Alaska State Legislature

Senate Majority Web: www.akrepublicans.org

Sponsor: Senator Ralph Seekins

Current Version: SB 300

Contact: Brian Hove, 465-2327

Fact Sheet for: Senate Bill 300

Short Title: MOTOR VEHICLE NEGATIVE EQUITY

Summary:

- Changes the definition of "principal balance" in the Alaska Retail Installment Sales Act by adding: "if the retail installment contract is for the sale of a motor vehicle, the amount, if any, that the seller agrees to pay to discharge an outstanding obligation of the buyer under an existing motor vehicle agreement, loan, installment sales contract, or lease."
- Adds a new section to AS 45.25.630, "Discharged amounts in motor vehicle leases," that stipulates that if the amount paid by a lessee under a motor vehicle lease includes a discharged amount, the inclusion is not a loan of the discharged amount and is not subject to any law that regulates the disclosure of interest, charging of interest, the amount of interest rates, or the lending of money.
- Defines "discharged amount" as the amount, if any, that discharges an outstanding obligation of the lessee under an existing motor vehicle agreement, loan, installment sales contract, or lease.

Benefits:

- Updating the definition of "principal balance" complies with the proper disclosure of negative equity.
- Brings state and federal law into alignment.
- Clarifies how an incidence of negative equity is handled within a lease arrangement.

Background:

- Over the past several years, banks, credit unions and acceptance companies have responded to the robust vehicle marketplace by offering low, or no, down payment options and lengthening the allowable repayment period. The mathematical effect of this financing means the vehicle’s market value exceeds the outstanding balance on the underlying loan much later than it otherwise would. Until this point is reached, the owner’s equity position is commonly known as “upside down” or “negative”. As a result, when the owner trades for a different vehicle, the dealer has to accommodate the loan payoff in the trade-in. It used to be common to inflate the price enough to cover the amount owed. The negative equity disappears. This method solved the equity problem but failed to adequately describe the transaction mathematically. This practice fell into disfavor and, today, it is more common that new vehicles are sold at non-negotiable prices. Furthermore, the Federal Reserve Board provided guidance on this issue through revisions made to federal regulations. SB 300 resolves the disparity between state and federal law.