

no judgment thereof except for costs can be rendered in favor of the party so pleading it;

(2) Upon a statute for a penalty or forfeiture;

(3) For damages caused by a dam, other than a dam used for commercial purposes; but as against one holding under the pre-emption or homestead laws, ~~such~~ the limitations shall not begin to run until a patent has been issued for the land so damaged;

(4) Against a master for breach of an indenture of apprenticeship; the limitation, ~~in such case, to run~~ runs from the expiration of the term of service;

(5) For the recovery of wages or overtime or damages, fees or penalties accruing under any federal or state law respecting the payment of wages or overtime or damages, fees or penalties. (The term "wages" as used herein shall ~~mean~~ means all remuneration for services or employment, including commissions and bonuses and the cash value of all remuneration in any medium other than cash, where the relationship of master and servant exists and the term "damages," as used herein, shall ~~mean~~ means single, double, or treble damages, accorded by any statutory cause of action whatsoever and whether or not the relationship of master and servant exists);

(6) For damages caused by the establishment of a street or highway grade or a change in the originally established grade;

(7) For sales or use taxes imposed by the laws of any other state;

(8) Against the person who applies the pesticide for injury or damage to property resulting from the application, but not the manufacture or sale, of a pesticide.

### Sec. 3. EFFECTIVE DATE.

This act is effective the day following final enactment and applies to all causes of action arising on or after that date.

Approved March 22, 1982

## CHAPTER 547 — H.F.No. 1576

*An act relating to commerce; regulated loans; applying the statutory provisions relating to conventional loan defaults to regulated loans; clarifying the method for the computation of interest; allowing the combination of loans of different maturities and interest rates; prohibiting attorney's fees except in connection with mortgage foreclosures; placing certain restrictions on the procurement of insurance in connection with a loan; providing miscellaneous technical and clarifying amendments; amending Minnesota Statutes 1980, Section 53.04, Subdivision 5; and Minnesota Statutes 1981 Supplement, Sections 53.01; 53.04, Subdivision 3a; 56.12; 56.131, Subdivisions 1 and 5; 56.155; 334.02; and 334.03; proposing new law coded in Minnesota Statutes, Chapter 56.*

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## BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 1981 Supplement, Section 53.01, is amended to read:

**53.01 ORGANIZATION.**

It is lawful for three or more persons, who desire to form a corporation for the purpose of carrying on primarily the business of loaning money in ~~small amounts~~ to persons within the conditions set forth in this chapter, to organize, under this chapter, an industrial loan and thrift company, by filing with the secretary of state and the county recorder in the county in which the place of business of the corporation is located, a certificate of incorporation, and upon paying the fees prescribed by sections 301.07 and 301.071 or chapter 302A and upon compliance with the procedure provided for the organization and government of ordinary corporations under the laws of this state, and upon compliance with the additional requirements of this chapter prior to receiving authorization to do business.

Sec. 2. Minnesota Statutes 1981 Supplement, Section 53.04, Subdivision 3a, is amended to read:

Subd. 3a. (a) The right to make loans, secured or unsecured, at the rates and on the terms and other conditions permitted licensees under chapter 56. The right to extend credit or lend money and to collect and receive charges therefor as provided by chapter 334, or in lieu thereof to charge, collect, and receive interest at the rate of 21.75 percent per annum. The provisions of sections 47.20 and 47.21 do not apply to loans made under this section, except as specifically provided in this subdivision. Nothing in this subdivision shall be deemed to supersede, repeal, or amend any provision of section 53.05. A licensee making a loan under this chapter secured by a lien on real estate shall comply with the requirements of section 47.20, subdivision 8.

(b) Loans made under this section at a rate of interest not in excess of that provided for in paragraph (a) may be secured by real or personal property, or both. If the proceeds of a loan made after August 1, 1984 are used in whole or in part to satisfy the balance owed on a contract for deed, the rate of interest charged on the loan shall not exceed the rate provided in section 47.20, subdivision 4a. If the proceeds of a loan secured by a first lien on the borrower's primary residence are used to finance the purchase of the borrower's primary residence, the loan must comply with the provisions of section 47.20.

