

31:1-1

LEGISLATIVE FACT SHEET

ON Mortgage loan interest - 8%

N.J.R.S. 31:1-1

(1968 Amendment)

LAWS OF 1968

CHAPTER 55

SENATE 732 (Sen. Com. Substitute) ASSEMBLY

INTRODUCED May 6

BY Dowd, Seico, Maturai, Giuliano, and W. F. Kelly

STATEMENT

YES

NO

AMENDED DURING PASSAGE

YES

NO

HEARING

VETO

STATEMENT to S 732 by sponsor.

It is the purpose of this bill to permit a rate of interest on loans in excess of 6%, but not in excess of 8%, per annum when such rate is specified in a writing evidencing the transaction, with the power in the Commissioner of Banking and Insurance and a Special Advisory Board to control rates in excess of 6% when conditions warrant. It is not the purpose of this bill to affect any provision of Title 31, chapter 1, of the Revised Statutes other than section 31:1-1.

DEPOSITION COPY
DO NOT REMOVE FROM LIBRARY

Governor's statement on signing 6/7/68

SENATE, No. 732

STATE OF NEW JERSEY

INTRODUCED MAY 6, 1968

By Senators DOWD, SISCO, MATTURRI, GIULIANO
and W. F. KELLY

Referred to Committee on Banking and Insurance

AN ACT concerning interest and usury and amending section 31:1-1
of the Revised Statutes.

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. Section 31:1-1 of the Revised Statutes is amended to read as
2 follows:

3 31:1-1. (a) Except as otherwise provided by law, no person
4 shall, upon contract, take, directly or indirectly, for loan of any
5 money, wares, merchandise, goods and chattels, above the value
6 of \$6.00 for the forbearance of \$100.00 for a year, and after that
7 rate for a greater or less sum or for longer or shorter time; *pro-*
8 *vided, that when any such loan is evidenced by a writing which*
9 *specifies the value to be taken for such loan, the value taken for*
10 *such loan shall be the value specified in such writing, but not above*
11 *the value of \$8.00 for the forbearance of \$100.00 for a year, and*
12 *after that rate for a greater or less sum or for longer or shorter*
13 *time; and provided further, that the Commissioner of Banking and*
14 *Insurance, with the concurrence of a special advisory board, may*
15 *by regulation adopted, amended and rescinded from time to time,*
16 *provide that the value which may be taken for any such loan shall*
17 *be such value, less than \$8.00 but not less than \$6.00 for the for-*
18 *bearance of \$100.00 for a year, as shall be prescribed in such regu-*
19 *lation, and after that rate for a greater or less sum or for longer*
20 *or shorter time. The special advisory board herein provided for*
21 *shall consist of the members of the Banking Advisory Board as*
22 *constituted pursuant to Article 43 of The Banking Act of 1948,*
23 *P. L. 1948, c. 67, plus 2 additional persons appointed by the [Gover-*
24 *nor with the advice and consent of the Senate,] one of whom shall*
25 *be an officer of an association as defined in section 5(3) of the*

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill
is not enacted and is intended to be omitted in the law.

26 *Savings and Loan Act (1963), P. L. 1963, chapter 144, and the other*
27 *of whom shall be an officer of a life insurance company incor-*
28 *porated under the laws of this State. The 2 additional persons so*
29 *appointed shall hold office for a term of 1 year. When, however,*
30 *pursuant to any such contract, interest or discount is taken or*
31 *reserved for a period of less than 1 year, or when interest is re-*
32 *quired to be paid at intervals of less than 1 year, such interest or*
33 *discount may be computed on a daily basis, or on a monthly basis,*
34 *or on a combination of both such bases when the period for which*
35 *interest or discount is taken or reserved contains 1 or more months*
36 *and 1 or more days; and, in any such case, a day shall be deemed*
37 *to be a 1/360 part of a year, and a month shall be deemed to be a*
38 *1/12 part of a year, regardless of the number of days contained in*
39 *such month. Any computation of interest or discount made on any*
40 *such basis shall constitute a compliance with this section, and any*
41 *such basis may be applied regardless whether the principal debt*
42 *is payable in more than or less than 1 year from the time of making*
43 *the loan.*

