers other factors besides an applicant's credit history. Credit-rating bureaus often automatically disqualify applicants who have failed to



consumer

pay back loans; creditors who use the scoring system may or may not.

Other benefits to the consumer: The applicant is less likely to be discriminated against on the basis of race and, if turned down for credit, is entitled to know the reasons why.

"If a credit applicant is refused credit by a scoring system, the lender must notify the applicant in writing," said Bruce Hall, a consumer economist for Cornell University's extension service.

The Federal Equal Credit Opportunity Act gives rejected applicants the right to object to the creditor's decision within 60 days and to ask on what grounds the rejection was based. Although creditors rarely reverse a decision based on the scoring system, an applicant may be able to point out a mistake or provide new, favorable information by discussing the application with the creditor.

One major credit-card issuer actually adds points to the score of an applicant who complains about being turned down.

☐ From King Features Syndicate

Expert foresees rising interest rates that could slow recovery

The Associated Press

A prominent Wall Street economist says interest rates are headed upward, but he discounted the possibility of a major increase that would stall the economic recovery.

Henry Kaufman, whose forecasts are widely watched in the financial community, said Thursday that he saw little chance of avoiding an upward trend in rates.

Kaufman, chief economist at Salomon Brothers Inc., repeated earlier predictions that interest rates would rise between 1 and 1½ percentage points in 1984. He added that he expected interest rates to keep rising in 1985, but indicated the increases would not be enough to halt the economy's growth in 1984.

Asked by reporters what would change the outlook for interest rates, he said:

"One, a basic reversal of economic activity from expansion to topping out and economic decline. Two, a massive change in fiscal policy, from one of substantial expansion to clear- cut indication that the budget deficit is going down very sharply over the next year or two. I believe neither of those two events are about to materialize."

However, a more optimistic outlook was offered Thursday by Treasury Secretary Donald Regan.

While indicating he was concerned about a too-rapid expansion of the nation's money supply, Regan told the Joint Economic Committee that the economy "is poised for a long period of expansion without a return to high and rising rates of inflation."

Regan reiterated the administration's forecast that the expansion would remain solid this year, with the economy growing at a rate of 4.5 percent after adjustment for inflation. It expanded at a rate of 6.1 percent in 1983, when measured by the gross national product between the fourth quarters of 1982 and 1983.

Regan also predicted that the unemployment rate, which stood at 8.2 percent of the civilian labor force in December, would drop to 7.7 percent by the end of 1984.

In other economic developments Thursday:

—The National Association of Realtors said sales of single- family homes jumped 8.5 percent in December because of slightly lower prices and buyers' greater willingness to accept adjustable-rate mortgages.

—The Investment Company Institute said assets of money market mutual funds rose $603 million in the week ended Wednesday to $165.42 billion. The seven-day average yield on the money funds fell to 8.75 percent from 8.78 percent the previous week.

Juneau Empire 1/27/84

Bills propose raising interest limits

By JIM ERICKSON
Daily News business reporter

The monthly bills Alaskans pay for a variety of loans and credit, including revolving charge accounts, could increase if proposals before the Alaska Legislature to deregulate interest rates become law.

Four bills awaiting action in the Senate Labor and Commerce committee would either increase or eliminate interest rate ceilings now regulated by a complex set of Alaska's so-called "usury" laws.

Charge card holders by law cannot be assessed more than 18 percent interest annually on credit balances of less than $1,000.

For accounts with balances exceeding $1,000, the interest rate "floats" five percentage points above the discount rate set by the Federal Reserve Bank, currently 8.5 percent annually.

Under Senate Bill 485, introduced Feb. 13 by Sen. Joe Josephson, D-Anchorage, banks and other financial institutions would be allowed to charge credit card users up to 24 percent annually.

Josephson said that he had introduced his bill at the request of Ranier Bancorporation, and that he did not necessarily advocate passage at this time.

"But I think it merits consideration," he said, because an increase in rates could allow higher-risk borrowers access to credit.

House Bill 246, sponsored by Bob Bettisworth, R-College, would deregulate virtually all forms of lending and credit in the state.

Interest rate ceilings on bank-administered credit plans (such as Visa or MasterCard), department store charge accounts, retail installment contracts and loans of less than $25,000 would be repealed under HB 246, which passed the house in 1983. It is now before the Senate.

The bill has been earmarked as the vehicle for possible changes in state lending and credit laws this session. A public hearing on the legislation is scheduled for March 3 at the Anchorage Legislative Information Office.

Alaska retailers and bankers have been lobbying for some form of deregulation since 1980, during a period when the federal prime rate went through the roof and lenders were hard pressed to finance credit programs.

More than 40 states have in the past four years passed legislation raising usury ceilings. Of those states, 18 have done away with caps entirely through varying forms of deregulation.

"From the retailer's standpoint, basically what were trying to do is just come closer to covering the cost of extending credit," said Don Magnusson, executive director of the Alaska Retail Association, a state trade organization whose membership includes major department stores.

See Page D-3, INTEREST

Alaska State Legislature

Senate

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

But union leaders have ...

Bank failures could increase as federal regulations eased

By ROBERT FURLOW
Associated Press Writer

WASHINGTON — Bank failures, already at the highest rate in four decades, could increase as the government further eases rules on what banks can or can't do, says the head of the federal agency that insures deposits.

"You give people more leeway to go out and do new and different things, and it stands to reason they won't all do them well," said William Isaac, chairman of the Federal Deposit Insurance Corp.

But while the failure total may rise, he said, "I don't expect it to be unreasonably high."

Isaac made his comments to reporters Wednesday at a bank-deregulation conference sponsored by the Washington Journalism Center.

Speaking at the same conference, Federal Reserve Governor Charles Partee seemed a bit more concerned about bank failures, suggesting a parallel between the current deregulating of banking activities and the hard times that have followed deregulation of airlines.

"We can't stand many large bankruptcies" in banking, he said. Nor could the nation easily stand to see banks concentrate their sergices only in large cities or the most profitable areas, he said, again using the example of airlines that cut back service to many small cities after routes were partly deregulated.

By all accounts, traditional barriers that once separated banks, savings and loans, insurance companies and securities dealers are collapsing, with many of them taking on or hoping to take on at least some activities of the others. Government regulatory agencies, including Isaac's and Partee's, have helped or tried to slow them to varying degrees, but there is wide agreement that broad deregulation is only a matter of time.

Juneau Empire
10-6-83

Interest

Continued from Page D-1

Current interest level ceilings were established at a time the prime rate was less than 5 percent, Magnusson said. But in recent years the prime rate has exceeded 20 percent — above the interest rate retailers can charge for credit purchases.

Although the prime has dropped to 11 percent, retailers often cannot recoup the costs of extending credit even by charging the maximum, he said.

"In effect, what you have is the credit customer, usually the middle class, being subsidized by those who must pay cash," he said.

Magnusson said it would be difficult to predict how much rates would rise if deregulation were instituted, but nationally the level appears to be about 21 percent.

"That's proven to be the practical cap, even in those states that allow more than 21 percent," he said.

HB 246 would also remove the interest ceiling on consumer and business loans of less than $25,000.

Currently, banks cannot charge more than 13.5 percent for loans of less than that amount.

Win Gruening, president of the Alaska Bankers Association, said federal deregulation has increased the cost of obtaining funds to lend by allowing higher rates of interest to be paid to depositors.

