

HARRY HUGHES, Governor

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May 29, 1984

The Honorable Melvin A. Steinberg
President of the Senate
State House
Annapolis, Maryland 21404

Dear Mr. President:

In accordance with Article II, Section 17 of the Maryland Constitution, I have today vetoed Senate Bill 861 because it represents an unwise and unnecessary departure in Maryland consumer credit policy and lacks adequate consumer protection features.

Before turning to the bill itself, a review of relevant existing law and consumer credit policy is appropriate.

Enactment of the Credit Deregulation Act, Chapter 143 of the Laws of Maryland of 1983, created two separate categories of open-end credit plans which may be offered to Maryland consumers: secured and unsecured plans. This distinction was developed in order to segment these credit plans according to the level of risk involved to the credit grantor in the extension of credit, with the former representing little or no risk since an authorized credit line is collateralized and the latter containing uncertain risk. In recognition of the inherent risk to the credit grantor involving unsecured revolving credit, three specific additional fees, in addition to the charging of interest at a rate not higher than 24 percent per annum, were permitted to be imposed. These specific fees are annual charges ("membership fees"), a transaction charge for each separate purchase or other use, and a minimum billing period charge if there is an outstanding balance for a billing period.

Importantly, a particular group of credit grantors, those which are also sellers of goods or services, are limited to one of the specific fees which may be imposed on a consumer utilizing an unsecured open-end credit plan. The rationale underlying this distinction is that a credit grantor classified as either a seller of goods or services receives not only the benefit of interest imposed on any outstanding indebtedness but also the profit accruing from the sale of the goods or services.

Senate Bill 861 would permit a credit grantor to secure an open-end credit card plan by any deposit or savings account, and collect any or all of the specific fees currently permitted only on unsecured accounts, in addition to the charging of interest. In effect, the distinction between secured and unsecured credit plans, predicated on the differing risk factors to the credit grantor, would be eliminated.

There are two reasons for either not permitting any additional fees to be imposed at all on secured open-end accounts, or at the minimum, limiting to one, the additional fees