44 *(b) In making, amending and rescinding regulations pursuant*
45 *to subsection (a) of this section, the Commissioner of Banking*
46 *and Insurance and the special advisory board shall consider the*
47 *general state of the economy, the discount rates prescribed by the*
48 *Federal Reserve Bank of New York and the Federal Reserve*
49 *Bank of Philadelphia, the advance rate as prescribed by the Federal*
50 *Home Loan Bank of New York, the availability of funds for loans,*
51 *studies and statistics published by the Federal Home Loan Bank*
52 *Board and other agencies of the United States and of this State,*
53 *and such other factors and bases for determination as the commis-*
54 *sioner and the board may deem pertinent. The rate established by*
55 *any such regulation shall reasonably reflect prevailing market*
56 *conditions, regionally and nationally, based upon the studies,*
57 *statistics and factors considered, and shall remain in force until*
58 *such time as such regulation is rescinded or such rate is increased*
59 *or decreased by a subsequent regulation. Any such regulation shall*
60 *have prospective effect only, and shall not apply to or affect any*
61 *contract lawfully made prior to its effective date.*

1 2. This act shall take effect immediately.

STATEMENT

It is the purpose of this bill to permit a rate of interest on loans in excess of 6%, but not in excess of 8%, per annum when such rate is specified in a writing evidencing the transaction, with the

CORRECTED COPY
SENATE, No. 732

STATE OF NEW JERSEY

INTRODUCED MAY 6, 1968

By Senators DOWD, SISCO, MATTURRI, GIULIANO
and W. F. KELLY

Referred to Committee on Banking and Insurance

AN ACT concerning interest and usury and amending section 31:1-1
of the Revised Statutes.

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. Section 31:1-1 of the Revised Statutes is amended to read as
2 follows:

3 31:1-1. (a) Except as otherwise provided by law, no person
4 shall, upon contract, take, directly or indirectly, for loan of any
5 money, wares, merchandise, goods and chattels, above the value
6 of \$6.00 for the forbearance of \$100.00 for a year, and after that
7 rate for a greater or less sum or for longer or shorter time; *pro-*
8 *vided, that when any such loan is evidenced by a writing which*
9 *specifies the value to be taken for such loan, the value taken for*
10 *such loan shall be the value specified in such writing, but not above*
11 *the value of \$8.00 for the forbearance of \$100.00 for a year, and*
12 *after that rate for a greater or less sum or for longer or shorter*
13 *time; and provided further, that the Commissioner of Banking and*
14 *Insurance, with the concurrence of a special advisory board, may*
15 *by regulation adopted, amended and rescinded from time to time,*
16 *provide that the value which may be taken for any such loan shall*
17 *be such value, less than \$8.00 but not less than \$6.00 for the for-*
18 *bearance of \$100.00 for a year, as shall be prescribed in such regu-*
19 *lation, and after that rate for a greater or less sum or for longer*
20 *or shorter time. The special advisory board herein provided for*
21 *shall consist of the members of the Banking Advisory Board as*
22 *constituted pursuant to Article 43 of The Banking Act of 1948,*
23 *P. L. 1948, c. 67, plus 2 additional persons appointed by the Gover-*
24 *nor with the advice and consent of the Senate one of whom shall*
25 *be an officer of an association as defined in section 5(3) of the*

26 *Savings and Loan Act (1963), P. L. 1963, chapter 144, and the other*
27 *of whom shall be an officer of a life insurance company incor-*
28 *porated under the laws of this State. The 2 additional persons so*
29 *appointed shall hold office for a term of 1 year. When, however,*
30 *pursuant to any such contract, interest or discount is taken or*
31 *reserved for a period of less than 1 year, or when interest is re-*
32 *quired to be paid at intervals of less than 1 year, such interest or*
33 *discount may be computed on a daily basis, or on a monthly basis,*
34 *or on a combination of both such bases when the period for which*
35 *interest or discount is taken or reserved contains 1 or more months*
36 *and 1 or more days; and, in any such case, a day shall be deemed*
37 *to be a 1/360 part of a year, and a month shall be deemed to be a*
38 *1/12 part of a year, regardless of the number of days contained in*
39 *such month. Any computation of interest or discount made on any*
40 *such basis shall constitute a compliance with this section, and any*
41 *such basis may be applied regardless whether the principal debt*
42 *is payable in more than or less than 1 year from the time of making*
43 *the loan.*

