

<b>LFC Requester:</b>	<b>Sunny Liu</b>
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**AGENCY BILL ANALYSIS  
2016 REGULAR SESSION**

**WITHIN 24 HOURS OF BILL POSTING, EMAIL ANALYSIS TO:**

**[LFC@NMLEGIS.GOV](mailto:LFC@NMLEGIS.GOV)**

*and*

**[DFA@STATE.NM.US](mailto:DFA@STATE.NM.US)**

*{Include the bill no. in the email subject line, e.g., HB2, and only attach one bill analysis and related documentation per email message}*

**SECTION I: GENERAL INFORMATION**

*{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}*

Check all that apply: **Date** January 19, 2016  
**Original**     **Amendment**    \_\_\_\_\_ **Bill No:** HB 84  
**Correction**    \_\_\_\_\_ **Substitute**    \_\_\_\_\_

**Sponsor:** Rep. Patricia Roybal Caballero    **Agency Code:** 305  
**Short**    Small Loan Interest    **Person Writing**    Regina Ryanczak, AAG  
**Title:**    Rate Caps    **Phone:** 505-827-3883    **Email** rryanczak@nmag.gov

**SECTION II: FISCAL IMPACT**

**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY16	FY17		

(Parenthesis ( ) Indicate Expenditure Decreases)

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18		

(Parenthesis ( ) Indicate Expenditure Decreases)

**ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)**

	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>3 Year Total Cost</b>	<b>Recurring or Nonrecurring</b>	<b>Fund Affected</b>
<b>Total</b>						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:  
Duplicates/Relates to Appropriation in the General Appropriation Act

**SECTION III: NARRATIVE**

**BILL SUMMARY**

This analysis is neither a formal Attorney General’s Opinion nor an Attorney General’s Advisory Letter. This is a staff analysis in response to an agency’s, committee’s, or legislator’s request.

**Synopsis:**

HB 84 amends the New Mexico Bank Installment Loan Act of 1959 NMBILA [NMSA Sections 58-7-1 *et seq.*] and the New Mexico Small Loan Act of 1955 NMSLA, [NMSA 58-15-1 *et seq.*]. The amendments impose a maximum rate of interest of thirty-six (36) percent that may be charged for the extension of credit on small loans and bank installment loans.

HB84 voids any contract for the extension of credit in excess of the maximum rate of thirty-six percent entered into after July 1, 2016 as to principal and interest.

HB84 prevents any conflict by repealing Section 58-15-33 NMSA 1978 which states the permitted charges for payday loans.

HB84 allows for the lawful rate of interest charged or received to exceed thirty-six percent if the US prime lending rate exceeds ten percent. However, it limits the interest rate to no more than thirty (30) percentage points in excess of the US prime lending rate. This is important as it will prevent the drying up of credit in the event that the prime interest rate rises excessively due to inflation.

**FISCAL IMPLICATIONS**

Note: major assumptions underlying fiscal impact should be documented.

Note: if additional operating budget impact is estimated, assumptions and calculations should be reported in this section.

**SIGNIFICANT ISSUES**

This bill imposes a maximum cap on interest that may be charged for extensions of credit for small loans and bank installment loans. There is currently no interest rate cap in the NM Small Loan Act. New Mexico is in the minority of states that do not have a small loan interest rate cap. The 36% cap gives lenders the incentive to make realistic and longer-term loans so that they can earn enough interest to cover their origination costs, without the incentive to generate loan flipping and new fees, which inhibit borrowers’ ability to pay off the loans. The 36% interest rate forces lenders to minimize write-offs and avoid bad loans. The 36% rate cap affords the borrower the ability to borrow for a longer term without additional fees and roll-overs, getting

them out of perpetual debt. According to the New Mexico Municipal League, a poll conducted by the Public Policy Polling in January, 2014 showed that 86 percent of New Mexicans support interest rate caps of 36 percent or less.

#### **PERFORMANCE IMPLICATIONS**

#### **ADMINISTRATIVE IMPLICATIONS**

#### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

#### **TECHNICAL ISSUES**

#### **OTHER SUBSTANTIVE ISSUES**

#### **ALTERNATIVES**

#### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Status quo.

#### **AMENDMENTS**