Sec. 3. Minnesota Statutes 1980, Section 53.04, Subdivision 5, is amended to read:

Subd. 5. The right, with the consent of the department of commerce, to sell and issue for investment or to be pledged as security for a loan made ~~contemporaneously therewith or otherwise,~~ certificates of indebtedness, under any

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descriptive name, which may bear such interest, if any, as their terms may provide, and which may require the payment to the company of such amounts, from time to time as their terms may provide, and permit the withdrawal of amounts paid upon the same, in whole or in part, from time to time, and the credit of amounts thereon upon such conditions as may be set forth therein; and no such certificate of indebtedness shall have a surrender value which is less than the total amount paid to the company therefor.

Sec. 4. [56.0001] CITATION.

Sections 56.001 to 56.26 may be cited as the "Minnesota Regulated Loan Act."

Sec. 5. Minnesota Statutes 1981 Supplement, Section 56.12, is amended to read:

**56.12 ADVERTISING; TAKING OF SECURITY; PLACE OF BUSINESS.**

No licensee shall advertise, print, display, publish, distribute, or broadcast, or cause or permit to be advertised, printed, displayed, published, distributed, or broadcast, in any manner any statement or representation with regard to the rates, terms, or conditions for the lending of money, credit, goods, or things in action which is false, misleading, or deceptive. The commissioner may order any licensee to desist from any conduct which he shall find to be a violation of the foregoing provisions.

The commissioner may require that rates of charge, if stated by a licensee, be stated fully and clearly in such manner as he may deem necessary to prevent misunderstanding thereof by prospective borrowers. A statement of rates of charge that meets the requirements of the federal Truth-in-Lending Act and regulations thereunder shall be deemed full compliance with this section.

A licensee may take a lien upon real estate as security for any loan exceeding \$2,700 in principal amount made under this chapter. The provisions of sections 47.20 and 47.21 do not apply to loans made under this chapter, except as provided in this section. No loan secured by a first lien on a borrower's primary residence shall be made pursuant to this section if the proceeds of the loan are used to finance the purchase of the borrower's primary residence, ~~other than a mobile home, unless:~~

(1) the proceeds of the loan are used to finance the purchase of a manufactured home; or

(2) the proceeds of the loan are used in whole or in part to satisfy the balance owed on a contract for deed. The rate of interest charged on such a loan made after August 1, 1984, shall not exceed the rate provided in section 47.20, subdivision 4a.

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If the proceeds of the loan are used to finance the purchase of the borrower's primary residence, the licensee shall consent to the subsequent transfer of the real estate if the existing borrower continues after transfer to be obligated for repayment of the entire remaining indebtedness. The licensee shall release the existing borrower from all obligations under the loan instruments, if the transferee (1) meets the standards of credit worthiness normally used by persons in the business of making loans, including but not limited to the ability of the transferee to make the loan payments and satisfactorily maintain the property used as collateral, and (2) executes an agreement in writing with the licensee whereby the transferee assumes the obligations of the existing borrower under the loan instruments. Any such agreement shall not affect the priority, validity or enforceability of any loan instrument. A licensee may charge a fee not in excess of one-tenth of one percent of the remaining unpaid principal balance in the event the loan is assumed by the transferee and the existing borrower continues after the transfer to be obligated for repayment of the entire assumed indebtedness. A licensee may charge a fee not in excess of one percent of the remaining unpaid principal balance in the event the remaining indebtedness is assumed by the transferee and the existing borrower is released from all obligations under the loan instruments, but in no event shall the fee exceed \$150.

A licensee making a loan under this chapter secured by a loan on real estate shall comply with the requirements of section 47.20, subdivision 8.

No licensee shall conduct the business of making loans under this chapter within any office, room, or place of business in which any other business is solicited or engaged in, or in association or conjunction therewith, if the commissioner finds that the character of the other business is such that it would facilitate evasions of this chapter or of the rules and regulations lawfully made hereunder. The commissioner may promulgate rules dealing with such other businesses.