44 *(b) In making, amending and rescinding regulations pursuant*
45 *to subsection (a) of this section, the Commissioner of Banking*
46 *and Insurance and the special advisory board shall consider the*
47 *general state of the economy, the discount rates prescribed by the*
48 *Federal Reserve Bank of New York and the Federal Reserve*
49 *Bank of Philadelphia, the advance rate as prescribed by the Federal*
50 *Home Loan Bank of New York, the availability of funds for loans,*
51 *studies and statistics published by the Federal Home Loan Bank*
52 *Board and other agencies of the United States and of this State,*
53 *and such other factors and bases for determination as the commis-*
54 *sioner and the board may deem pertinent. The rate established by*
55 *any such regulation shall reasonably reflect prevailing market*
56 *conditions, regionally and nationally, based upon the studies,*
57 *statistics and factors considered, and shall remain in force until*
58 *such time as such regulation is rescinded or such rate is increased*
59 *or decreased by a subsequent regulation. Any such regulation shall*
60 *have prospective effect only, and shall not apply to or affect any*
61 *contract lawfully made prior to its effective date.*

1 2. This act shall take effect immediately.

STATEMENT

It is the purpose of this bill to permit a rate of interest on loans in excess of 6%, but not in excess of 8%, per annum when such rate is specified in a writing evidencing the transaction, with the

power in the Commissioner of Banking and Insurance and a Special Advisory Board to control rates in excess of 6% when conditions warrant. It is not the purpose of this bill to affect any provision of Title 31, chapter 1, of the Revised Statutes other than section 31:1-1.

SENATE COMMITTEE SUBSTITUTE FOR
SENATE, No. 732

STATE OF NEW JERSEY

ADOPTED MAY 20, 1968

AN ACT concerning interest and usury and amending section 31:1-1
of the Revised Statutes.

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. Section 31:1-1 of the Revised Statutes is amended to read as
2 follows:

3 31:1-1. (a) Except as otherwise provided by law, no person shall,
4 upon contract, take, directly or indirectly, for loan of any money,
5 wares, merchandise, goods and chattels, above the value of \$6.00
6 for the forbearance of \$100.00 for a year, and after that rate for a
7 greater or less sum or for longer or shorter time; *and except*
8 *further, that the Commissioner of Banking and Insurance, with*
9 *the advice of a special advisory board constituted as hereinafter*
10 *provided, may by regulation adopted, amended and rescinded from*
11 *time to time, provide that the value which may be taken for any*
12 *such loan shall be a value more than \$6.00 but not more than \$8.00*
13 *for the forbearance of \$100.00 for a year, as shall be prescribed in*
14 *such regulation, and after that rate for a greater or less sum or for*
15 *longer or shorter time. The special advisory board herein provided*
16 *for shall consist of the members of the Banking Advisory Board*
17 *as constituted pursuant to Article 43 of The Banking Act of 1948,*
18 *P. L. 1948, chapter 67, plus 2 additional persons appointed by the*
19 *Governor with the advice and consent of the Senate, one of whom*
20 *shall be an officer of an association as defined in section 5(3) of the*
21 *Savings and Loan Act (1963), P. L. 1963, chapter 144, and the other*
22 *of whom shall be an officer of a life insurance company incor-*
23 *porated under the laws of this State. The 2 additional persons so*
24 *appointed shall hold office for a term of 1 year. When, however,*
25 *pursuant to any such contract, interest or discount is taken or*
26 *reserved for a period of less than 1 year, or when interest is re-*
27 *quired to be paid at intervals of less than 1 year, such interest or*
28 *discount may be computed on a daily basis, or on a monthly basis,*
29 *or on a combination of both such bases when the period for which*

30 interest or discount is taken or reserved contains 1 or more months
31 and 1 or more days; and, in any such case, a day shall be deemed
32 to be a 1/360 part of a year, and a month shall be deemed to be a
33 1/12 part of a year, regardless of the number of days contained in
34 such month. Any computation of interest or discount made on any
35 such basis shall constitute a compliance with this section, and any
36 such basis may be applied regardless whether the principal debt
37 is payable in more than or less than 1 year from the time of making
38 the loan.