Yet at the same time, bankers have been unable to counteract the increase by raising interest rates on consumer and small business loans because of interest rate caps.

The most likely result, Gruening and others say, is that during periods of high interest rates bankers will be less inclined to lend money in amounts of less than $25,000, preferring to lend only to those who need financing in amounts above the ceiling.

Maureen Kennedy, director of the Alaska Public Interest Research Group, said deregulation would fuel inflation, and adversely affect the state's economy as consumers put off major purchases in the face of higher interest rates. Low-income borrowers would be hardest hit by the increase, she said.

Competition alone would not provide a sufficient brake to rising interest rates, she said, because the credit and lending industries are not truly competitive.

"If you look at states where the lid has been taken off, the banks automatically raise the rates," Kennedy said. "The theoretical argument is on the bankers' side, but that's not what happens in actual practice. In order for that logic to carry, you have to assume banking is a competitive industry, and that people will shop for credit."

Kennedy said a 1977 study by the Federal Reserve Board showed only 30 percent of potential borrowers shop for loans, and that figure would be much lower for low-income borrowers.

Deregulation could also have a severe impact on rural Alaskans living in communities where there is only one store, she maintained.

Credit in Bush areas is essential because of the seasonal nature of local economies, she said. But without regulatory or competitive control, retailers could charge interest rates far above what might be considered fair market rates.

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FROM: PAULA/FKS TO: JNU INFO
TARGET: LJHK SUBJ: FOM

TO: SEN LABOR & COMM
SENS ELIASON, MULCAHY, PETTYJOHN, SACKETT, RODEY

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SENS BENNETT FAHRENKAMP MOSS

FROM: CHAIA ROSS-BOOKER
726-A CHANDALAR
FAIRBANKS, AK, 99701
479-3788-H 452-2059-W

RE: HB 246 & SB 276, DEREGULATION OF INTEREST RATES

MSG: PLEASE WORK TOWARD DEFEATING THIS UNNECESSARY AND UNFAIR LEGISLATION.
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Facts and Figures about Revolving Credit

(why does it cost so much...or does it?)

There's a lot of talk today about the finance charges department store customers are asked to pay on their Revolving Charge Accounts.

Most people agree that revolving charge credit is a good thing for people — but they think it costs too much. They think the stores are making huge profits on credit.

Well, it just isn't so.

For many years now, retail stores have charged an 18% annual percentage rate on Revolving Charge Accounts. And we don't get rich on it—all of the finance charge revenue at 18% and then some goes to pay for the cost of providing the service.

But to the customer, 18% sounds like a great deal of money. This is because very few people really understand it correctly; it isn't what it appears to be at all.

Then where does the 18% figure come from? That's easy. If you pay 1½% each month for twelve months, twelve one-and-a-half per cents add up to 18%. The Federal Truth-in-Lending Law requires that we state the full annual rate clearly, to every credit customer.

But an 18% annual rate does not mean the customer is paying $18 a year for every $100-worth of merchandise he buys!

Actually, the customer pays far less, since he pays only 1½% a month on his monthly balance.

Retailers use many methods to compute the finance charge. Here's one popular method, and a chart which shows you what would happen with a customer who made a $100 purchase and paid for it in monthly payments of $10.00 each.

	Initial Purchase	Monthly Payment	1½% Finance Charge on Average Daily Balance *	Customer's Balance after Payment
1.	$100.00	$00.00	$0.00	$100.00
2.		10.00	1.43	91.43
3.		10.00	1.28	82.71
4.		10.00	1.16	73.87
5.		10.00	1.02	64.89
6.		10.00	.89	55.78
7.		10.00	.75	46.53
8.		10.00	.62	37.15
9.		10.00	.50	27.65
10.		10.00	.50	18.15
11.		10.00	.50	8.65
12.		8.65	.00	.00

Total Finance Charge $8.65

*Assumes payment received on the 15th day of the month.

As you can see, the account would be cleared within a year, and the customer would have paid a total actual finance charge of only $8.65! Other methods could produce an even lower finance charge!

But even $8.65 is a long way from the $18 most people naturally think of when you tell them they are paying *at the rate of* 18% a year! But the Federal Truth-in-Lending Law requires us to make this disclosure clear to every customer. It's safe to assume that few, if any of them, realize the modest amount of money actually involved: 18% just sounds like a great deal more.

Why does credit cost as much as it does?

Even though revolving credit doesn't cost as much as most people think, it's still fair to ask why it costs as much as it does.

The answer is that running a credit operation is an extremely involved, complex undertaking. It requires a great many specially-trained people, a good deal of special equipment, and a great deal of expensive time.

It is important to remember that a credit operation is financed in large part by borrowed funds, which the creditor obtains in the marketplace at a cost close to the prevailing prime rate charged by major banks.

First of all, there are start-up costs of opening a new account.

It takes time and money to interview a new credit applicant and take down all the necessary information the customer gives us.

There's the cost of verifying credit information, to be sure the customer really can pay for the things the customer will buy without getting in too deep. (That wouldn't be good for either of us.)

And when you consider that hundreds of thousands of new revolving charge accounts are opened at stores each year, you can see that just the start-up costs come to a considerable amount of money.

Once an account is open, there are operating costs.

Each time a customer makes a new purchase, new records have to be made. An accurate running account of the transactions must be kept. If the account stays active throughout the year, there are twelve bills to be prepared and mailed. In addition to the work, that comes to $2.16 in postage alone.

In response to the bills, the customer makes payments — all of which must be processed quickly and accurately to be sure the account is credited for them.

All of this complex effort, which goes on continuously, takes time and money. A substantial cost to stores providing credit is incurred in just the day-to-day operation of millions of active accounts and literally billions of separate transactions.

Here's one cost that really hurts everyone.

Unfortunately, not every customer pays on time, and we have to do some collection follow-up.

Maybe the customer just forgot. Or maybe there's been an accident or illness and payment cannot be made right now.

Whatever the reason, if a credit customer starts falling behind in payments, we have to find out why.

In a few cases -- fortunately, very few — we find some accounts are simply uncollectible.

Unfortunately, no merchant has ever found a way to avoid some account collection costs, and they have to be shared by everyone who uses the credit services. Because of the efficiency with which our credit professionals handle new account interviews, and the skill with which those first credit checks are made, we have been able to hold collection costs to the lowest possible minimum.

Here's another cost of providing credit that few of our customers have ever thought about.

Although we trust our customer and are willing to wait for his payments, our suppliers can't wait. They have to be paid right away.

And because most stores maintain a good record of prompt payment to suppliers, we are able to buy advantageously, and keep our prices down where customers like to see them.

But how can we pay our suppliers promptly if the customer himself isn't going to pay us back until later — sometimes months later?

The merchant does the only thing he can do — borrows from the banks. And banks, as you know, charge interest on loans.

So the cost of borrowing money to pay our suppliers adds significantly to the cost of providing credit to our customers.

As everyone knows, the cost of borrowed funds has risen steadily in recent years. In 1960, for example, the cost to retailers of borrowing money was at a cost close to the 4½% prime rate charged by major banks. At the end of 1980, the prime rate was at 21½%.

There are other costs, too.

Cost for space and equipment and for the facilities required by a complex business operation.

More and more, the high speed techniques of data processing are used as an aid in handling transactions. But even though the speed of advanced technology has enabled more customers to be serviced, the high cost of energy has made costs sky rocket.

