HB

246

#2

STATE OF ALASKA

Bill Sheffield, Governor

**DEPARTMENT OF COMMERCE &
ECONOMIC DEVELOPMENT**

OFFICE OF THE COMMISSIONER

*POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2500*

April 25, 1983

Honorable Richard I. Eliason, Chairman
Senate Labor and Commerce Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

It is the position of our Division of Banking, Securities and Corporations that SB 276, deregulation of interest rates, should be passed into law. This recommendation is based partly upon the following:

1. Inflation and high interest rate squeezes the lender and the borrower in the supply of credit. No lender can lend money out at a rate below his cost of the monies to lend.

2. There is little or no evidence of abuse in financial institutions' policies as money is consistently lent out lower than usury rates.

3. Ceiling rates too low can dry up credit. This was noted in the early 1970's when the Legislature failed to set usury rates therefore limiting housing loans to the State rate of 8%.

4. Rates should be determined by

   a. cost of money to lend
   b. risk involved in lending
   c. competition (supply & demand).

Sincerely,

Richard A. Lyon
Commissioner

RAL/valA28

08-H2LH

May 25, 1983

ANALYSIS OF HB 246
RELATING TO THE DEREGULATION OF INTEREST RATES

The text of CSHB 246 (L&C) is particularly confusing because of the "negative sunset" arrangement. The first six sections of this bill effectively repeal all statutory limitations on interest and service charge rates for a whole range of defined loans in Alaska. By the terms of Section 17 of the bill these sections go into effect on July 1, 1983.

Sections 7 through 14, though, go into effect on July 1, 1987. These sections re-impose all of the statutory rate limitations repealed by the first six sections. This arrangement is instituted in order to "experiment" with this deregulation.

Section 15 requires Legislative Audit to report on "the effects of the amendments made in secs. 1 - 6...on the people of the state and in particular those persons seeking or receiving credit." This information will give the legislature the opportunity to repeal Sections 7-14 and leave the deregulation in place.

SECTIONAL ANALYSIS OF SECTIONS 1 THROUGH 6 AND 16

Sec. 1 Deregulates the interest rate charged by a licensed lending institution. [Beneficial Finance is the only such business now operating in the state.] Interest rates now allowed are up to 36%/year.

Sec. 2 Deregulates interest rates charged by licensed premium finance companies. This type of service is used by businesses and this section has little effect on consumers.

Sec. 3 Removes 6%/year interest rate on money deposited with a court in satisfaction of a judgement after the state or a local government has condemned property and replaces with "lawful" interest of 10.5%. Does not affect consumers.

Sec. 4 Deregulates the interest rate on retail installment contracts. These are those special cases where the seller is also the lender. Examples include furniture stores and car dealers. Interest limit is now 19.5%. The identity between the "lender" and the "seller" means that this is an area where credit is not likely to dry up, as the lender needs to continue to provide credit to continue to sell.

The lender here also has a special security interest in the item sold which allow instant repossession if a payment is missed. This justified by the higher risks involved in these sales. Prices are frequently higher in these stores to reflect the "costs" of providing this kind of credit.

Sec. 5 Deregulates the interest rate on retail charge agreements, revolving charge agreements or other retail charge agreements. This applies to all charge cards and also to charge accounts at stores. This provision will have a special impact on credit customers at bush general stores, cannery stores, fishing gear stores, fuel suppliers, etc. The present allowed interest rate is 18%. This is another situation where selling on credit is an essential part of the business, and credit is not likely to "dry up." Here, and in the section 4 situation, the consumer has almost no bargaining power and is dependent on doing business with these institutions if they need the goods provided. This imbalance in bargaining power was a prime reason for this credit being regulated in the first place, and nothing has happened to relieve the need for consumer protection in these situations.

Sec 6. If interest rates are to exceed 10.5%/year it must be by express agreement of the parties in a contract or loan commitment. This section may have an effect on medical bills, interest on other unpaid bills, etc. If the original contract or agreement of sale contains an interest rate provision this could impose extremely high interest rates.

Sec 16. Aside for adjusting the general usury rate, this section deletes the upper limit for credit union loans. This should not have much effect on consumers as pressure from customer/members should keep these rates reasonable.