39 *(b) In making, amending and rescinding regulations pursuant*
40 *to subsection (a) of this section, the Commissioner of Banking*
41 *and Insurance and the special advisory board shall consider the*
42 *general state of the economy, the discount rates prescribed by the*
43 *Federal Reserve Bank of New York and the Federal Reserve*
44 *Bank of Philadelphia, the advance rate as prescribed by the Federal*
45 *Home Loan Bank of New York, the availability of funds for loans,*
46 *studies and statistics published by the Federal Home Loan Bank*
47 *Board and other agencies of the United States and of this State,*
48 *and such other factors and bases for determination as the commis-*
49 *sioner and the board may deem pertinent. The rate established by*
50 *any such regulation shall reasonably reflect prevailing market*
51 *conditions, regionally and nationally, based upon the studies,*
52 *statistics and factors considered, and shall remain in force until*
53 *such time as such regulation is rescinded or such rate is increased*
54 *or decreased by a subsequent regulation. Any such regulation shall*
55 *have prospective effect only.*

1 2. This act shall take effect immediately.

STATEMENT

It is the purpose of this bill to permit a rate of interest on loans in excess of 6%, but not in excess of 8%, per annum when such rate is specified in a writing evidencing the transaction, with the power in the Commissioner of Banking and Insurance and a Special Advisory Board to control rates in excess of 6% when conditions warrant. It is not the purpose of this bill to affect any provision of Title 31, chapter 1, of the Revised Statutes other than section 31:1-1.

S-731

FROM: OFFICE OF THE GOVERNOR

DATE: JUNE 7, 1968

STATEMENT OF GOVERNOR RICHARD J. HUGHES
UPON THE SIGNING OF SENATE BILLS NOS.
731, 732.

The Legislature recently completed, despite understandable objections, favorable action on two companion measures which will hopefully contribute to a renaissance of the residential construction and sales industry in New Jersey. One of those bills, Senate Bill No. 732 of 1968, authorizes the Commissioner of Banking and Insurance to set a "contract interest rate" not in excess of eight percentum per annum. The other bill, Senate Bill No. 731 of 1968, prohibits the charging of "points" in connection with mortgage loans bearing interest greater than six percentum per annum, and provides mortgagors with a statutory right to "prepay" their mortgage loans according to a set fee schedule. The merits of these measures have been thoroughly mooted by and between the New Jersey Association of Real Estate Boards, the Mortgage Bankers Association of New Jersey, the New Jersey Bankers' Association, the New Jersey Economic Policy Council, and many other individuals and organizations who are conversant with the intricacies of the money market. My own review of these two bills, as well as the compelling arguments in support of them, obliged me to ratify the Legislature's foresight. Accordingly, yesterday I approved Senate Bills Nos. 731 and 732 as chapters 54 and 55, respectively, of the Laws of 1968.

The essential problem to which these two bills are addressed can be easily stated - the unavailability for investment in residential mortgage loans of sufficient funds from institutional investors. Unfortunately, however, proper and equitable solutions to this problem are not so simplistic. Indeed, any proposed solution must give due consideration to the nature of a mortgage loan as a long-term, fixed-return investment. As such, the economic

worth of mortgage loans is particularly subject to devaluation by the inflationary spiral presently apace in this nation. It is quite understandable, then, that the management of institutional investors -- all with responsibilities to their stockholders -- would invest their monies in a manner designed to maximize profit.

The public interest generally is served in yet another manner by my approval of these two bills -- a manner that is a function of the economics of the housing industry. In this sense, the term "housing industry" is indeed a misnomer, and really consists of numerous satellite industries all primarily dependent upon housing starts. Brick masons, carpenters, electrical contractors, plumbing contractors, home furnishing manufacturers, furniture manufacturers, appliance and other durable good manufacturers, real estate brokers -- all of their livelihoods depend in large measure on the pace of housing starts. Economists view with great respect the "multiple effect" of money invested in housing starts, and generally concede that four persons are employed in related industries for each person directly engaged in housing construction. Thus, to the extent that my approval of these bills will spur housing starts by making mortgage money more available, so also will the total economic profile of the State of New Jersey be improved. Such improvement is long overdue, for housing starts in New Jersey have never recovered from the depressed levels of 1966.

I would also like to point out that, in providing for a "contract interest rate" in excess of 6% per annum, the State of New Jersey is not charting an unknown course. More than 80% of the states of this country presently allow contract interest rates in excess of 6% per year. In addition, agencies of the federal government recently exercised their legal authority to increase the maximum permissible interest rate on FHA and VA insured or guaranteed loans.