

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0610-04
Bill No.: HCS for SCS for SB 186
Subject: Banks & Financial Institutions, Credit & Bankruptcy, Savings & Loans,
 Department of Economic Development, Consumer Protection
Type: Original
Date: May 14, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials with the **Department of Economic Development–Division of Finance** and **Division of Credit Unions** assume the proposal will have no fiscal impact on their agencies.

In response to previous similar legislation, officials with the **Department of Insurance** and the **Office of the Attorney General** assumed the proposal would have no fiscal impact on their agencies.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Financial institutions and payday lenders would be required to meet the stipulations of the proposal.

DESCRIPTION

This bill amends various laws dealing with small consumer credit loans and title loans. In its main provisions, the bill:

- (1) Redefines "consumer credit loans" to mean loans for personal, family, or household uses that are made in amounts of \$500 or more. The loans are also often referred to as "small loans";
- (2) Allows consumer credit lenders to renew their licenses by posting a surety bond or an irrevocable letter of credit for \$100,000, in lieu of conducting the annual audit otherwise required by law;

DESCRIPTION (continued)

- (3) Removes personal dwellings from the definition of "titled personal property" for purposes of determining property eligible to be collateral for title loans;
- (4) Clarifies that all information submitted by a title lender to the Division of Finance is confidential;
- (5) Requires title lenders to be licensed by the division. Current law only requires title lenders to be registered;
- (6) Removes the residency requirement for title lenders;
- (7) Eliminates the requirement that a title loan borrower must pay fees upon renewal of any title loan agreement;
- (8) Requires title loan borrowers to reduce the principal of the loan by 10% of the total principal upon the third renewal or any renewal subsequent to the third renewal. Current law only requires a principal reduction of 10% of the original principal;
- (9) Provides title loan borrowers with the same notice and opportunity to cure defaults that is provided to other borrowers and eliminates the existing requirement whereby title loan borrowers are required to deliver the property described in the loan to the borrower at the end of the first loan period;
- (10) Allows title lenders to charge only those interests and fees allowed to other small loan lenders. Small loan lenders may charge any interest agreed to by the parties, but may only charge fees on the initial loan contract, and those fees cannot exceed 5% of the principal or \$50, whichever is less;
- (11) Requires certain additional disclosures and forms for all title loans, including informational notices to borrowers, the potential consequences of default, and the maximum rates charged by the lender;
- (12) Mandates that title lenders keep records on the loans and notices given to their customers for at least 2 years;
- (13) Requires all title lenders to be examined by the Division of Finance prior to ceasing business;
- (14) Limits title lenders to the same procedures for collection on defaulted loans as is provided for other small lenders;

DESCRIPTION (continued)

(15) Establishes penalties for title lenders who violate the provisions of the bill, including license suspension or revocation, civil penalties of up to \$1,000 per day, or cease and desist orders;

(16) Makes all lenders in the business of making unsecured loans under \$500, with exceptions for certain types of loans, comply with the same bonding, principal reduction, notice and opportunity to cure, interest and fee limitations, disclosures and forms, record-keeping, examination, default collection, and penalty provisions that are applied to title lenders throughout the bill, except that (a) the principal reduction requirements for lenders making unsecured loans under \$500 do not apply until the fifth renewal, and (b) no surety bond is required of these lenders.

(17) Defines "consumer installment lender" and "consumer installment loan" to mean loans, and persons making such loans, of any amount that are paid in installments of no less than 4 installments over no less than 120 days; and

(18) Requires consumer installment lenders to be licensed and to follow the notice, opportunity to cure, and collection procedures established for other lenders.

(19) Allows persons licensed under Section 408.500, RSMo, and Sections 367.100 to 367.210, RSMo, to provide deferred presentment services. Borrowers will be allowed to rescind the transaction without penalty the following day if the loan is paid in full. A licensee must post the fees associated with deferred presentment loans and require specific information in the loan agreement. Also, a licensee must cash the check provided by the borrower within thirty-one days after the date the check is received by the licensee.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Department of Economic Development
Division of Finance
Division of Credit Unions
Department of Insurance
Office of the Attorney General

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is written in a cursive style with a large initial "J".

Jeanne Jarrett, CPA
Director
May 14, 2001