STATE OF ALASKA
FISCAL NOTE

Revision Date April , 1983

I. REQUEST
Bill/Resolution No.: SB 276/HB246
Title: Deregulation of Interest Rates
Sponsor: Josephson
Requestor:

II. FISCAL DETAIL
Agency Affected: Commerce & Econ. Developmen
Program Category Affected: Banking
BRU, Program of Subprogram(s) Affected:
None

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC						
TOTAL OPERATING		0	0	0	0	0
CAPITAL		0	0	0	0	0
REVENUE						

FUNDING: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
FULL-TIME						
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attacn a separate page for any Analysis

Prepared By: Willis F. Kirkpatrick, Director Phone: 465-2521
Division: Banking, Securities & Corporations Date:

Approved by Commissioner: Richard A. Lyon Date: 5/5/83
Department: Commerce and Economic Development

Distribution:
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3/8/83

Alaska House Bill No. 246

The Alaska Retail Association supports House Bill No. 246 which would deregulate interest and service charges rates in retail credit transactions.

The fixing of statutory ceilings on rates is a form of governmental price fixing - a practice which recent history shows inevitably leads to unintended harmful consequences. In the case of retail credit the consequence of governmental price fixing is the shifting of the cost of extending credit from credit using customers to all customers in the form of higher prices for goods and services.

Granting credit is costly to retailers. First, they must, of course, finance the goods which they sell on credit. In addition, they must pay the costs of preparing and processing monthly statements, of postage, of the salaries and benefits of credit department staffs, and of office space and equipment. They must also absorb losses resulting from bankruptcies and bad debts.

If a retailer cannot recover the costs of its credit operation from service charges it must - if it intends to remain in business - recover them in the price of its goods and services. When it does so the cost of a portion of its credit operation is shifted to its cash customers. This inherently unfair result is mandated by government when government intervenes in the economic process and forbids a retailer to recover the costs of its credit operation from its credit customers when those costs exceed 1 1/2% per month.

Eighteen states, including a majority of the western states, have deregulated statutory finance charge ceilings. (An illustrative map and a list of deregulated states are attached). In those states competitive forces now set rate ceilings. Several recent studies (copies of which ARA would be happy to share with the committee) have concluded that consumers have not been harmed by the removal of rate ceilings. Typical is a New York State Banking Department report on the effects, since 1980, of deregulation in that state. Commenting on that study in December 1982, the Banking Commissioner stated,

> "The findings of our study indicate that passage of the Omnibus Banking Bill has led to a more highly competitive market for consumer loans and a broader range of choice for consumers as more institutions are competing for consumer credit business. The study also revealed that wide variations in interest rates exist among lenders in every metropolitan area in the State; that interest rates on many types of consumer loans have been reduced during 1982; and that more liberal credit standards and larger credit lines have been instituted at many banks and there is greater participation in consumer lending."

Similarly, in California, where interest rates on bank credit cards have never been regulated, competition is intense enough that the papers now publish weekly charts showing the current rates (an example is attached).

