

February 6, 1980

Dear

You have requested an Advisory Ruling from the Bureau on behalf of Depositors Trust Company of Aroostook concerning Section 2-504 of the Maine Consumer Credit Code. Specifically, you have asked whether your client would run afoul of the refinancing limits in Section 2-504 if the creditor refinanced a 6-month demand note into a series of monthly consecutive demand notes so as to increase the interest rate by  $\frac{1}{4}$  of 1% with each renewal.

As you know, Section 2-504 allows single payment notes to be refinanced at any interest rate so long as the resulting transaction does not exceed 12  $\frac{1}{4}$ %. Installment loans are not so exempted. Therefore, any single payment note with an APR in excess of 12  $\frac{1}{4}$ % and any installment loan (no matter the APR) may be refinanced at an interest rate not to exceed  $\frac{1}{4}$  of 1% of the original note rate.

There is nothing in Section 2-504 which would prohibit a creditor from refinancing an obligation and converting it at any time from a demand to an installment transaction (or vice versa). The only result of such a decision would be to possibly remove the transaction from the exemption in that section, i.e., while a creditor could convert a 10% demand note to a 10  $\frac{1}{4}$ % installment note, a retention of the single payment status would have allowed a rate up to 12  $\frac{1}{4}$ %.

It is true that Section 2-504 does not expressly address the issue of how often the creditor can seek renewal of a transaction at  $\frac{1}{4}$  of 1% intervals. The reference to " $\frac{1}{4}$ % per year" in Section 2-504 does not necessarily restrict the creditor to a once a year renewal; it is a reference to the interest rate expressed in annualized terms. The Bureau is unable to give an exact rule to follow in this situation because clearly we would view the resulting refinancing pattern in light of internal bank policy and accepted industry trade practices. The term of the original transaction would certainly be significant, i.e., a renewal of a 6-month note to a 6-month note would probably not be questioned. However, a series of monthly renewal of, say, a 6-month note at  $\frac{1}{4}$  of 1% rate increase would probably be viewed as an attempt to circumvent the policy of Section 2-504, a policy designed to limit rate increases on refinancing consumer credit transactions.

I hope this responds to your request.

Sincerely,

BARBARA REID ALEXANDER  
Superintendent

BRA/erb