

MAINE STATE LEGISLATURE

The following document is provided by the
LAW AND LEGISLATIVE DIGITAL LIBRARY
at the Maine State Law and Legislative Reference Library
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied
(searchable text may contain some errors and/or omissions)

ONE HUNDRED AND SEVENTH LEGISLATURE

Legislative Document

No. 1654

H. P. 1350

House of Representatives, April 3, 1975

On motion of Mr. Bustin of Augusta, referred to the Committee on Business Legislation. Sent up for concurrence and ordered printed.

EDWIN H. PERT, Clerk

Presented by Mrs. Boudreau of Portland.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED
SEVENTY-FIVE

AN ACT Relating to the Rebate of Unearned Finance Charges under the
Maine Consumer Credit Code.

Be it enacted by the People of the State of Maine, as follows:

9-A MRSA § 2-510, as enacted by PL 1973, c. 762, § 1, is repealed and the following enacted in place thereof:

§ 2-510. Rebate upon prepayment

1. Except as provided in subsection 2, upon prepayment in full of the unpaid balance of a precomputed consumer credit transaction, an amount not less than the unearned portion of the finance charge calculated according to this section shall be rebated to the consumer. If the rebate otherwise required is less than \$1, no rebate need be made.

2. Upon prepayment in full, but not upon a refinancing, section 2-504, of a consumer credit transaction, whether or not precomputed, other than one pursuant to open-end credit, the creditor may collect or retain a minimum charge of \$5 in a transaction which had an amount financed of \$75 or less, or \$7.50 in a transaction which had an amount financed of more than \$75, if the minimum charge was contracted for and the finance charge earned at the time of prepayment is less than the minimum charge contracted for.

3. In the following subsections these terms have the meanings ascribed to them in section 2-503, subsection 1: Computational period, deferral, deferral period, periodic balance, standard deferral, sum of the balances method and transaction.

4. If, with respect to a transaction payable according to its original terms in no more than 48 instalments, the creditor has made either:

A. No deferral or deferral charge, the unearned portion of the finance charge is no less than the portion thereof attributable according to the sum of the balances method to the period from the first day of the computational period following that in which prepayment occurs to the scheduled due date of the final instalment of the transaction; or

B. A standard deferral and a deferral charge pursuant to the provisions on a standard deferral, the unpaid balance of the transaction includes any unpaid portions of the deferral charge and any appropriate additional charges incident to the deferral, and the unearned portion of the finance charge is no less than the portion thereof attributable according to the sum of the balances method to the period from the first day of the computational period following that in which prepayment occurs except that the numerator of the fraction is the sum of the periodic balances, after rescheduling to give effect to any standard deferral, scheduled to follow the computational period in which prepayment occurs. A separate rebate of the deferral charge is not required unless the unpaid balance of the transaction is paid in full during the deferral period, in which event the creditor shall also rebate the unearned portion of the deferral charge.

5. In lieu of computing a rebate of the unearned portion of the finance charge as provided in subsection 4, the creditor:

A. Shall, with respect to a transaction payable according to its original terms in more than 48 instalments, and a transaction payable according to its original terms in no more than 48 instalments as to which the creditor has made a deferral other than a standard deferral; and

B. May, in other cases, recompute or redetermine the earned finance charge by applying, according to the actuarial method, the annual percentage rate of finance charge required to be disclosed to the consumer pursuant to law to the actual unpaid balances of the amount financed for the actual time that the unpaid balances were outstanding as of the date of prepayment, giving effect to each payment, including payments of any deferral and delinquency charges, as of the date of the payment. The administrator shall adopt rules to simplify the calculation of the unearned portion of the finance charge, including allowance of the use of tables or other methods derived by application of a percentage rate which deviates by not more than $\frac{1}{2}$ of 1% from the rate of the finance charge required to be disclosed to the consumer pursuant to law, and based on the assumption that all payments were made as originally scheduled or as deferred.

6. For transactions in which payments are not scheduled to be made in substantially equal instalments at equal periodic intervals, the administrator shall adopt rules consistent with this section providing for the calculation of the unearned portion of the finance charge.

7. Except as otherwise provided in subsection 5, this section does not preclude the collection or retention by the creditor of delinquency charges, section 2-502.

8. If the maturity is accelerated for any reason and judgment is entered, the consumer is entitled to the same rebate as if payment had been made on the date judgment is entered.

9. Upon prepayment in full of a precomputed consumer credit transaction by the proceeds of consumer credit insurance, section 4-103, the consumer or his estate is entitled to the same rebate as though the consumer had prepaid the agreement on the date the proceeds of insurance are paid to the creditor, but no later than 10 business days after satisfactory proof of loss is furnished to the creditor.

STATEMENT OF FACT

This Act will limit the use of the rule of 78's to consumer credit transactions of 48 months or less. The rule of 78's is a method for computing the unearned finance charge when a consumer prepays an obligation where the finance charge had been precomputed. On long-term obligations, refund of the unearned finance charge using the rule of 78's may result in a substantial penalty being assessed against the consumer who merely wishes to terminate the obligation.