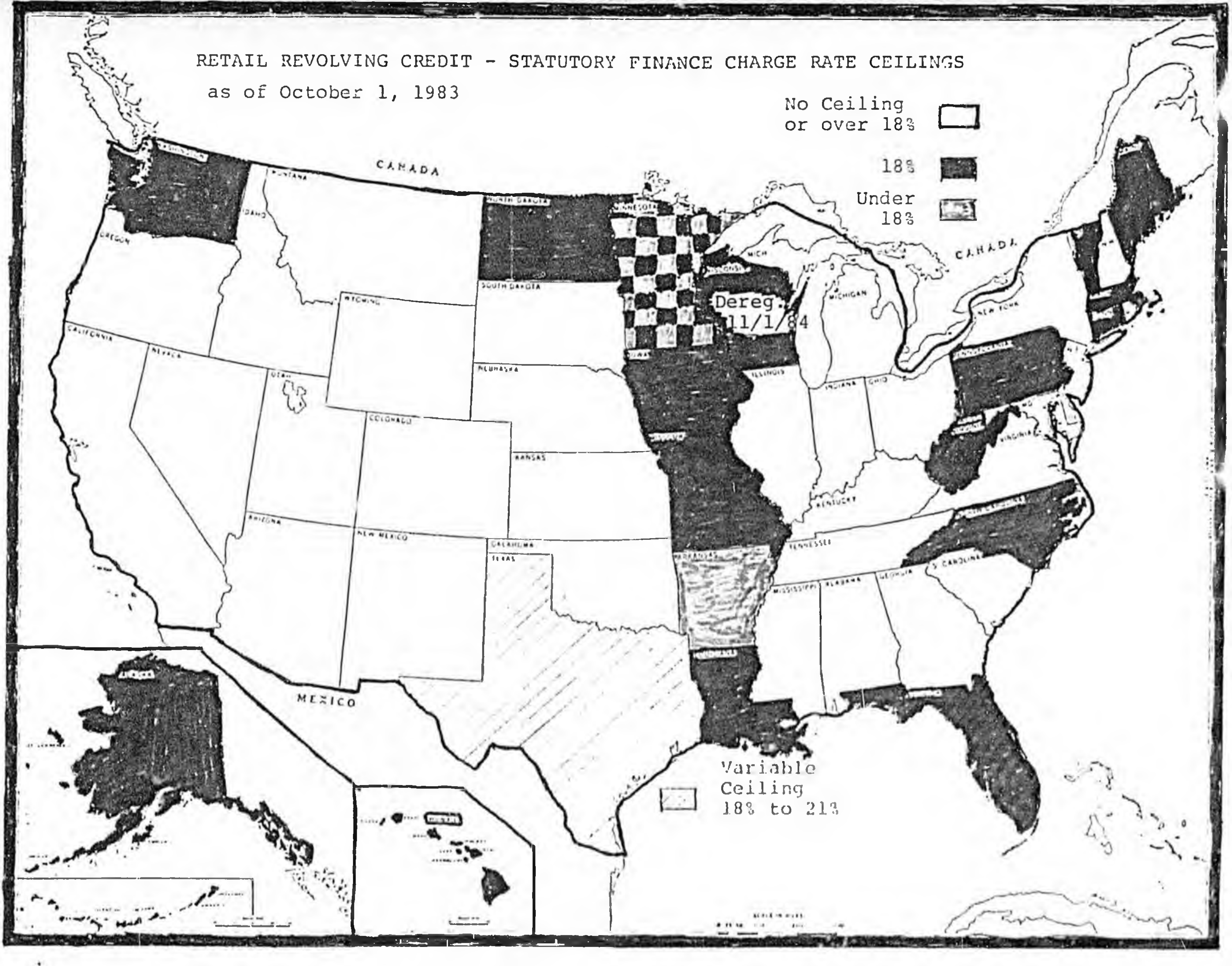
H.B. 246 does not remove any of the consumer protections contained in the federal Truth-in-Lending Law and regulations or this state's statutes. It is fair to retailers and their customers. We urge its passage.

RETAIL REVOLVING CREDIT

States which do not regulate finance charge rates or which have ceilings higher than Alaska's.

1. Alabama
2. Arizona
3. California
4. Colorado
5. Delaware
6. Georgia
7. Idaho
8. Illinois
9. Indiana
10. Kansas
11. Kentucky
12. Maryland
13. Michigan
14. Mississippi
15. Montana
16. Nebraska
17. Nevada
18. New Hampshire
19. New Jersey
20. New Mexico
21. New York
22. Ohio
23. Oklahoma
24. Oregon
25. Rhode Island
26. South Carolina
27. South Dakota
28. Tennessee
29. Texas
30. Utah
31. Wisconsin (effective 11/1/83)
32. Wyoming
33. Virginia

October 1, 1983



RETAIL REVOLVING CREDIT - STATUTORY FINANCE CHARGE RATE CEILINGS
as of October 1, 1983
No Ceiling
or over 18%
18%
Under
18%
Dereg.
11/1/84
Variable
Ceiling
18% to 21%
CANADA
CANADA
MEXICO
OREGON
CALIFORNIA
NEVADA
UTAH
WYOMING
COLORADO
ARIZONA
NEW MEXICO
SOUTH DAKOTA
NEBRASKA
KANSAS
OKLAHOMA
TEXAS
ILLINOIS
INDIANA
OHIO
MICHIGAN
KENTUCKY
TENNESSEE
MISSISSIPPI
ALABAMA
GEORGIA
S CAROLINA
VIRGINIA
NEW YORK

Key Rates quoted by leading California financial institutions

In percent for the week ended March 9, 1983.

Deposit Rates

MMA: Money-market deposit accounts are a type of savings account requiring a minimum balance of $2,500 and allowing up to six fund transfers per month. Average annual rate during the 7 days ending Wednesday on a consumer account with a balance under $100,000.

S-NOW: Super-NOW are checking accounts requiring a minimum balance of $2,500. Average annual rate during the 7 days ending Wednesday.

Loan Rates

Mortgage (Mtg.): Rate for a 30-year, $150,000 adjustable rate loan. Appraisal fees and loan origination charges vary with each institution.

Auto loan: Interest rate for an $8,000, 4 month, new car loan.

Credit card: Annual percentage rate charged on credit card balance. Institutions charge an annual fee of $10 to $15 for the credit card.

