

# MAINE STATE LEGISLATURE

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1 (After Deadline)  
2 SECOND REGULAR SESSION  
3

4 ONE HUNDRED AND TWELFTH LEGISLATURE  
5

6 Legislative Document

No. 2043

8 S.P. 811

In Senate, February 21, 1986

9 Approved for introduction by a majority of the Legislative Council  
10 pursuant to Joint Rule 27.

11 Reference to the Committee on Business and Commerce suggested and  
ordered printed.

JOY J. O'BRIEN, Secretary of the Senate

Presented by Senator McBreairty of Aroostook.

12  
13 STATE OF MAINE  
14

15 IN THE YEAR OF OUR LORD  
16 NINETEEN HUNDRED AND EIGHTY-SIX  
17

18 AN ACT to Enable the Availability of Credit  
19 through Finance Companies in the  
20 State.  
21

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

24 9-A MRSA §2-308, sub-§3, as enacted by PL 1973,  
25 c. 762, §1, is repealed and the following enacted in  
26 its place:

27 3. No consumer loan on which the annual percent-  
28 age rate disclosed is greater than 18% may provide  
29 for a rate greater than 8% per year on the unpaid  
30 balances of the principal remaining unpaid at the ex-  
31 piration of 6 months after the scheduled maturity  
32 date of that loan. No loan may be deferred, renewed,  
33 refinanced or consolidated to circumvent or evade the  
34 provisions of this subsection. The administrator  
35 shall, by rule, identify those practices which con-  
36 stitute prima facie evidence of circumvention or eva-  
37 sion of this subsection.

1

STATEMENT OF FACT

2           The purpose of this bill is to remove from state  
3 law a nearly 20-year-old provision that was responsi-  
4 ble for the elimination of finance company business  
5 from the State. That provision, the so-called  
6 "37-month rule," was enacted in the late 1960's in  
7 response to what was considered to be abusive prac-  
8 tices by finance companies in keeping consumers con-  
9 tinuously in debt to them through the practice of  
10 flipping. The 37-month rule provided that a loan  
11 with an interest rate greater than 18% must be paid  
12 out within 37 months of its original contract date or  
13 else the rate on it, and any other loans that the  
14 lender had with that consumer, would drop to a rate  
15 of 8%. This bill achieved its intended result: With-  
16 in a few years, all finance companies had left the  
17 State.

18           Maine is unique in its dealing with finance com-  
19 panies. In no other state is there similar legisla-  
20 tion the result of which has been to eliminate fi-  
21 nance companies from among the financial service  
22 providers that exist within those states.

23           The approach taken in this bill is to strike a  
24 balance between the needs for strong consumer  
25 protections and the realities of the economic market-  
26 place. There are certain areas of the State where  
27 the borrowing needs of consumers are not being satis-  
28 fied and in which finance companies could return and  
29 provide helpful economic competition. This bill re-  
30 moves the impediment to their returning. At the same  
31 time it provides for protections against the practice  
32 of flipping by specifying that the Superintendent of  
33 Consumer Credit Protection adopt rules that will de-  
34 fine the practice of flipping so that it is effec-  
35 tively prohibited.

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