No licensee shall transact the business or make any loan provided for by this chapter under any other name or at any other place of business than that named in the license. No licensee shall take any confession of judgment or any power of attorney. No licensee shall take any note or promise to pay that does not accurately disclose the principal amount of the loan, the time for which it is made, and the agreed rate or amount of charge, nor any instrument in which blanks are left to be filled in after execution. Nothing herein is deemed to prohibit the making of loans by mail.

Sec. 6. Minnesota Statutes 1981 Supplement, Section 56.131, Subdivision 1, is amended to read:

Subdivision 1. **INTEREST RATES AND CHARGES.** (a) On any loan in the principal amount of \$35,000 or less, a licensee may contract for and receive interest, calculated according to the actuarial method, not exceeding the equivalent of the greater of any of the following:

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(1) the total of: (i) 33 percent per year on that part of the unpaid balance of the principal amount not exceeding \$350; and (ii) 19 percent per year on that part of the unpaid balance of the principal amount exceeding \$350; or

(2) 21.75 percent per year on the unpaid balance of the principal amount.

(b) On any loan where interest has been calculated according to the method provided for in paragraph (a), clause (1), interest shall be contracted for and earned as provided in paragraph (a), clause (1) that provision or at the single annual percentage rate computed to the nearest one hundredth of one percent that would earn the same total interest at maturity of the contract as would be earned by the application of the graduated rates provided in paragraph (a), clause (1), when the debt is paid according to the agreed terms and the calculations are made according to the actuarial method.

(c) Loans may be interest-bearing or precomputed.

(d) To compute time on interest-bearing and precomputed loans, including, but not limited to the calculation of interest, a day shall be considered 1/30 of a month when calculation is made for a fraction of a calendar month. A year shall be 12 calendar months. A calendar month shall be that period from a given date in one month to the same numbered date in the following month, and if there is no same numbered date, to the last day of the following month.

(e) With respect to interest-bearing loans:

(1) Interest shall be computed on unpaid principal balances outstanding from time to time, for the time outstanding. Each payment shall be applied first to the accumulated interest and the remainder of the payment applied to the unpaid principal balance; provided however, that if the amount of the payment is insufficient to pay the accumulated interest, the unpaid interest continues to accumulate to be paid from the proceeds of subsequent payments and is not added to the principal balance.

(2) Interest shall not be payable in advance or compounded. However, if part or all of the consideration for a new loan contract is the unpaid principal balance of a prior loan, then the principal amount payable under the new loan contract may include any unpaid interest which has accrued. The unpaid principal balance of a precomputed loan is the balance due after refund or credit of unearned interest as provided in paragraph (e) (f), clause (3). The resulting loan contract shall be deemed a new and separate loan transaction for all purposes.

(f) With respect to precomputed loans:

(1) Loans shall be repayable in substantially equal and consecutive monthly installments of principal and interest combined, except that the first installment period may be longer than one month by not more than 15 days, and the first installment payment amount may be larger than the remaining payments by

the amount of interest charged for the extra days; and provided further that monthly installment payment dates may be omitted to accommodate borrowers with seasonal income.

(2) Payments may be applied to the combined total of principal and precomputed interest until the loan is fully paid. Payments shall be applied in the order in which they become due.

(3) When any loan contract is paid in full by cash, renewal or refinancing, or a new loan, one month or more before the final installment due date, a licensee shall refund or credit the borrower with the total of the applicable charges for all fully unexpired installment periods, as originally scheduled or as deferred, which follow the day of prepayment; if the prepayment is made other than on a scheduled payment date, the nearest scheduled installment payment date shall be used in the computation; provided further, if the prepayment occurs prior to the first installment due date, the licensee may retain 1/30 of the applicable charge for a first installment period of one month for each day from the date of the loan to the date of prepayment, and shall refund or credit the borrower with the balance of the total interest contracted for. If the maturity of the loan is accelerated for any reason and judgment is entered, the licensee shall credit the borrower with the same refund as if prepayment in full had been made on the date the judgment is entered.