And since it takes a salesperson longer to complete a credit sale than it does a cash sale, the extra sales time has to be figured in.

And, there are management costs, to keep the whole complex operation flowing smoothly.

As an example, look at the following chart. In 1967, the Consumer Price Index was established. The base year of 1967 was given a value of 100. With this as a reference point let's see how prices and expenses have increased.

COMPARISON OF SELECTED FACTORS AFFECTING THE COST OF CREDIT[1]

	1967	1980	% Increase
Consumer Price Index	100%	234%	134%
Average Prime Rate[2]	6%	21.5%	258%
Postage[3]	$ .05	$ .15	200%
Minimum Wage	$ 1.25	$ 3.10	148%
Social Security Tax[4]	4.40%	6.13%	39%
Wages Subject to Social Security Tax[5]	$6,600.00	$25,900.00	292%
Energy Cost Index	100%	162%	62%
Prevailing Finance Charge Rate	18%	18%	None

[1]*Source: Consumer Price Index, U.S. Department of Labor*
[2]*Source: Federal Reserve System*
[3]*1981—.18, 260% Increase*
[4]*1981—6.68%, 51% Increase*
[5]*1981—29,500, 44% Increase*

All of these things cost money, and all of them have to be paid for by someone. Should the retailer pay?

The only way we could do it would be to raise prices on everything, to get enough money to pay for the cost of operating credit.

But that way, cash customers, too, would be paying for part of the cost of credit, whether they wanted to buy on credit or not. And most retailers think that's a bad idea.

We believe that the customer who chooses to buy on credit — and only those customers who choose it — should pay for the cost of credit.

Does the 18% annual rate produce enough to cover these costs?

The answer in most cases is no. It usually takes *all* of the finance charge revenue at 18% and then some to cover the cost of the service itself. In fact, in one study the cost of providing revolving credit was found to be $1.29 for every dollar of finance charge revenue paid in by the customers and the study was done in 1969!*

**SOURCE: Robert W. Johnson and Touche, Ross, Bailey and Smart, ECONOMIC CHARACTERISTICS OF DEPARTMENT STORE CREDIT, (New York: National Retail Merchants Association, 1969) p. 53.*

As a result, department stores are losing money on credit operations at an 18% annual percentage rate. Let's see why. We have looked at a $100 purchase and have seen that it yields $8.65 in finance charges if the purchase is paid off at $10.00 per month. What this really means is that the gross finance charge yield when viewed as a percentage is 16%. A study of one national retailer's 1979 operating costs[6] showed that the operating expenses for the processing of a $100 credit purchase was $6.79. The study also showed that when the cost to the retailer of borrowed funds is 14%, the annual cost to the retailer to finance this $100 credit purchase is $7.55. So we see that the total expenses to the retailer are:

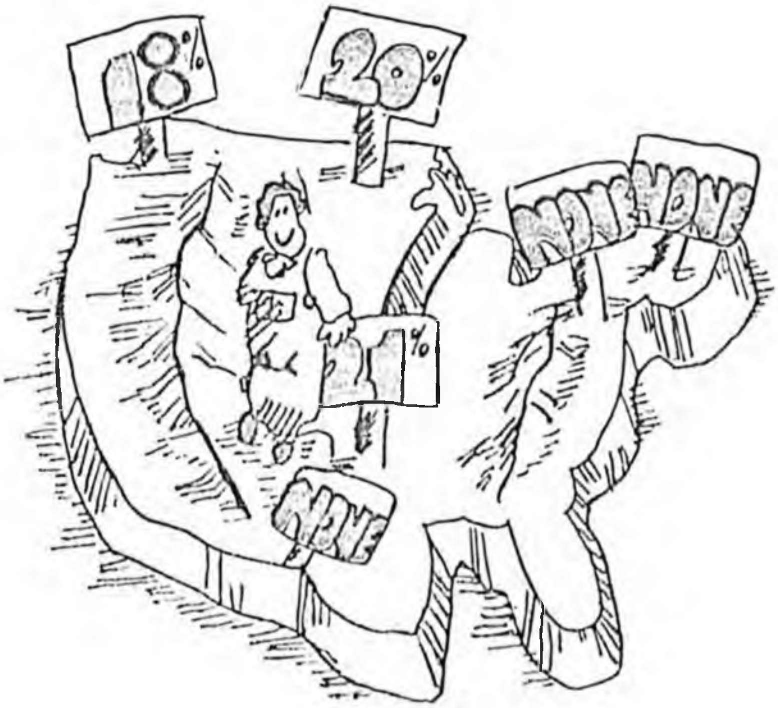
$7.55	— Cost of borrowed funds
$6.79	— Expenses
$14.34	

and the income is only $8.65. This is a *loss* of $5.69. To break even on the $100 credit purchase, the creditor would need to be able to charge an annual percentage rate of at *least 30%.*[6]

We're sure you wonder what the prime rate would have to be for the creditor to break even with an income of $8.65. Well, the prime rate would have to be at 3½%! that rate last occurred in *1955!*[7]

[6] Ray McAlister Ph.D., North Texas State University, March 1980.

[7] SOURCE: Federal Reserve System



For these reasons, we badly need laws which permit us to come somewhere close to covering our costs of offering revolving credit service.

And not only the stores need it — the consumer needs it, too.

Other states have begun to recognize that unless laws are changed to allow retailers to increase finance charge rates to pay for the cost of credit, disastrous things can happen, both to the stores and to the customers.

The states of Arizona, Delaware, Kentucky, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, Oregon and Utah, have deregulated credit by removing all legal limits upon maximum finance charge rates. Eight of these states have deregulated credit since 1980. Rate deregulation allows marketplace competition to determine finance charge rates. Simply, credit deregulation substitutes proven free market economic principles for arbitrary competitive restraints.

As of July 1981, other states with laws that permit retail merchants to charge more than 18% nominal annual percentage rate include Alabama, California, Illinois, Kansas, Michigan, Mississippi, Nebraska, Oklahoma, Colorado, Georgia, Idaho, South Carolina, Texas, and Wyoming.

Research shows that cash prices for merchandise and services in states with low rates are higher than cash prices of the same items in neighboring states.

Cash prices of appliances in Arkansas are from three to seven percent higher than cash prices of the same items in neighboring states.[8] In Washington, many prices jumped immediately after rates were reduced.[9]

This is because the cost of providing credit is still there, though the amount of money generated to pay for it is restricted by law. The retailer has little recourse but to cover this deficit by increasing prices.

And when prices have to be increased to pay for the cost of credit, the cash customer automatically has to pay more, whether he wants to or not.

Unless he decides to buy in a neighboring state where prices are not affected.

It's happening in Arkansas right now.[10] People are actually going out of their way to do their shopping out of state at the borders. Stores in Arkansas border towns are suffering — and merchants across the borders, where prices are lower, are getting extra business.

