SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 199 (as reported without amendment)
Sponsor: Senator Dick Posthumus
Committee: Commerce and Technology
Date Completed: 5-26-87

RATIONALE

Public Act 379 of 1984 permits nondepository institutions to extend lines of credit or offer unsecured loans in connection with a credit or charge card authorized by the Act. Some contend that the Act operates to impede the offering of larger lines of credit because it requires one-twelfth or more of the principal balance outstanding to be repaid monthly, in order to collect interest payments of up to 1.5% of the unpaid balance per month. They argue, further, that the one-twelfth minimum payment requirement prevents fair competition in the market for credit because depository institutions (i.e , banks and savings and loan associations) are not subject to the requirement.

CONTENT

Senate Bill 199 would amend Public Act 379 of 1984, which regulates credit card transactions, to allow a person licensed to offer or make credit card arrangements to collect interest on a loan or credit extended at a rate not to exceed 1.5% of the unpaid balance per month. The bill would delete the provision of the Act that restricts such collection terms to credit card arrangements that specify that one-twelfth or more of the principal balance outstanding must be repaid monthly.

MCL 493.110

FISCAL IMPACT

The bill would have no fiscal impact for State or local government.

ARGUMENTS

Supporting Argument

The bill would remove a punitive provision of the Act. The one-twelfth minimum monthly payment requirement renders some major lenders unable to operate in Michigan because large lines of credit or unsecured loans are not attractive to consumers when a conditional minimum payment is attached. By removing the one-twelfth requirement, the bill would permit greater access to that portion of the credit market, thus stimulating competition with other creditors who already are free of the minimum payment requirement.

Opposing Argument

The bill should provide greater regulation over variable interest rates. Under variable rate agreements, when the interest rate increases, creditors often charge the higher rate on credit purchases made before the time of the increase. The bill should include an advance notice requirement for rate increases so that the consumer could choose to pay off his or her balance under the lower interest rate.

Response: The bill is designed to remove a requirement imposed on nondepository creditors that does not apply to depository creditors. It should not be cluttered with extra restrictions, especially restrictions that do not apply to banks and savings and loan associations.

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