~~(f)~~ (4) If an installment, other than the final installment, is not paid in full within ten days of its scheduled due date, a licensee may contract for and receive a default charge not exceeding five percent of the amount of the installment, but not less than \$2.

~~(g)~~ (5) If the parties agree in writing, either in the loan contract or in a subsequent agreement, to a deferment of wholly unpaid installments, a licensee may grant a deferment and may collect a deferment charge as provided in this section. A deferment postpones the scheduled due date of the earliest unpaid installment and all subsequent installments as originally scheduled, or as previously deferred, for a period equal to the deferment period. The deferment period is that period during which no installment is scheduled to be paid by reason of the deferment. The deferment charge for a one-month period may not exceed the applicable charge for the installment period immediately following the due date of the last undeferred payment. A proportionate charge may be made for deferment for periods of more or less than one month. A deferment charge is earned pro rata during the deferment period and is fully earned on the last day of the deferment period. Should a loan be prepaid in full during a deferment period, the licensee shall make or credit to the borrower a refund of the unearned deferment charge in addition to any other refund or credit made for prepayment of the loan in full.

~~(h)~~ (6) If two or more installments are delinquent one full month or more on any due date, and if the contract so provides, the licensee may reduce the

unpaid balance by the refund credit which would be required for prepayment in full on the due date of the most recent maturing installment in default. Thereafter, and in lieu of any other default or deferment charges, the single annual percentage rate permitted by ~~paragraph (b)~~ this subdivision may be charged on the unpaid balance until fully paid.

(i) (7) Following the final installment as originally scheduled or deferred, the licensee, for any loan contract which has not previously been converted to interest-bearing under paragraph ~~(h)~~ (f), clause (6), may charge interest on any balance remaining unpaid, including unpaid default or deferment charges, at the single annual percentage rate permitted by ~~paragraph (b)~~ this subdivision until fully paid.

Sec. 7. Minnesota Statutes 1981 Supplement, Section 56.131, Subdivision 5, is amended to read:

Subd. 5. **ATTORNEY'S FEES.** No term of writing may provide for the payment by the debtor of attorney's fees, except for lawful fees to be paid to an attorney in connection with the foreclosure of a real estate mortgage.

Sec. 8. Minnesota Statutes 1981 Supplement, Section 56.155, is amended to read:

#### 56.155 INSURANCE IN CONNECTION WITH LOAN.

Subdivision 1. **AUTHORIZATION.** No licensee shall, directly or indirectly, sell or offer for sale any insurance in connection with any loan made under this chapter except as and to the extent authorized by this section. The sale of credit life and credit accident and health insurance shall be subject to the provisions of chapter 62B, except that the term of the insurance may exceed 60 months if the term of the loan exceeds 60 months. Life, accident, and health insurance, or any of them, may be written upon or in connection with any loan but shall not be required as additional security for the indebtedness. If the debtor chooses to procure credit life insurance or credit accident and health insurance as security for the indebtedness, he shall have the option of furnishing this security through existing policies of insurance owned or controlled by him or of furnishing the coverage through any insurer authorized to transact business in this state. A statement in substantially the following form in bold face type of a minimum size of 12 points shall be provided to the borrower before the transaction is completed:

**CREDIT LIFE INSURANCE AND CREDIT DISABILITY INSURANCE ARE NOT REQUIRED TO OBTAIN CREDIT. YOU MAY BUY ANY INSURANCE FROM ANYONE YOU CHOOSE OR YOU MAY USE EXISTING INSURANCE. THE CREDIT LIFE INSURANCE AND CREDIT DISABILITY INSURANCE AVAILABLE THROUGH THIS LENDER HAD AN ACTUAL LOSS RATIO DURING THE CALENDAR YEAR LAST REPORTED TO THE DE-**

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PARTMENT OF COMMERCE OF ..... PERCENT. THIS MEANS THAT, ON THE AVERAGE, \$..... OF EVERY \$100 IN PREMIUMS PAID TO THE INSURANCE COMPANY WERE RETURNED AS BENEFITS TO POLICYHOLDERS DURING THAT YEAR.