	Deposit Rates		Loan Rates		
Banks	MMA	S NOW	Mtg	Auto loan	Credit card
Bank of America	8.26	7.90	11.26	16.26	19.80
California First Bank	8.26	†7.76	NA	14.50	18.80
Crocker	8.00	7.00	11.76	11.76	21.00
First Interstate	8.00	7.00	NA	16.26	21.00
Lloyds Bank California	8.00	7.50	NA	16.26	20.00
Security Pacific	8.00	7.00	11.60	16.00	20.40
Sumitomo Bank of California	8.00	7.00	12.50	14.25	19.80
Wells Fargo	8.02	7.02	14.38	16.76	20.00
S&Ls					
California Federal	8.76	8.00	11.76	14.50	17.00
First Nationwide Savings	8.26	7.76	11.50	NA	18.00
Gibraltar Savings	8.64	8.04	12.60	13.60	21.00
Great Western	8.60	7.76	11.28	NA	19.80
Home Savings of America	8.60	7.60	11.76	NA	18.00
Home Federal Savings	8.82	7.82	11.76	16.26	18.00
Imperial Savings	8.50	7.93	11.75	NA	NA
World Savings	8.84	3.22	11.76	NA	19.80

† Through a subsidiary in Guam, California First Bank is able to offer the checking account with an opening minimum balance of $1,000.

These rates are not regulated by statute. Range from 17% to 21%.

NATIONAL CONSUMER LAW CENTER M L
11 BEACON ST
BOSTON MA 02108 01PM

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6175238010 MGM TDMT BOSTON MA 360 03-01 0721P EST

ELIZABETH HICKERSON
1024 WEST 6 AVE
ANCHORAGE AK 99501

AT THE REQUEST OF SENATOR FISCHER:

AS THE SOLE LEGAL SUPPORT CENTER FOR CONSUMER LAW PROBLEMS OF LOW-INCOME AMERICANS WHO GO TO LEGAL AID OR LEGAL SERVICES PROGRAMS THROUGHOUT THE NATION, WE HAVE PERSISTENTLY SOUGHT INFORMATION ON CREDIT AVAILABILITY EFFECTS OF USURY DEREGULATION ON THE POOR, AND FIND IT DOES NOT EXIST. THERE IS NO RELIABLE DATA ON IMPACT BY INCOME GROUP, THOUGH THE 1982 FEDERAL RESERVE BOARD CONSUMER SURVEY MAY CONTAIN SOME INFORMATION, IT IS UNAVAILABLE UNTIL FALL AT THE EARLIEST. IN THE PUBLIC DOMAIN, THERE IS LITTLE MORE THAN SELF-SERVING THEORY ON AVAILABILITY AT ANY INCOME. ONLY THE 1982 NEW YORK BANKING DEPARTMENT REPORT DESCRIBES AVAILABILITY AT ALL: IT FOUND MASSIVE RATE INCREASES DID NOT EFFECTIVELY IMPROVE EITHER THE EASE OF QUALIFYING FOR CREDIT OR INCREASE THE AMOUNT OF CREDIT LINES FOR EXISTING BORROWERS. THAT FAILURE IS CONSISTENT WITH OUR EXPERIENCE IN A NUMBER OF OTHER STATES.

IF THE FRB'S FUNCTIONAL COST ANALYSIS FOR BANK CREDIT CARDS IS TYPICAL, CREDIT CARD RATES INCREASE WITH DEREGULATION: FULLY ALLOCATED RETURN HAS GROWN FROM 25.4 PERCENT APR BEFORE DEREGULATION TO ABOUT 29.5 PERCENT AT PRESENT. MUCH OF THIS RETURN IS HIDDEN IN RETAIL PRICES SUCH AS THE SUBSIDY THAT CASH CUSTOMERS PAY BECAUSE LEGAL DISCOUNTS FOR PAYING CASH ARE NOT OFFERED. A LITTLE REPORTED NATIONAL SCIENCE FOUNDATION STUDY OF ARKANSAS FOUND MUCH MORE CREDIT SUPPLIED TO WORKING CLASS AND POOR BORROWERS UNDER A 10 PERCENT RATE CEILING THAN IN LOUI IANA WHERE 3 TIMES THAT RATE WAS LEGAL. AS I URGED, CALIFORNIA DECIDED NOT TO DEREGULATE ITS RETAIL CREDIT RATES 2 YEARS AGO, APPARENTLY BECAUSE IT WAS INAPPROPRIATE.

