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## **OLR Bill Analysis**

### **HB 5319**

#### ***AN ACT CONCERNING DISCLOSURE OF PREPAYMENT PENALTIES.***

#### **SUMMARY**

This bill requires any person making a loan that includes a prepayment penalty to provide the borrower with a clear and conspicuous disclosure of the penalty amount. The disclosure must be made before the loan agreement is executed and the borrower must sign it. The disclosure must show the prepayment penalty that would be imposed if the loan is repaid in full during any billing cycle in the life of the loan.

Although the bill applies broadly to any “person” making a loan (which generally includes individuals, companies, and certain other legal entities), federal law generally preempts the application of state banking laws to federally chartered financial institutions. As a result, the bill may not be enforceable with respect to individuals making loans on behalf of federally chartered banks and credit unions (see BACKGROUND).

EFFECTIVE DATE: October 1, 2022

#### **BACKGROUND**

##### ***National Bank Act Preemption***

Federal law defines a “state consumer financial law” as a state law that (1) does not discriminate against national banks and (2) directly regulates the manner, content, or terms and conditions of certain consumer financial transactions (12 U.S.C. § 25b(a)(2)). These state laws are preempted if, among other things, they significantly interfere with a national bank’s exercise of its powers (12 U.S.C. § 25b(b), *Barnett Bank of Marion County, N.A. v. Nelson, Florida Insurance Commissioner, et. al.* 517 U.S. 25, 33 (1996)).

**COMMITTEE ACTION**

Banking Committee

Joint Favorable

Yea 17 Nay 0 (03/15/2022)