

ASSEMBLY FINANCIAL INSTITUTIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 1907

with committee amendments

STATE OF NEW JERSEY

DATED: MAY 13, 1996

The Assembly Financial Institutions Committee reports favorably Assembly Bill No. 1907 with committee amendments.

This bill provides New Jersey based banks, savings banks and savings and loan associations with a "level playing field" in relation to banks, savings banks and savings and loan associations located in other states with respect to offering and maintaining revolving credit plans. Under the bill, revolving credit plans may, if the agreement between a borrower and a bank so provides, include a provision that the lender who extends credit may charge and collect periodic interest, interest charges and other charges permitted under the bill. If contained in the agreement governing the revolving credit plan, the periodic percentage rate of interest may vary in accordance with a schedule or formula. The bill provides for the extension of credit in connection with a demand deposit account or other transaction account maintained by the borrower. The bill permits a bank to request but not require an individual borrower to be insured with respect to a revolving credit plan under a life, health, accident, health and accident or other credit insurance policy; however, if the borrower's outstanding indebtedness is secured by an interest in real or personal property, a bank may require the borrower to obtain insurance, from an insurer acceptable to the bank, against loss of or damage to the property or against liability arising out of the ownership or use of the property. The bill requires that all insurance offered or placed with respect to revolving credit be offered and placed in a manner which is consistent with the regulations of the Department of Banking, N.J.A.C.3:1-13.1 or 3:1-13.2 or both.

Under the bill, a bank may, if the agreement governing the plan so provides, amend the terms of the agreement at any time or from time to time, including the terms governing the periodic percentage rate or rates used to calculate interest, the method of computing the outstanding unpaid indebtedness to which the rate or rates are applicable, the amounts of other charges and the applicable installment repayment schedule. The bill requires any bank which amends its agreement to notify borrowers in writing clearly and conspicuously describing the amendment and setting the effective date of the

amendment, which shall be no earlier than 30 days after the notice is mailed or delivered to the borrower. If an amendment is made that has the effect of increasing the periodic interest or interest charges to be paid by the borrower, the borrower has the option of accepting the amendment, either expressly in writing or by continuing to use the plan, or not accepting the amendment by notifying the bank to that effect within 30 days of mailing or delivery of the notice, whichever is earlier, and not continuing to use the plan. If the borrower chooses not to accept the amendment, the bank is permitted to change the borrower's open-end account to a closed-end account under terms that are substantially similar or more favorable to the borrower than the ones existing under the revolving credit plan before the proposed amendment.

Pursuant to the intent of the Legislature to provide a "level playing field" for New Jersey banks the bill (1) is modeled after the successful Delaware revolving credit act which has resulted in Delaware's prominence as the state of choice for locating the offices and operations of banks extending credit through revolving credit plans, and (2) is applicable to revolving credit plans entered into prior to or on and after the effective date of the bill and, as applied to a revolving credit plan entered into prior to the effective date of the bill, the bill shall govern any limitations on fees and charges assessed under that plan, both before and after its effective date.

An amendment to the bill changes the language regarding the offer and placement of insurance with respect to a revolving credit plan that the offer and placement of insurance with respect to a revolving credit plan be subject in all respects to the applicable provisions of N.J.A.C.3:1-13.1 or 3:1-13.2, or both.