FOR THE POOR, DEREGULATION OF LENDING UNDER $25,000 HAS PROBABLY WORSENED CREDIT AVAILABILIVY, SINCE FINANCE COMPANIES HAVE ABANDONED THE SMALL LOAN MARKET AND MOVED MOST OF THEIR MONEY INTO PREVIOUSLY ILLEGAL, HIGH RATE, HOME EQUITY LENDING TO THE MORE UPSCALE CONSUMERS WHO OWN THEIR HOMES. FOR POOR, RETIRED HOMEOWNERS, DEREGULATION HAS PERMITTED VARIOUS NEW ABUSES SUCH AS DISGUISED INTEREST VIA BROKERAGE FEES AND TRICKERY, SINCE BUYERS OF HOME IMPROVEMENTS SOMETIMES GRANT SECOND MORTGAGES WITHOUT REALIZING IT, HIGH RATES NOTWITHSTANDING.

MARK LEYMASTER
NATIONAL CONSUMER LAW CENTER

TO REPLY BY MAILGRAM, SEE INSTRUCTIONS ON REVERSE SIDE.

Alaska State Legislature

Advisory Council Members
Senator Kerttula, Chairman
Senator Bennett
Senator Vic Fischer
Senator Fahrenkamp

Pouch V
State Capital
Juneau, Alaska 99811
Phone: (907) 465-3114

SENATE ADVISORY COUNCIL

MEMORANDUM

TO: SENATOR VICTOR FISCHER

FROM: ELIZABETH HICKERSON and ELIZABETH BERBERICH

RE: INTEREST RATE CEILINGS

DATE: MARCH 2, 1984

You requested that the following questions be researched by the Senate Advisory Council.

1. What effect does raising the interest rate ceiling on credit cards have on the availability of credit cards to low-income applicants?

2. In states that have no interest rate ceiling on loans given by retail outlets, if possible find out what the average interest rate charged to a customer is? If the interest rate charged can be broken down by income of the recipient, please forward that information also.

3. What effect does raising the interest rate ceiling on loans under $25,000 have? Have loans under $25,000 become more available to low-income applicants in States that have raised their interest rate ceiling for loans of $25,000 or less?

Numerous publications, reports, and testimony were reviewed. These resources did not contain specific information on questions one or three. A number of states were contacted for updated information. The following states responded that no data was available on questions one and three: Connecticut, Florida, Illinois, Kentucky, Massachusetts, Michigan, Arizona, New Hampshire, North Carolina, New Jersey, Virginia, New York and New Mexico (see attached summary of responses). The following states were contacted but no one was available to respond: Maine, Texas, South Carolina, South Dakota, Delaware, and Montana.

Apparently, the current authority on availability of credit is "The Price and Availability of Consumer Credit in New York State", conducted by the New York State Banking Department, December 1982. (see attachment). In 1980, the New York State Omnibus Banking Bill became

effective. Virtually all interest rate ceilings, except criminal usury, on consumer loans in New York State were eliminated. The Banking Department conducted two surveys of financial institutions and others who extend credit to consumers in New York State. The first survey, conducted in January-February 1981 found:

1. the interest rates on consumer credit had risen after passage of the bill since the previous rate ceilings had been unrealistically low;

2. that there was an increase in the availability of consumer credit for New Yorkers;

3. and that banks were offering a wide range of rates and fees, thereby providing consumers with alternative choices which they could take advantage of by shopping for credit.

The second survey, conducted in September 1982, found:

1. because the Omnibus Banking Bill granted additional consumer lending powers to savings banks and savings and loan associations, the number of banking institutions offering consumer loans has increased substantially, this resulted in a greater degree of competition in consumer lending and a wider range of choice for consumers among different types of banking institutions;

2. there are wide variations in rates charged by different institutions in the same market area for the same type of loan, thereby providing consumers with alternative choices;

3. as market rates have fluctuated there have been changes in rates charged on consumer loans; rates generally increased for most types of consumer loans during 1981 but eased off and then fell sharply during the second half of 1982;

4. and more liberal credit standards for consumer lending, larger credit lines and greater participation in consumer loan activity by banks has continued since 1981.

Although not stated as a formal report finding, there has been very little increase in maximum lines of consumer credit and almost no liberalization of consumer loan standards. Carmen J. Carlo, co-author of the report, told Ms. Hickerson on March 1, 1984, that while more credit has been available since the passage of the bill, the income class of borrowers has not been expanded. She clarified this by stating that there is more money available today but generally it is going to the same economic class of borrowers as before. Ms. Berberich contacted Glen Nishimura, legislative representative for the Consumer Federation of America, and Mark Leymaster, National Consumer Law Center, Inc., on March 2, 1984 and both agreed with Ms. Carlo's analysis. A statement from Mr. Leymaster on this issue is attached.