[8]*SOURCE: Gene C. Lynch, "Consumer Credit at Ten Per Cent Simple: The Arkansas Case," University of Illinois LAW FORUM, Tax Fraud Vol. 1968, Winter Number, pp. 592-620.*

[9]*SOURCE: Guy G. Gordon, and others, THE IMPACT OF A CONSUMER CREDIT LIMITATION LAW, WASHINGTON STATE: INITIATIVE 245, (Seattle: Graduate School of Business Administration, University of Washington, 1970).*

[10]*SOURCE: Roland Stucki, UTAH CONSUMER CREDIT REPORT Supplement to the Report by the Utah State Commissioner of Financial Institutions to the Governor and Legislature of the State of Utah on the Use of Consumer Credit in Utah, (Salt Lake City: State of Utah Department of Financial Institutions, 1970)*

And if a merchant finds himself in a money-losing situation over which he has no control, it isn't good for anyone. New developers are reluctant to come into such an area, while others flock to the other side of the state line. In Arkansas, for example, studies show that outlets of national firms have not expanded at the same rate as outlets in other states which do not have restrictive legislation.[11]

Also, at lower rates, deserving, responsible customers will be denied credit.

Because if the retailer can only recover part of his cost of providing credit, he has to limit the number of new credit customers he can accept. Many others who want it, and who would normally qualify for credit, just can't get it when the rates are restricted.

And if they can't get legitimate credit, it's easier for loan sharks to move in. Sure they're illegal — but studies show they thrive where people are denied legitimate credit.[12] Many people can't pay for unexpected needs out of pocket — they must have credit.

Lower rates just don't work to anyone's advantage, either the retailer or the customer!

The facts of the matter, then, are these: The merchants need more than an 18% annual percentage rate in order to come somewhere close to breaking even on their credit operations. In states where low annual rates have been legislated, both stores and customers have suffered.

We support laws which protect both the customer and the retailer in every state!

[11]*SOURCE: Jan Robert Williams, "The credit deficiency of retailers in Arkansas, "ARKANSAS BUSINESS AND ECONOMIC REVIEW, August, 1976, page 14-19.*

[12]*SOURCE: Paul A. Samuelson, "Statement Before the Committee of the Judiciary of the General Court of Massachusetts in Support of the Uniform Consumer Credit Code," January 29, 1969, pp. 3-4.*

Why have revolving credit at all? Because consumers want it! 88% of all consumers have chosen at some time to buy on credit![13]

Newlyweds, for instance — just starting out, with lots of dreams but not much pocket money.

New parents, who suddenly have new needs, like layetts, playpens, toys and furniture. We know they're good for the money, and we want to help.

Customers who want to take advantage of sales, when prices are especially attractive. Credit lets it happen.

Anyone who wants to enjoy some of life's pleasures now, and pay for them over a comfortable period of time. With credit, they can — in return for a modest charge for the service.

Most people understand this, and agree that the bargain is fair. Credit is a matter of *choice* — a service that comes with a price tag which pays for the convenience of being able to buy now and pay later.

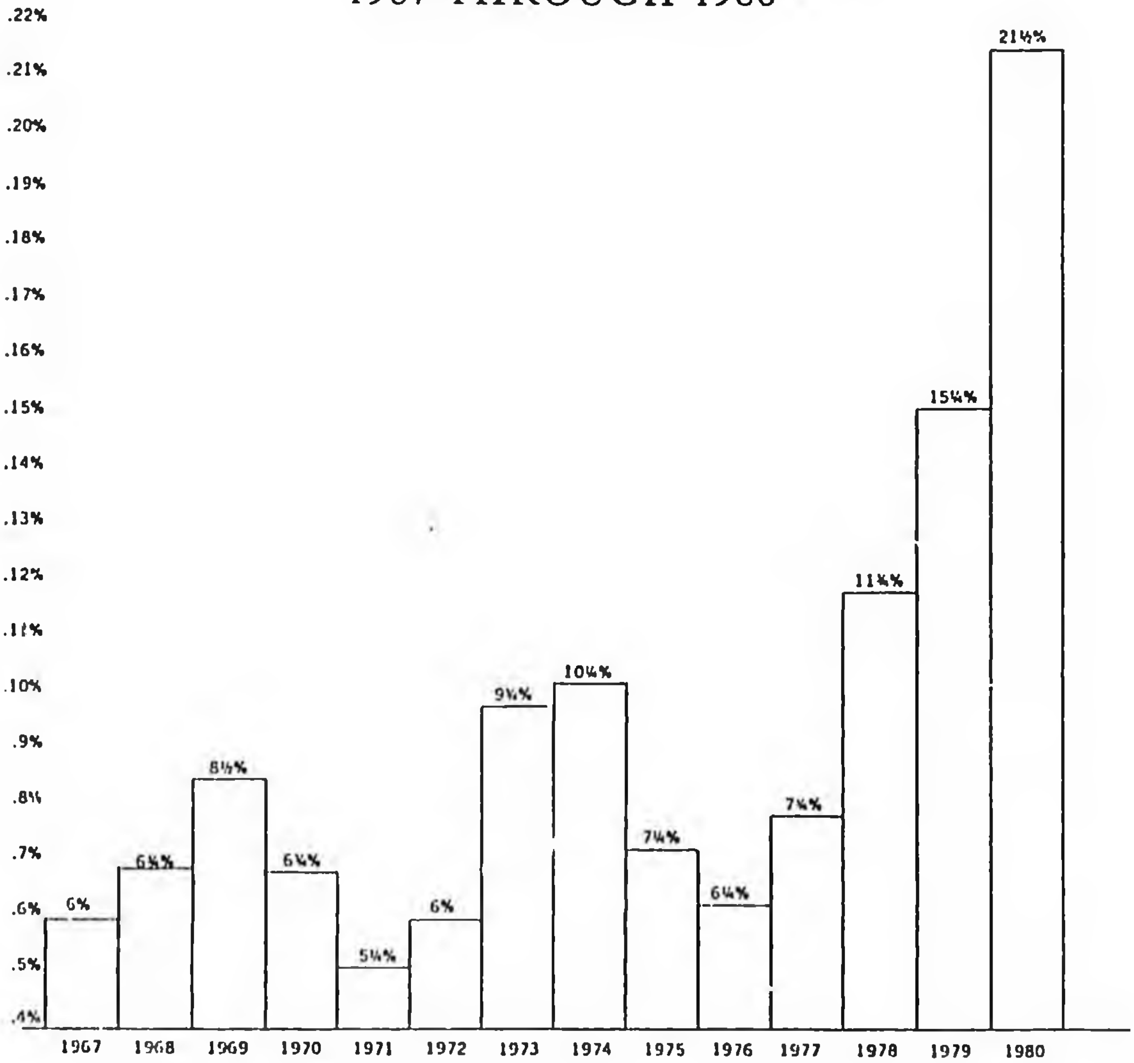
We sincerely believe that credit, properly used, is a vital part of the American way of life.

And we are proud of our part in making it available to those who want it and need it.

But it *must* be on a reasonable basis — at the customer's own choice, and at a rate which assures us we can come reasonably close to meeting the cost of providing the service.

[13] SOURCE: George Katona, and others, 1967 SURVEY OF CONSUMER FINANCES (Ann Arbor, Mich.: Survey Research Center, The University of Michigan, 1968), pp. 38-39.

PRIME RATE AT END OF EACH CALENDAR YEAR 1967 THROUGH 1980[14]



[14]*SOURCE: Federal Reserve System*

New Jersey Bankers Association
499 North Harrison Street, Post Office Box 573, Princeton, New Jersey 08540 609/924-5550

ROBERT C. FORREY
PRESIDENT

June 3, 1983

Honorable Richard Eliason
State Senator
State Capitol, Room 417
Pouch V
Juneau, Alaska 99811

Dear Honorable Richard Eliason:

New Jersey Banking Department's latest report, October 1982 shows average rate on bank credit card loans is Eighteen Point One Percent. Range is from less than eighteen to less than twenty. Under New Jersey Law most loans by licensed lenders including credit cards have no interest ceiling. The rate is agreed between lender and borrower. Maximum loan dollar amount depends on type of lender, with same for banks, savings banks, savings and loans and less for small loan companies, credit unions and retailers. But none have rate ceiling.

