STORAGE NAME: h1211a.ft
DATE: April 11, 1997

HOUSE OF REPRESENTATIVES
AS FURTHER REVISED BY THE COMMITTEE ON
FINANCE & TAXATION
BILL ANALYSIS & ECONOMIC IMPACT STATEMENT

BILL #: HB 1211

RELATING TO: Finance Charge Interest Rates

SPONSOR(S): Representative(s) Effman and Lippman

STATUTE(S) AFFECTED: Section 516.031, F.S.

COMPANION BILL(S): SB 2064 (s)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) GOVERNMENTAL RULES AND REGULATIONS YEAS 4 NAYS 0
(2) BUSINESS REGULATION & CONSUMER AFFAIRS (W/D)
(3) FINANCE & TAXATION YEAS 12 NAYS 1
(4) GENERAL GOVERNMENT APPROPRIATIONS
(5)

I. SUMMARY:

Presently, consumer finance loans may not exceed $25,000 in value and must have a finance charge of more than 18 percent per annum.

Current law specifies that the maximum interest rates on consumer finance loans are as follows: 30 percent per annum on the part of principal up to $1,000; 24 percent per annum on the part of principal between $1,000 and $2,000; and 18 percent per annum on the part of principal between $2,000 and $25,000.

HB 1211 increases the loan principal tiers by $1,000 in each of the three interest rate categories. Therefore, the maximum interest rates for such loans will be 30 percent per annum on the part of principal up to $2,000; 24 percent per annum on the part of principal between $2,000 and $3,000; and 18 percent per annum on the part of principal between $3,000 and $25,000.

This act shall take effect October 1, 1997.

II. <u>SUBSTANTIVE ANALYSIS</u>:

A. PRESENT SITUATION:

Present law provides that consumer finance loans as defined by Chapter 516, F.S., may not exceed $25,000 in value and must have a finance charge of more than 18 percent per annum.

Section 516.031, F.S. (1995), provides for loan principal tiers with maximum interest rates on consumer finance loans of 30 percent per annum on the part of principal up to $1,000; 24 percent per annum on the part of principal between $1,000 and $2,000; and 18 percent per annum on the part of principal between $2,000 and $25,000. These were last adjusted in 1990.

B. EFFECT OF PROPOSED CHANGES:

HB 1211 amends s. 516.031, F.S. (1995) by adjusting the loan principal tiers upward. Consequently, the maximum interest rates on consumer finance loans will be 30 percent per annum on the part of principal up to $2,000; 24 percent per annum on the part of principal between $2,000 and $3,000; and 18 percent per annum on the part of principal between $3,000 and $25,000.

As a result, borrowers who enter into a consumer finance loan will pay a higher finance charge. A typical loan principal is $2500. The increase in a monthly payment on this principal would be $3.53.

C. APPLICATION OF PRINCIPLES:

1. <u>Less Government:</u>

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

No.

(3) any entitlement to a government service or benefit?

No.

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

NA

(2) what is the cost of such responsibility at the new level/agency?

NA

(3) how is the new agency accountable to the people governed?

NA

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

No.

b. Does the bill require or authorize an increase in any fees?

No.

c. Does the bill reduce total taxes, both rates and revenues?

No.

d. Does the bill reduce total fees, both rates and revenues?

No.

e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

NA

b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

NA

4. <u>Individual Freedom:</u>

a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

Yes, this bill would allow lenders to increase the amount of the principal upon which they may charge the highest and second-highest interest rates.

b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

No.

5. <u>Family Empowerment:</u>

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

NA

(2) Who makes the decisions?

NA

(3) Are private alternatives permitted?

NA

(4) Are families required to participate in a program?

NA

(5) Are families penalized for not participating in a program?

NA

b. Does the bill directly affect the legal rights and obligations between family members?

No.

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

NA

(2) service providers?

NA

(3) government employees/agencies?

NA

D. SECTION-BY-SECTION ANALYSIS:

Please see the Effect of Proposed Changes section above.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None.

2. Recurring Effects:

None.

3. Long Run Effects Other Than Normal Growth:

None.

4. Total Revenues and Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

   None.

2. Recurring Effects:

   None.

3. Long Run Effects Other Than Normal Growth:

   None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   The finance charge on consumer finance loans will increase due to the upward adjustment of the loan principal tiers.

2. Direct Private Sector Benefits:

   Lenders may lend money to individuals who are more of a credit risk because the lenders will have more favorable profit margins and can accept increased risk.

3. Effects on Competition, Private Enterprise and Employment Markets:

   Borrowers will pay an increased finance charge due to the expanded loan principal tiers, but they will also be able to obtain loans more readily. This could ease pressure on consumers and small entrepreneurs with a poor credit history who are unable to obtain loans under the current situation. Consumer finance loan companies will be able to increase the number of loans made in Florida, thus enabling them to keep open Florida branches they would otherwise need to close.

D. FISCAL COMMENTS:

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

   This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties and municipalities.

V. COMMENTS:

HB 1211 was reported unanimously favorable by the Committee on Governmental Rules and Regulations on March 27, 1997. HB 1211 was reported favorably by the Committee on Finance and Taxation on April 15, 1997.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

One amendment was passed in the Committee on Finance and Taxation which makes the bill only applicable to loans entered on or after October 1, 1997.

VII. SIGNATURES:

COMMITTEE ON GOVERNMENTAL RULES AND REGULATIONS:

Prepared by:	Legislative Research Director:
Angela Price	David M. Greenbaum

AS FURTHER REVISED BY THE COMMITTEE ON FINANCE & TAXATION:

Prepared by:	Legislative Research Director:
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