

MAINE STATE LEGISLATURE

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FIRST REGULAR SESSION

ONE HUNDRED AND THIRTEENTH LEGISLATURE

Legislative Document

NO. 311

H.P. 243

House of Representatives, February 6, 1987

Reported by Representative RYDELL from the Committee on Banking and Insurance. Sent up for concurrence and ordered printed. Approved by the Legislative Council on April 15, 1986.

Reported from the Joint Standing Committee on Banking and Insurance under Joint Rule 19.

EDWIN H. PERT, Clerk

STATE OF MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND EIGHTY-SEVEN

1 AN ACT to Enable the Availability of Credit
2 through Finance Companies in the
3 State.
4

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

7 Sec. 1. 9-A MRS A §2-303-A is enacted to read:

8 §2-303-A. Administrative license suspension

9 1. The administrator may suspend a license to
10 make supervised loans, for a period not to exceed 60
11 days, if he finds after notice and opportunity for
12 hearing that the licensee has violated this Code or
13 any rule made pursuant to this Code. The authority
14 to suspend a license shall be in addition to other
15 rights of the administrator, including the right to

1 seek suspension or revocation of a license through
2 the Administrative Court, pursuant to section 2-303.

3 2. No suspension of a license pursuant to this
4 section may impair or affect the obligation of any
5 preexisting lawful contract between the licensee and
6 any debtor.

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8 PL 1973, c. 762, §1, is repealed and the following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

10 3. No consumer loan on which the annual percent-
11 age rate disclosed is greater than 18% may provide
12 for a rate greater than 8% a year on the unpaid bal-
13 ances of the principal remaining unpaid at the expi-
14 ration of 6 months after the scheduled maturity date
15 of that loan. No loan may be deferred, renewed, re-
16 financed or consolidated to circumvent or evade the
17 provisions of this subsection. The administrator
18 shall, by rule, identify those practices which con-
19 stitute prima facie evidence of circumvention or eva-
20 sion of this subsection.

21 STATEMENT OF FACT

22 This bill is a result of a study approved by the
23 Legislative Council conducted by the Joint Standing
24 Committee on Business and Commerce after similar leg-
25 islation was withdrawn during the Second Regular Ses-
26 sion of the 112th Legislature. The committee decided
27 to submit this bill, as proposed by the Bureau of
28 Consumer Credit Protection, because it would be a
29 good starting point for further legislative discus-
30 sions to see if there is a need for a change.

31 Current law, referred to as the 37-month rule,
32 provides that a loan with an interest rate greater
33 than 18% must be paid out within 37 months of its
34 original contract date or else the rate on it, and
35 any other loans that the lender had with that consum-
36 er, would drop to a rate of 8%. The measure was en-
37 acted in the late 1960's in order to prevent the abu-
38 sive practice by finance companies called "flipping,"
39 which kept consumers continuously in debt. The re-

1 sult of this law was that all finance companies even-
2 tually left the State.

3 The approach taken in this bill is a balance be-
4 tween consumer protection and softening loan require-
5 ments in order to encourage another means of credit
6 for residents of the State. The bill allows the con-
7 sumer and lender to establish whatever maturity date
8 they want on loans with interest over 18%. It keeps
9 the interest-after-maturity concept by requiring a
10 rate reduction to 8% if the loan remains unpaid 6
11 months after maturity. It allows refinancings which
12 will have the effect of allowing the time clock to be
13 reset. A refinancing undertaken to circumvent the 8%
14 reduction will not be allowed. Other loans with the
15 same consumer will not suffer the penalty rate if the
16 interest after maturity provision is triggered on a
17 particular loan.

18 The bill allows the bureau to suspend a license
19 for a maximum of 60 days. Currently, licenses can
20 only be suspended by action of the Administrative
21 Court. This change will give the bureau the ability
22 to respond promptly to situations of abuse. Licens-
23 ees' rights are still protected, because licensees
24 have the right to appeal any decision to court.

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