New Jersey Criminal Statute does have maximum of 30% for loans to individuals and 50% for loans to corporations, commonly known as loan shark law. Any loan over those figures is criminal usury.

Under law setting market rates without ceiling, our Bank Commissioner files annual report with Legislature on loan funds available to consumers, and rates. Copy of this follows, with copy of Commissioner's January 1983 report.

Sincerely,

RCF:slb
enc.

STATE OF NEW JERSEY
DEPARTMENT OF BANKING

A REPORT OF THE COMMISSIONER OF BANKING CONCERNING
INTEREST RATES ON LOANS AFFECTED BY P.L.1981, c. 103

STATE OF NEW JERSEY
DEPARTMENT OF BANKING
TRENTON 08625

MICHAEL M. HORN
COMMISSIONER

January 11, 1983

To the Members of the Senate and General Assembly:

In compliance with P.L. 1981, c. 103, I submit the Report of the Commissioner of Banking concerning interest rates on loans affected by this law.

This report is based upon a mail survey conducted by the Department of Banking of New Jersey institutions engaged in consumer credit lending. Among those responding to the Department's questionnaire were more than three-fourths of the State's commercial banks, savings banks and savings and loan associations and more than two-thirds of the insurance premium finance, secondary mortgage, and small loan companies licensed by the Department's Consumer Credit Bureau.

Respectfully submitted,

Michael M. Horn

Michael M. Horn
Commissioner

MMH:no

enc.

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Introduction

This is the second report issued by the New Jersey Department of Banking in compliance with P.L. 1981, c. 103, which removed the interest rate limits on virtually all types of consumer credit. The law requires the Commissioner of Banking to monitor the interest rates on loans thereby affected and to report annually to the Legislature "whether or not the elimination of statutory interest rate ceilings as provided herein shall continue or whether or not... (they) shall be reimposed."

In making his report the Commissioner must consider whether:

- a substantial degree of competition exists among lenders with respect to the making of the loans;
- the interest rates being charged on the loans reasonably reflect market conditions; and
- the elimination of the interest rate ceilings has served to increase the availability of consumer loans in this State.

Following the same procedure as when the first report was prepared, this Department conducted a mail survey of the State's commercial banks, savings banks, savings and loan associations, plus companies licensed by the Department's Consumer Credit Bureau to engage in home repair contracting, insurance premium finance, secondary mortgage, small loan, or retail installment sales operations.

The survey questionnaire inquired about the interest rates and dollar volume of loans extended in June and October of 1982 for the various types of consumer credit addressed in the above law. These two months were specified because of the fact that interest rates have generally been on the decline since June. By inquiring about both months the questionnaire was intended to reveal the extent to which New Jersey consumer credit rates were in keeping with overall market patterns. October was considered the latest month for which data could be obtained and still permit completion of the report in in a timely manner.

The results of this second survey indicate, as was the case a year ago, that the interest rate ceilings should not be reimposed at this time. There are several reasons for this determination.

Virtually all interest rates are at least 200 basis points and in some cases more than 300 basis points (100 basis points = 1.00 percent) below their respective levels at year end 1981. From June through October of 1982 the average consumer credit loan rate dropped by more than 160 basis points among those New Jersey commercial banks responding to the Department's survey. While it is not widely believed that significant rate increases will occur in the year ahead, the extent of any possible decreases remains a matter of conjecture. This point will be further discussed in the following section.

In any event, there seems little merit in reimposing ceilings comparable to currently prevailing levels. The rates being charged by the large majority of consumer credit lenders are reasonably reflective of market conditions, in accordance with the second statutory criterion listed above. Any creditworthy resident of this State should, with a minimum of "shopping around," be able to obtain a loan at reasonable cost. Furthermore, at mid-year 1982, the most recent period for which such a statistic is available, the aggregate net income of all New Jersey commercial banks measured .83 percent of total assets. This figure is highly similar to the overall mean and median levels for the prior fifteen years of .84 and .86 percent, respectively. The similarity suggests that banks on the whole are not realizing excessive profits to the detriment of the public interest. Moreover, the latest net income ratios of most thrift institutions are far below normal, with many registering deficits.

It should also be noted that the majority of commercial banks offer six of the eight types of bank consumer credit affected by the statute in question. Therefore, a substantial degree of competition exists among lenders with respect to the making of these loans, in accordance with the first criterion by which the Commissioner of Banking must evaluate the effectiveness of P.L. 1981, c. 103. The two types of consumer credit denoted in the statute and not offered by a majority of banks are education loans, which are generally provided under another statutory loan program supervised by the New Jersey Department of Education, and credit card purchasing. Only a small number of thrift institutions and approximately a fourth of the commercial banks in the state issue credit cards such as Mastercard and VISA. However, it is neither difficult nor inconvenient for creditworthy individuals to obtain such cards from an issuing bank, even if they have no other dealings with that bank.

In the following sections of this report the results of the monitoring survey are examined in terms of the aforenoted statutory provisions which the survey was designed to implement.

<u>Do the interest rates being charged on consumer credit loans reasonably reflect market conditions?</u>

As stated in last year's report, the amount of a given interest rate depends, in addition to the duration of the loan, the creditworthiness of the borrower, and the collateral, upon the general availability of money relative to the demand for credit. It was related in that report that one indicator of the availability of money relative to demand was the ratio of total commercial bank loans nationwide as a percentage of the nation's money supply. In this instance the M3 monetary aggregate, which consists mainly of currency plus the deposits of commercial banks, savings banks, savings and loan associations, and credit unions, was used as the measure of the money supply.

It was further shown that over the years whenever this ratio exceeded 45 percent interest rates would be higher than normal. The fact that this ratio has been above 45 percent for more than four years undoubtedly explains to some extent why interest rates, although below the peak levels of December 1980 and January 1981, are still quite high by any modern standards excluding those of the past ten years.

The commercial bank loan/M3 ratio has dropped marginally from 46.0 percent during Decebmer 1981 to 45.7 percent in November 1982. This reflects the slightly more rapid growth of M3 compared with bank loans through November of '82. The former has risen at an annualized rate of 10.2 percent and the latter by 8.8 percent. This small decline in the loan to money supply ratio plus a generally lower level of inflation in 1982, as contrasted with the prior year, apparently served to bring about the overall decrease in interest rates during the past several months. However, the best working assumption for the coming year appears to be that the loan/money supply ratio, inflation, and interest rates will remain fairly much as they are.

The Federal Reserve reported to Congress in July of 1982 that it intended to maintain for 1983 the same monetary growth targets of the past two years. Given the extraordinarily protracted bottoming out phase of the current recession, the large amount of unused industrial capacity, and the reduction in manufacturers' capital programs, it does not appear likely that commercial bank loan volume will significantly exceed the 1982 rate of expansion. While there are some fears that the Federal budget deficit will absorb an undue amount of the 1983 increase in the money supply, it is premature to anticipate such an event as a certainty. Accordingly, from the current vantage point the bank loan/money supply ratio and certain basic short term rates such as that of the 3-month U.S. Treasury bill may fluctuate very little from present levels, nor might they be expected to.

