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MEMORANDUM

To: Chairman Longbine and members of the Special Committee on Financial Institutions and Insurance

From: David Wiese, Assistant Revisor

Date: October 11, 2017

Subject: HB 2267; Amending requirements for certain consumer loan transactions.

House Bill No. 2267 amends three statutes within the uniform consumer credit code relating to consumer loans.

Section 1 amends K.S.A. 16a-2-401 and establishes a lender's finance charge at a rate of 36% per annum, inclusive of all fees, interest and charges contained in the loan contract, including costs of ancillary products, subject to current limitations on prepaid finance charges within this section for any consumer loan with open end credit. Under current law a lender may charge a finance charge at any rate agreed to by the parties.

Section 2 makes several amendments to K.S.A. 16a-2-404 relating to consumer loan transactions commonly known as "payday loans." Under the bill a lender is limited to having only one outstanding loan to a borrower and loans are limited to \$500 or less. The minimum term of a loan is the number of months equal to the sum of the loan principal and all applicable charges, divided by the maximum allowable monthly payment. Lenders must disclose loan terms to the borrower and provide notice of the borrower's right to revoke ACH payment authorization and right to rescind. A lender is also required to accept prepayment from a borrower prior to the loan due date and shall not charge any fee or penalty for prepayment. The maximum rate of any loan made shall be no more than 36% per annum. The maximum monthly fee or charge shall be 5% of the original loan principal or \$20, whichever is less. Total loan charges shall not exceed 50% of the loan principal. A maximum return check charge or late charge is the lesser of 5% of the loan principal or \$20, plus any amount passed from another financial institution. Total required monthly payment shall not exceed the greater of 5% of the borrower's

verified gross monthly income or 6% of the borrower's verified net monthly income. Income shall be verified according to rules and regulations promulgated by the administrator. Under the uniform consumer credit code, the administrator is defined as the deputy commissioner of the consumer and mortgage lending division appointed by the bank commissioner pursuant to K.S.A. 75-3135, and amendments thereto. Lenders who enter into consumer loan transactions covered by section 2 shall provide annually certain information to the administrator. The administrator shall publish, at least annually, an aggregate report to the public of this information.

Finally, section 3 adds language to K.S.A. 16a-2-405 relating to consumer loans made to military borrowers that prohibits a lender from charging any monthly maintenance fees to a military borrower or to their dependents.

The bill was referred to the House Federal and State Affairs Committee on February 22, 2017. No action has been taken on the bill.

A senate version of the bill, Senate Bill No. 234, was introduced by the Senate Federal and State Affairs Committee on March 20, 2017, and was referred to such committee on March 21, 2017. No action has been taken on SB 234.