The licensee shall have 30 days after the insurance company submits its report of losses to the department of commerce for the previous calendar year to change its disclosure to reflect the current loss ratio.

The licensee shall disclose whether or not the benefits shall commence as of the first day of disability and shall further disclose the number of days that an insured obligor must be disabled, as defined in the policy, before benefits, whether retroactive or nonretroactive, shall commence. In case there are multiple obligors under a transaction subject to this chapter, no policy or certificate of insurance providing credit accident and health benefits shall be procured by or through a licensee upon more than one of the obligors. In case there are multiple obligors under a transaction subject to this chapter, no policy or certificate of insurance providing credit life insurance shall be procured by or through a licensee upon more than two of the obligors in which case they shall be insured jointly. The premium or identifiable charge for the insurance shall not exceed that filed by the insurer with the insurance division of the department of commerce. The charge, computed at the time the loan is made for a period not to exceed the full term of the loan contract on an amount not to exceed the total amount required to pay principal and charges, may be deducted from the proceeds or may be included as part of the principal of any loan. If a borrower procures insurance by or through a licensee, the statement required by section 56.14 shall disclose the cost to the borrower and the type of insurance, and the licensee shall cause to be delivered to the borrower a copy of the policy, *certificate, or other evidence thereof, within a reasonable time*. No licensee shall decline new or existing insurance which meets the standards set out in this section nor prevent any obligor from obtaining such insurance coverage from other sources. Notwithstanding any other provision of this chapter, any gain or advantage to the licensee or to any employee, affiliate, or associate of the licensee from such insurance or the sale or provision thereof shall not be deemed to be additional or further charges in connection with the loan; nor shall any of the provisions pertaining to insurance contained in this section be deemed prohibited by any other provision of this chapter.

Subd. 2. **PROPERTY INSURANCE.** A licensee may require the obligors to provide insurance on real or personal property security against reasonable risks of loss, damage, and destruction. The amount and term of the insurance shall be *reasonable in relation to the value of the security, but the amount and term of the insurance shall not exceed the principal amount of the loan and term of the loan, except that the lender may insure or arrange for insurance not to exceed the reasonable value of any motor vehicle collateral.* The restrictions contained in this subdivision shall not apply to the sale or provision of homeown-

er's insurance as defined in section 65A.27. In all cases when insurance is offered the obligor shall be informed that he has the option of providing insurance through existing policies of insurance owned or controlled by him or by procuring and furnishing the offered coverage through any insurer authorized to transact an insurance business within this state. The purchase of such insurance through the licensee or from an agent, broker, or insurer specified by the licensee shall not be required.

Sec. 9. Minnesota Statutes 1981 Supplement, Section 334.02, is amended to read:

**334.02 USURIOUS INTEREST; RECOVERY.**

Every person who for any such loan or forbearance shall have paid or delivered any greater sum or value than in section 334.01 allowed to be received may, by himself or his personal representatives, recover in an action against the person who shall have received the same, or his personal representatives, the full amount of interest or premium so paid, with costs, if action is brought within two years after such payment or delivery. This section does not apply when the loan or forbearance is made by a lender and the lender is liable for the penalty provided in section 48.196 and or chapter 56 in connection with the loan or forbearance. For purposes of this section, the term "lender" means a bank or savings bank organized under the laws of this state, a federally chartered savings and loan association, a savings association organized under chapter 51A, a federally chartered credit union, a credit union organized under chapter 52, an industrial loan and thrift company organized under chapter 53, a licensed lender under chapter 56, or a mortgagee or lender approved or certified by the secretary of housing and urban development or approved or certified by the administrator of veterans affairs.