For instance, from 1963 through 1965, when inflation measured less than 2 percent annually and real increases in the gross national product were at least 4 percent each year, the 3-month "T-bill" interest rate tended to be some 200 to 225 basis points above the consumer price index growth rate. During the extended period of high inflation that followed, interest rates often reflected negative values when those high rates of inflation were deducted. If, however, it is assumed that current inflation is approximately 5 percent, then the three-month T-bill might be expected to carry an interest rate of about 7.25 percent. Currently this instrument is trading at about 7.85 percent, which does not appear unreasonable in light of the high bank loan/money supply ratio. In other words, money is still relatively tight.

Because depository institutions are still paying relatively high interest on certain instruments issued several months ago, such as the 2½-year certificate, the rates on some loans, such as the prime, may decrease a bit more as such certificates mature and there is further moderation in deposit costs. However, this tendency will be negatively affected by the newly introduced money market accounts, which have no rate limit, and which are already being offered to the public by some institutions at rates of over 11 percent. Those institutions have generally announced that such rates are subject to change after the first month, an indication that the rates may be less out of line with those of most short term instruments as the new year progresses and dollars are "repatriated" from money market mutual funds.

As concerns longer term instruments, maturing in a year or more, an inflation premium currently appears to exist. That is, because of the rapid price increases of the last several years, lingering fears about renewed double digit inflation are apparently causing these longer term issues to carry higher than normal interest rate differentials relative to short term instruments. Therefore, the longer that the nation can maintain an inflation rate comparable to the pattern since March of 1981, when fuel prices began to decline, the more likely that rates on multiple year instruments will diminish somewhat.

In the monitoring survey commercial banks, savings banks, and savings and loan associations were questioned about the seven types of credit listed below. Virtually all responses from savings banks and savings and loan associations were limited to the first four items. For banking institutions N.J.S.A. 17:9A-53 et seq., containing the Article 12 provisions, controls all but the last item, which is governed by the Retail Installment Sales Act, N.J.S.A. 17:16C-1 et seq. For savings and loan associations the authority to engage in the first four types of consumer credit lending derives from N.J.S.A. 17:12B-155 et seq.

1. Personal loan, unsecured

2, 3. Direct loan for new and used automobiles

4. Home improvement/secondary mortgage loan

5. Cash advance through credit card/overdraft checking loan

6. Small business loan

7. Purchases with credit card

Most depository institutions making education loans do so under other statutory provisions than those embraced in P.L. 1981, c. 103. Therefore, the Department's survey did not obtain data on this type of loan.

In order to determine what constitutes a reasonable interest rate under present money conditions, an examination was made of interest rate levels just prior to the passage of the April 1976 legislation which established a 12 percent limit on Article 12 loans. It is believed that this ceiling rate was subsequently utilized on most loans of this type.

In the current analysis, U.S. Treasury issues having a three to five year maturity served as the basis for the past versus present comparision. During the first four months of 1976 these Treasury instruments revealed an average interest rate of 7.15 percent, while the monthly average for October 1982 was almost exactly 50 percent higher. If the 12 percent statutory limit which prevailed at the time on Article 12 loans was raised by a magnitude of one half, the result, obviously, would be 18 percent. According to this rationale, the consumer credit interest rates being charged by New Jersey's depository institutions are not excessive when judged by the rate patterns prevailing in October of 1982.

Commercial Banks

As demonstrated in Table 1, 18 percent was the most common overall interest rate charged by commercial banks in October '82 for unsecured personal loans, this figure being both the median (mid point) and mode (most frequently reported). The average rate charged for loans of this type was 17.93 percent. The lowest rate distribution for any kind of consumer credit extended by commercial banks was reflected in new automobile loans, where the average October rate was 15.54 percent, the median 15.38, and the mode 15. The fact that the bank holds title to a tangible asset - the automobile itself - is presumably one reason for the lower rate levels on this type of loan.

Those types of consumer credit reflecting the highest interest rate distributions for commercial banks were Article 12A loans (cash advance through credit card/overdraft checking) and credit card purchases. In the first instance the average reported rate was 18.18 percent, the median and mode both 18 percent. Among the 22 percent of reporting commercial banks which issue credit cards, 18.10 percent was the average rate charged, the median and mode being 18 percent. Moreover, three fourths of the banks issuing credit cards charged no more than 18 percent, although all but one bank required a fee. In every instance except one the fee matched the statutory limit of $15, while the lone exception was $12. A $15 fee could be considered to add up to 200 basis points to the effective annual interest rate on an average outstanding credit card loan balance.

Savings Banks and Savings and Loan Associations

As related above, the kinds of consumer credit offered by savings banks and savings and loan associations are confined essentially to unsecured personal, new and used car, and home improvement/secondary mortgage loans. It can be seen from Table 1 that there is a high degree of similarity among the three types of depository institutions in terms of the interest rate distribution for each of these four kinds of loans.

The degree of difference in interest rates shown by commercial banks, for example, on a given type of loan tends to be larger than the degree by which commercial banks loan rates, on the whole, differ from savings bank rates or S&L rates with respect to the same kind of loan. To illustrate this point it can be noted in Table 1 that the October '82 savings bank mean rate for new automobile loans, 14.90 percent, is 92 basis points below the comparable mean of 15.82 percent reflected by savings and loan associations. This is the widest amount of discrepancy between the mean rate of one type of institution and that of another type involving the same kind of loan.

However, when an examination is made of the levels of standard deviation from the mean reflected by any single type of depository institution for any of the four kinds of loans in question, the smallest level is found to be 118 basis points, which occurs in the case of commercial bank new car loans.

In other words, the interest rate on a new car loan issued by one commercial bank tends to differ from that of another commercial bank by a greater margin than commercial bank new car loan rates in general differ from the new car loan rates of savings banks or savings and loan associations as a whole. Accordingly, as has been stated in the case of commercial banks, the interest rates being charged by thrift institutions reasonably reflect existing market conditions.

Lenders licensed by the Department of Banking Consumer Credit Bureau

In Table 2 the October '82 interest rate patterns are shown for licensees engaged in one or more of the following types of lending: retail installment sales, home repair, and insurance premium finance contracts, plus secondary mortgage and small loans. Retail installment sales contracts written in October of 1982 reflected mean and median interest rates of 22.01 and 22.41 respectively, and a mode of 24 percent. In order to compare these rates with those statutory ceilings formerly in effect, it can be noted that rates on the three to five year Treasury instruments in October of '82 were some 168 percent higher then they had been in 1960, when the statutory ceilings in question were established. If those ceilings were expressed as annual percentage rates and raised by 168 percent, then the maxium permissible interest rates on all types of retail installment sales contracts would be in excess of 30 percent.

Home repair contracts and secondary mortgage loans, whose former statutory interest rate ceilings also date from 1960, would, likewise, have reflected hypothetical interest rate limits in October '82 of more than 30 percent if those ceilings were increased by the aforesaid 168 percent. The mean levels obtained in the survey were 18.5 percent and 20.16 percent, respectively, for home repair contracts and secondary mortgage loans extended in October of 1982.

Similarly, small loans and insurance premium finance contracts, whose former statutory interest rate ceilings were established in 1967, would have reflected ceilings of 36 and 25 percent, respectively, if these 1967 statutory limits had kept pace with interest rate rises through October of '82 in the three to five year Treasury instruments. In this context, the October '82 mean levels revealed by the survey of 26.84 percent in the case of small loans and 19.87 percent for insurance premium finance contracts are not inconsistent with the prior ceilings.