While these are the major findings of the survey it is important to note the following specific information contained in the report.

COMMERCIAL BANK FINDINGS

1. Rates and fees on credit cards have not been reduced, and in fact were increased at some banks during 1982. (p.11)

2. Almost all banks indicated that they charged the same rates at all offices and almost two-thirds of the respondents stated that their rates were the same for all customers. Among New York City Banks, however, slightly over half reported that they charged different rates for different customers. Generally, persons who had no other deposits or loan accounts with the bank were charged a higher rate on their consumer loans than those who did have such accounts. (p.12)

3. Only 38% of the respondents statewide indicated that they had increased their participation in consumer lending since February 1981. Only 17% of the respondents raised their maximum lines of credit since February 1981. Only 7% of the respondents liberalized their consumer loan standards. (p.12)

SAVINGS BANKS FINDINGS

1. On conventional home improvement loans, the average interest rate statewide rose from 15.6% on January 2, 1981 to 18.6% by January 2, 1982, many banks reduced their rates during 1982 so that the average declined to 17.8% by September 15, 1982.

2. Most savings banks reported that they had not altered their credit standards or increased their maximum credit lines since February 1981. (p. 40)

3. Three-quarters of the banks indicated that they had increased their participation in consumer lending. This largely reflected the fact that the number of savings banks making car loans, second mortgage loans, overdraft loans, unsecured personal loans and educational loans increased during the period covered by the survey. (pp. 40-41)

SAVINGS AND LOAN ASSOCIATIONS FINDINGS

1. On conventional home improvement loans, the average interest rate statewide rose from 15.6% on January 2, 1981 to 18.1% by January 2, 1982. Many associations reduced their rates during 1982 so that the average decline to 17.6% by September 15, 1982. (p.48)

2. All respondents indicated that their loan rates were uniform at all offices and almost all indicated that their rates for any specific type of loan were the same for all customers. (p. 49)

3. Only a few institutions indicated they had liberalized their credit standards or increased their maximum credit lines since February 1981, although 29% reported they had increased their participation in consumer lending.

CREDIT UNIONS FINDINGS

1. Generally, interest rates on the various types of consumer loans trended upward during the period covered by the survey. Rates in New York City usually averaged higher than those upstate and there were substantial variations in rates charged by different institutions. (p. 56)

2. All respondents indicated that their loan rates were uniform at all offices and almost all indicated that their rates were the same for all customers. (p. 56)

3. Most credit unions reported that they had not altered their credit standards or increased their maximum credit lines since February 1981. However, 30% of the respondents indicated that they had increased their participation in consumer lending. (p. 57)

LICENSED LENDERS FINDINGS

1. All but one of the respondents (total of 31) indicated that their rates on all types of loans were uniform at all offices for all customers. (p. 63)

2. Most lenders reported that, since February 1981, they have not liberalized credit standards or raised credit lines although 40% stated they had increased their participation in consumer lending. (p. 63)

RETAILERS FINDINGS

1. The rates charged on their revolving credit accounts generally trended upward during the period covered by the survey. On indebtedness of $500 or less, the average rate statewide was almost 18% in January 1981, rose to 20.1% in January 1982 and to 20.6% in September 1982. On balances over $500, the average rates were 12.9%, 17.9% and 19.1% on the three dates. (p. 67)

2. The respondents reported that their rates were uniform at all their places of business in New York State. (p. 67)

3. Most of the respondent retailers did not offer close-end credit. Of the few that did, all indicated their rates were the same as for their revolving credit accounts. (p. 67)

4. Virtually all the retailers indicated that they did not change their credit standards or credit line since February 1981 nor did they increase their participation in consumer lending. (p. 67)

AUTOMOBILE DEALERS FINDINGS

1. Virtually all the respondents indicated that their rates were uniform at all their places of business for all their customers. (p. 70)

2. The preponderance of the dealers reported no liberalization of credit standards since February 1981 although 26% of them reported increased participation in consumer lending activities since that date. (p. 70)

3. During 1982 the financing arms of the major automobile manufacturers cut their rates for various periods of time for certain of their cars. (p. 70)

QUESTION 1 & 3

STATE BANKING/COMMERCE DEPARTMENTS
REPLIES TO AVAILABILITY OF CREDIT CARDS, LOANS UNDER $25,000 AND FINANCING THROUGH RETAIL OUTLETS TO LOW-INCOME APPLICANTS WITH INTEREST INCREASES OR ABOLISHMENT OF USURY CEILINGS

CONNECTICUT
Harry Donnely, Examiner
Banking Department

No data available.