Sec. 10. Minnesota Statutes 1981 Supplement, Section 334.03, is amended to read:

**334.03 USURIOUS CONTRACTS INVALID; EXCEPTIONS.**

All bonds, bills, notes, mortgages, and all other contracts and securities, and all deposits of goods, or any other thing, whereupon or whereby there shall be reserved, secured, or taken any greater sum or value for the loan or forbearance of any money, goods, or things in action than prescribed, except such instruments which are taken or received in accordance with and in reliance upon the provisions of any statute, shall be void except as to a holder in due course. No merely clerical error in the computation of interest, made without intent to avoid the provisions of this chapter, shall constitute usury. Interest at the rate of one-twelfth of eight percent for every 30 days shall not be construed to exceed eight percent per annum; nor shall the payment of interest in advance of one year, or any less time, at a rate not exceeding eight percent per annum constitute usury; and nothing herein shall prevent the purchase of negotiable mercantile

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paper, usurious or otherwise, for a valuable consideration, by a purchaser without notice, at any price before the maturity of the same, when there has been no intent to evade the provisions of this chapter, or where such purchase has not been a part of the original usurious transactions; but where the original holder of a usurious note sells the same to an innocent purchaser, the maker thereof, or his representatives, may recover back from the original holder the amount of principal and interest paid by him on the note. This section does not apply when the loan or forbearance is made by a lender and the lender is liable for the penalty provided in section 48.196 and or chapter 56 in connection with the loan or forbearance. For purposes of this section, the term "lender" means a bank or savings bank organized under the laws of this state, a federally chartered savings and loan association, a savings association organized under chapter 51A, a federally chartered credit union, a credit union organized under chapter 52, an industrial loan and thrift company organized under chapter 53, a licensed lender under chapter 56, or a mortgagee or lender approved or certified by the secretary of housing and urban development or approved or certified by the administrator of veterans affairs.

Approved March 22, 1982

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#### CHAPTER 548 — H.F.No. 1555

*An act relating to education; providing for aids to education, aids to libraries, tax levies, and the distribution of tax revenues; governing the recognition of school district property tax revenues; granting certain powers and duties to school boards, school districts, the state board of education, and others; altering the method of distribution of transportation aid; altering aids for summer school; reducing certain appropriations; appropriating money; amending Minnesota Statutes 1980, Sections 120.17, Subdivision 4a; 120.68; 121.11, Subdivision 12; 121.88, by adding a subdivision; 121.904, Subdivisions 2, 4, and 4a, as added; 121.908, Subdivision 3; 123.32, Subdivision 1, and by adding a subdivision; 123.35, by adding a subdivision; 123.351, by adding a subdivision; 123.37, Subdivision 1b; 123.78, Subdivision 1; 124.14, by adding a subdivision; 124.19, Subdivision 1, and by adding a subdivision; 124.225, as amended; 124.245, by adding a subdivision; 124.26, by adding a subdivision; 124.32, Subdivisions 2, 7, and 10, and by adding subdivisions; 124.5621, by adding a subdivision; 124.572, Subdivision 2, and by adding a subdivision; 124.573, by adding subdivisions; 124.574, Subdivision 3, and by adding a subdivision; 126.262, Subdivision 1; 126.264, Subdivision 3; 126.265; 126.267; 134.34, by adding a subdivision; 275.125, Subdivisions 4 and 5, as amended, and by adding subdivisions; 275.48; 475.61, Subdivisions 1, 3, and 4; Minnesota Statutes 1981 Supplement, Sections 120.17, Subdivisions 5a and 6; 121.904, Subdivision 7; 121.912, Subdivision 1; 122.542, Subdivisions 3 and 4; 123.702, Subdivision 1a; 123.705; 124.01, Subdivision 1; 124.17, Subdivision 2; 124.212, Subdivision 1; 124.2121, Subdivision 5, as amended; 124.2122, Subdivision 1, as amended, and Subdivision 2, as amended; 124.2124, Subdivision 1; 124.2125, Subdivision 1, as amended, and Subdivision 2; 124.2126, Subdivision 3;*

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