Department Store Retailers

Ten of the larger department stores operating in New Jersey were contacted by telephone on January 7, 1983 for the purpose of recording their existing charge account interest rates. The distribution pattern of these rates is related in Table 6, with the respective mean and median being 19.9 and 19.8 percent. On the whole these rates show very little change from a year ago, when the respective mean and median were 19.6 and 19.8 percent. The high and low rates remain the same, these being 21.6 and 18 percent. The former statutory ceilings on this type of retail installment credit permitted a maximum interest rate of 18 percent on balances up to $700 and 12 percent on higher amounts. These rate limits were enacted in 1971, when three to five year U.S. Treasury instruments reflected an average annual rate only slightly more than half the comparable current level.

Does a substantial degree of competition exist?

As shown in Table 3, over 95 percent of the responding commercial banks are offering unsecured personal loans, new and used car loans, and home improvement/secondary mortgage loans. More than three fourths are offering Article 12A credit (cash advance through credit card/overdraft checking). More than half, 59 percent, engage in small business loans. Given this degree of credit availability, the distribution of interest rates, and the generally reasonable levels of these rates, a substantial degree of competition could be said to exist with respect to the making of the above types of loans.

As indicated in Table 4, among a majority of commercial banks responding to the survey, automobile and business loans as well as credit card purchases all show higher volumes of activity in October 1982 as contrasted with August of '81, the month examined in the prior year's survey. However, a majority of commercial banks also reflected lower volume with respect to unsecured personal loans, home improvement/secondary mortgage and Article 12A loans.

Nationwide commercial bank data published by the Federal Reserve for these same two months reveal a greater level of extensions in October '82 for credit purchases and automobile loans, and a decrease in all other types of consumer credit as a whole. Therefore, the patterns of increase and decline suggested in Table 4 appear to be in keeping with national trends.

Retail installment credit paper and home improvement paper were issued by less than half of the responding commercial banks (Table 5).

New Jersey savings banks reveal approximately the same dollar levels of loan extensions in October '82 as in August of '81 for unsecured personal loans, new and used car loans, and home improvement/secondary mortgage loans. With respect to savings and loan associations the major change between these two periods appears to be that a greater number of associations are now making automobile loans. In August of '81 24 associations were writing new car loans and only 13 showed any used car activity. In October '82 32 associations extended new car loans and 26 were underwriting used car purchases. Home improvement/secondary mortgage loans represented the most prevalent type of consumer credit lending for S&Ls, with 83 of the 114 responding associations providing such credit in October of '82.

Has elimination of the interest rate ceilings served to increase the availability of consumer loans?

In June of 1982 New Jersey commercial banks in the aggregate reflected an 11.1 percent ratio of total expenses to liabilities and notes. Had total expenses been expressed as a ratio of earnings assets, the result would have been in excess of 12 percent. Accordingly, it seems reasonable to assume that banks would, to a significant extent, have sought other lending and investment possibilities if limited to a 12 percent return on consumer credit loans. Total expenses of savings banks at mid-year 1982 measured more than 11 percent of assets, while state chartered savings and loan associations reflected total expenses equalling 11.8 percent as of October 1982. Therefore, it is likely that thrift institutions would not generally have offered 12 percent consumer loans given the prevailing interest rate climate.

TABLE 6

PREVAILING INTEREST RATES ON CHARGE ACCOUNTS
AMONG 10 SELECTED DEPARTMENT STORE RETAILERS
WITH OUTLETS IN NEW JERSEY

JANUARY 7, 1983

(Abraham and Straus, Bamberger's, Bloomingdale's, Clover, J.C. Penney Company, Jefferson Ward, Lord & Taylor, Ohrbach's, Sears, Roebuck and Co., Sterns)

21.6%	- 1
21.5	- 1
21	- 1
19.9/19.8	- 5
18	2

TABLE 1

MOST COMMON INTEREST RATE
JUNE/OCTOBER 1982
COMMERCIAL BANKS, SAVINGS
BANKS, S&L ASSOCIATIONS

	Personal Loan, Unsecured		Direct Loan, New Automobile		Direct Loan, Used Automobile		Home Improvement/ Secondary Mortgage Loan	
	June	October	June	October	June	October	June	October
Mean								
Commercial Banks	19.32	17.93	17.77	15.54	18.80	16.91	18.33	16.43
Savings Banks	19.75	18.15	17.80	14.90	18.70	16.05	18.20	15.98
S&Ls	19.47	18.30	17.55	15.82	18.48	16.78	18.05	16.49
Mode								
Commercial Banks	19	18	18	15	18	17	18	16
Savings Banks	19	19	18	14	19	15	18	14
S&Ls	20	18	18	15	18	15	18	15
Lowest								
Commercial Banks	16	15	15	13.50	16	14	16	14
Savings Banks	18	15	16	13.50	17.50	14	16.50	14
S&Ls	17	15	16	14.50	16	14.50	15	14
First Quartile								
Commercial Banks	18	17	17	14.88	18	16	18	15.50
Savings Banks	19	17.25	17.50	13.88	18	14.88	17.88	14.56
S&Ls	18	17.63	16.75	15	17.50	15.13	17.50	16
Median								
Commercial Banks	19	18	18	15.38	19	17	18	16
Savings Banks	20	18.75	18	14.35	19	16.25	18.25	16.25
S&Ls	18	19	18	15.50	18	16.13	18	16
Third Quartile								
Commercial Banks	20	19	18	16	19	18	19	17.50
Savings Banks	20.63	19	18	16	19	17	19	17.50
S&Ls	20	19.50	18	16.13	19	17.50	18.50	17.50
Highest								
Commercial Banks	25	21	21	19	22	21	22	19
Savings Banks	21	21	19	18	20	19	19	18
S&Ls	25	21	21	21	28	26.50	21	21

TABLE 2

MOST COMMON INTEREST RATE
OCTOBER 1982
CONSUMER CREDIT LICENSEES

	Retail Installment Sales Contracts 26*	Home Repair Contracts 14*	Small Loans 27*	Secondary Mtg. Loans 51*	Insurance Premium Finance Contracts 42*
Mean	22.01	18.5	26.84	20.16	19.87
Mode	24	19	30	18	18
Lowest	16.5	13	15	17	10.24
First Quartile	18	17.75	24	18	15.19
Median	22.41	19	29	19.25	18
Third Quartile	24.65	19.13	30	22	21.81
Highest	30	24	30	29	30

* Number of licensees answering question

TABLE 3

Tabulation of responses to main questions among commercial banks responding to Department's consumer credit survey

	Most common interest rate (average)		Amount extended ($1,000)
	6-82	10-82	10-82
(Article 12, Class I) Personal loans, unsecured	98* 19.32	99* 17.93	98* 20,174
(Article 12, Class I) Direct loan, new automobile	98* 17.77	99* 15.54	98* 27,295
(Article 12, Class I) Direct loan, used automobile	97* 18.80	98* 16.91	71* 5,594**
(Article 12, Class II) Home imp./secondary mortgage	95* 18.83	96* 16.43	94* 14,872
(Article 12A) Cash advance thru credit card/overdraft checking loan	78* 18.34	79* 18.18	73* 27,937
(Article 12B) Small business loan	57* 18.80	59* 16.72	61* 6,548
Credit card purchases	22* 16.02	22* 18.10	20* 35,487

