SESSION OF 2013

SUPPLEMENTAL NOTE ON SENATE BILL NO. 52

As Recommended by Senate Committee on
Financial Institutions and Insurance

Brief*

SB 52 would amend the maximum annual interest rate established in law for first real estate mortgage loans and contracts for deeds.

Under the bill, this maximum annual interest rate would be increased from a rate no more than 1.5 percentage points to no more than 3.5 percentage points above a specified monthly floating cap by the Federal Home Loan Mortgage Corporation (Freddie Mac).

The specified monthly floating index rate in law is the yield of 30-year fixed-rate conventional home mortgages committed for delivery within 61 to 90 days accepted under the Federal Home Loan Mortgage Corporation's daily offerings for sale on the last day on which commitments for such mortgages were received in the preceding month.

Background

The bill was introduced at the request of the Kansas Bankers Association whose representative indicated interest rates have fallen to historical record lows and have hovered just above 4.0 percent for the past 12 months. The representative cited an issue of concern about the ability of banks contracted to sell loans to buyers in the secondary market being unable to fulfill the terms of their contracts: In October 2012, the Freddie Mac rate was published initially at

---

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org

1.9 percent, making the maximum rate for the month 3.4 percent. With contracts locked in at an interest rate around 4.0 percent, banks faced a choice to either violate the Kansas usury law or violate the agreement with a secondary market purchaser (the rate was later adjusted above 4.0 percent). The bill would address this concern about uncertainty in the secondary market.

There were no opponents at the Senate Committee hearing.

The Senate Committee recommended the bill be placed on the Consent Calendar.

The fiscal note prepared by the Division of the Budget states the Office of the State Bank Commissioner indicates the bill would have no fiscal effect on its operations. The bill has the potential to increase loan costs for consumers by allowing lenders to charge higher interest rates for certain real estate mortgages and contracts for deeds. However, the fiscal note concludes, the additional costs cannot be estimated.