FLORIDA
Ed Strippling, Administrator of Banks and Trust Companies
Department of Banking & Financing

No data available.

ILLINOIS
Mr. Stevens, Supervising Examiner
Banks and Trust Companies

No data available.

KENTUCKY
Jim Baker, General Counselor
Department of Banking & Securities
Public Protection & Regulation Cabinet

No data available.

MARYLAND
Steven Cole, Director
Consumer Protection

No data available.

MASSACHUSETTS
Mr. Flynn, Deputy Commissioner of Counsel
Division of Banks & Loan Agencies
Department of Banking & Insurance

No data available.

MICHIGAN
Russ LaCoursier, Economic Analyst
Financial Institutions Bureau
Department of Commerce

No data available.

ARIZONA
Howard Warner, Examiner
Banking Department

No data available.

NEW HAMPSHIRE
A. Roland Roberge, Bank Commissioner
Banking Department

No data available.

NORTH CAROLINA
Mr. Fred Alphin, Assistant to Commissioner of Banking
Banking Commission
Department of Commerce

No data available.

NEW JERSEY
Jerry Trimble, Banking Market Analyst
Banking Department

No data available.

VIRGINIA
John Sutton, Deputy Commissioner
Bureau of Financial Institutions
State Corporation Commission

No data available.

NEW MEXICO
Snyder Campbell, Savings & Loan Supervisor
Budget Division
Department of Finance & Administration

No data available.

CALIFORNIA
Banking Department

No data available.

STATES THAT WERE CONTACTED BUT WERE UNAVAILABLE FOR RESPONSE

MAINE
SOUTH CAROLINA
TEXAS
SOUTH DAKOTA
DELAWARE
MONTANA

QUESTION #2

STATE BANKING DEPARTMENT REPLIES TO AVERAGE INTEREST RATES BEING CHARGED WITHIN THEIR STATES

CONNETICUT
Harry Donnely, Examiner
Banking Department

Unable to supply average interest rate information.

FLORIDA
Ed Strippling, Administrator of Banks and Trust Companies
Department of Banking & Financing

Average interest rates: credit cards - 22%; installment payments - 15%-16%.

ILLINOIS
Mr. Stevens, Supervising Examiner
Banks and Trust Companies

Unable to supply average interest rate information.

KENTUCKY
Jim Baker, General Conselor
Department of Banking & Securities
Public Protection & Regulation Cabinet

Average interest rates: credit cards - 18%; general/consumer loans - 24% - 36%.

MARYLAND
Steven Cole, Director
Consumer Protection

Unable to supply average interest rate information.

MASSACHUSETTS
Mr. Flynn, Deputy Commissioner of Counsel
Division of Banks & Loan Agencies
Department of Banking & Insurance

Average interest rates: mortgage - 13%; credit cards - 18%; 2nd mortgage - 18%; auto - 23%.

MICHIGAN
Russ LaCoursier, Economic Analyst
Financial Institutions Bureau
Department of Commerce

Average interest rates: banks, credit unions and savings & loans - 18%; retail - 20.4% per year on unpaid balance; and second mortgage - 15%-18%.

ARIZONA
Howard Warner, Examiner
Banking Department

Unable to supply average interest rate information.

NEW HAMPSHIRE
A. Roland Roberge, Bank Commissioner
Banking Department

"Shopper guides" are made available every three months to consumers telling them what level of interest different loaning institutions are charging.

Commissioner Roberge stated that experience with finance companies in the state of New Hampshire have shown that finance companies have charged as much as 30%-31%, he said that their business was low and made the other companies look bad. Since there are no laws on the books regulating the amount they charge for interest, he has found it effective to send a scolding letter from himself, causing the particulur companies to drop their interest rates back down.

Commissioner Roberge reported that he knew of several horror stories involving small companies charging outlandish interest rates to people already in financial trouble.

Commissioner Roberge feels that so far finance companies have been on best behavior with deregulation because they do not want regulation back in effect.

Unable to supply specific data.

NORTH CAROLINA
Mr. Fred Alphin, Assistant to Commissioner of Banking
Banking Commission
Department of Commerce

Average interest rates: credit cards - 18% with 25 day grace period from time of billing (also included is a annual card fee not to exceed $20); card fees charged by banks range between [illegible]-$15; loans under $25,000 - has continued to stay stable at 16% for sometime. Based on six month T bill plus 6 points or 16% which ever is greater/per month.