* Percentage of commercial banks answering question

** Most used car loan volume is reflected in new car data

TABLE 4

Tabulation of loan volume responses among commercial banks responding to Department's consumer credit survey

	Higher Loan Volume Reported	
	October '82	August '81
(Article 12, Class I) Personal loans, unsecured	38%	62%
(Article 12, Class I) Direct loan, new automobile	68	32
(Article 12, Class I) Direct loan, used automobile	71	29
(Article 12, Class II) Home imp./secondary mortgage	40	60
(Article 12A) Cash advance thru credit card/overdraft checking loan	44	56
(Article 12B) Small business loan	74	26
Credit card purchases	67	33

TABLE 5

Tabulation of responses to questions concerning retail installment credit paper and home improvement paper among commercial banks responding to Department's consumer credit survey

	Most Common Interest Rate (average)		Amount Purchased ($1,000)
	6-82	10-82	10-82
Retail installment credit paper for new automobiles	44* 17.76	44* 16.10	44* 33,537
Retail installment credit paper for used automobiles**	48* 19.94	49* 18.38	36* 6,919
Retail installment credit paper for purchases other than automobiles	35* 18.78	36* 17.72	35* 4,575
Home improvement paper	11* 18.77	10* 18.11	10* 2,818

* Percentage of commercial banks answering question

** Some used automobile paper purchases reflected in new automobile data

State Credit Union Loan Rate Ceilings

SUMMARY

- As of January 1, 1983 all states had authorized credit unions to charge a loan interest rate in excess of 12% per year. Most of these rate changes were effected legislatively within the last five years.
- Thirteen states within the past two years have moved to an essentially deregulated loan rate structure, California, South Carolina, and Louisiana having done so in 1982 and Idaho in 1983. This generally means the parties concerned are free to determine loan rates.
- Some of the state rate changes are temporary in nature, due to expire within the next two or three years. Thus far in 1983, Montana and New Mexico have made permanent the removal of usury ceilings of regulated lenders--legislation that was to expire July 1.

No interest rate ceiling in credit union act; rate determined by credit union through method indicated:

Arizona -- Board of Directors. [§6-513(B)(2)]

California -- Board of Directors. [§15000]

Connecticut -- Set by board of directors, but requires prior approval of Bank Commissioner. Commissioner may not approve rates exceeding those allowed a federal credit union or federally insured credit union. Under "most favored lender" doctrine, federally insured credit unions in Connecticut ruled to be not subject to any interest rate limitations. Non-federally insured credit unions also ruled to be unlimited as to rates. [§36-206(a), §37-9; Declaratory Ruling of Bank Commissioner, 8/10/81]

Illinois -- Board of Directors. [§4447(1)]

Louisiana -- Board of Directors, subject to Commissioner approval. [§6:654(A)]

New Hampshire -- By the bylaws or vote of the members. [§394-B:35(VI)]

Oregon -- Board of Directors. [§723.296]

Puerto Rico -- Board of Directors. [§16]

South Carolina -- May charge 18% or any rate it files with the Department of Consumer Affairs and posts at its places of business. [§37-3-201(2)]

Source: CUNA State Governmental Affairs
July 1983 (Rev.)
1WP591482

Rate determined by agreement of parties; subject to indicated restrictions:

Idaho -- Subject to disclosure requirements of Consumer Credit Code. [§28-42-201]

Montana -- Credit unions exempt from interest rate limit in credit union act. [§31-1-106]

Nevada -- No restrictions in act. [§678.710]

New Jersey -- 30% ceiling in criminal usury statute. [§17:13-42, §2c:21-19]

New Mexico -- Certain disclosures to borrowers must be made. [§58-11-17]

New York -- Until June 30, 1987 subject only to 25% ceiling in state's criminal usury statute. [§453(5a), §190.40]

Virginia -- Installment loans not limited. Rate on non-installment loans not to exceed 1-1/2% per month. [§6.1-330.18]

Interest rate indexed to specified market rate indicator:

Alabama -- May charge rates under Consumer Code, or 2% above prime rate of three largest New York banks. If open-end credit, the maximum finance charge is 1-3/4% per month on first $750 and 1-1/2% per month on excess. A surcharge of 2% of amount financed, not to exceed $20, also allowed. Another alternate allows a financial institution to charge the same rate authorized any other financial institution in state. [L. 1982, Act 82-271]

Minnesota -- 12%, or 4-1/2% above the Federal Reserve discount rate, whichever is greater. [§52.14, §48.195]

Rhode Island -- 21%, or the Treasury bill index for preceding week, plus 9 percentage points, whichever is greater. [§6-26-2]

Tennessee -- 18%, or 5% above the Federal Reserve discount rate or the rate federal credit unions are authorized, whichever is greater. [§45-4-602]

Texas -- Interest charged may equal twice the average rate for 26-week treasury bills during the preceding week, not to exceed 24%. [§7.01]

Washington -- Credit unions may charge interest rates up to 4% above the rate on Treasury bills during the preceding month. [Laws of 1981, H. 143]

Interest rate not to exceed 1-1/4% per month (15% per annum) on unpaid balance:

Alaska -- Unless higher rate provided by regulation. [§06.45.060A]

Georgia -- Or rates allowed federal credit unions, whichever is greater. [§§41A-3109(a), 41A-102]

Michigan -- 16-1/2% on motor vehicle loans. [§490.14]

Pennsylvania -- [§15-12319]

Interest rate not to exceed 1-1/2% per month (18% per annum) on unpaid balance:

Florida	[§657.038(1)]	Mississippi	[§81-13-39]
Hawaii	[§410-15(a)]	Nebraska	[§21-1773(6)]
Kentucky	[§290.200]	West Virginia	[§31-10-16]

Interest rate in statute is applicable unless a higher rate is approved by regulatory authority:

North Carolina -- Statutory rate is 18%. Commission may set rate up to that of federal credit unions. [§54-109.65]

Vermont -- Statutory rate is 12%. Supervisor set rate at 18 to 24%. [§8-2078(a)]

Interest rate subject to indicated maximum in state's consumer credit code:

Alabama -- May charge rates under Alabama Consumer Credit Code or alternate rate indexed to prime rate. (See page 2)

Colorado -- For closed-end credit, either 36% on unpaid balance up to $630 and 21% on part of unpaid balance over $630 up to $2,100, or 21% on total unpaid balance. For open-end credit, 21% on total unpaid balance of principal. [§11-30-114; §5-3-508(2),(3)]

Indiana -- For both open and closed-end credit, either 36% on part of unpaid balance up to $660; 21% on part over $660 up to $2,200, and 15% on part of unpaid balance over $2,200, or 21% on entire unpaid balance, whichever is greater. [§§24-4.5-3-508, 28-7-1-16(b)]

Iowa -- Rate ceilings are: For closed-end credit, 21% per year on the unpaid balance. For new car loans, 21% and for loans on used cars over 2 years old, 24%. For open-end credit, 18% on part of unpaid balance up to $500 and 15% on remainder. On real estate loans entirely lifted. [§537.2401, 2402]

Kansas -- Code allows 18% on balances under $1,000 and 14.45% on amounts exceeding $1,000. For any consumer loan an alternative 21% interest ceiling on the entire outstanding balance is in effect until July 1, 1985. Credit unions