NEW JERSEY
[illegible]y Trimble, Banking Market Analyst
Banking Department

Average interest rates: equity - 12%; competative average - 12%; personal - 12%-15%; credit cards - 19%; retail - 19.3% to 19.8%. (polled 10 major retail outlets in New Jersey)

VIRGINIA

John Sutton, Deputy Commissioner
Bureau of Financial Institutions
State Corporation Commission

Average interest rates: loans - 18%; credit cards - 18%-21%; retail - 18%-21%.

NEW MEXICO

Snyder Campbell, Savings & Loan Supervisor
Budget Division
Department of Finance & Administration

Average interest rates: loans (mortgage) - 14%; credit cards - 18%-21%.

PRICES OF CONSUMER CREDIT IN THE ABSENCE OF RATE CEILINGS (ILLINOIS AND ARIZONA)

A. Charleen Sullivan
Associate Director
Credit Research Center
Purdue University
1983

PRICES OF CONSUMER CREDIT IN THE

ABSENCE OF RATE CEILINGS

A. Charlene Sullivan*

Abstract

Many states have raised or removed legal restrictions on rates that may be charged for consumer credit in the last few years. These states provide opportunities to evaluate the behavior of rates in a "free" market setting and to observe the level of price competition which takes place among different types of lenders and lenders of a given type when they are unfettered by regulation.

In this study we analyzed the level and range of rates for various types of consumer credit contracts in two states--Arizona and Illinois. The analysis was based on observations of the "most likely" rates charged by a random sample of creditors during the last business week of March 1983.

The analysis shows that in markets with no legal rate ceiling for consumer loans:

(a) The level of rates was consistent with that of benchmark rates depicting the prevailing general level of interest rates in the economy.

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*Associate Director, Credit Research Center, Purdue University. The author thanks Robert W. Johnson for his helpful comments, Debra A. Drecnik and Margaret Woo for computational assistance, Martin Nichols for preparation of the graphs and Marty Lynch, Cindy Overman, and Betty Schoenhals for processing and coding the questionnaires. Any errors or opinions are the sole responsibility of the author.
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(b) There was considerable diversity in rates charged by a particular type of creditor for a given type of loan, and rates charged by different types of creditors for a given type of credit contract were even more diverse.

(c) Even with no rate ceilings, there was generally a low level of price competition between banks and consumer finance companies. The segmentation of rates charged by these creditors reflects active strategies to segment the market by risk characteristics of consumers or to differentiate loans made by the two types of creditors along the dimensions of service, atmosphere, readiness to recontract, etc.

(d) Credit unions were the low-price leaders in the unregulated markets.

(e) Savings and loan associations charged rates similar to those charged by banks.

(f) Revolving credit plans from retailers had finance charges very similar to those of bank credit cards.

The two states selected for the study had widely divergent banking structures. Illinois, until 1982, was a unit banking state with approximately 1200 banks. Arizona allows statewide branching and has a highly concentrated banking system. These differences provided an opportunity to analyze the relationship between rates of charge and the level of competition in a state. The analysis shows that:

(a) The average rates charged by banks for five of eight types of credit contracts during the study period were significantly higher in Arizona than in Illinois.

(b) Average rates charged by banks with the largest portfolios of consumer credit in the two states were not markedly different. However, the average rates charged by all other size categories of banks in the two states were different by at least 100 basis points, with the banks in Illinois charging lower rates.

(c) Banks with the smallest consumer credit portfolios (dollar value) in each state charged the lowest rates, on average, among banks.

(d) The structure of banking in the two states did not have a systematic relationship with the level of rates charged by nonbank competitors in the two states.

(e) The perceived number of bank competitors in a local market did not have a significant influence on rates charged by nonbank competitors in Illinois.

In the past few years, barriers to interstate banking have been circumvented for certain banking products, a development that could reduce interstate variation in prices of banking products. In retail banking, credit cards are issued at a fixed price by single banks to consumers across the country. In addition, nonbank creditors have used special credit programs to merchandise automobiles. In this study, we found that there was considerable variation in fees for bankcards within a state and across a state. However, the average stated finance charge for bankcards was not significantly different across the two states. Rates for new auto credit were different among markets within a state and between states for banks but not for credit unions.

Average rates for unsecured personal loans, a local market product, were significantly different between the two states and across local markets within a state.

The general policy implications of the results are that workable competition exists even in markets that are highly concentrated. The evidence indicates that the forces of competition keep rates for consumer credit at levels that are consistent with the prevailing general level of interest rates and the national level of consumer finance rates.

Empirical evidence indicates that when consumers find their ability to obtain cash credit from financial institutions restricted, they substitute sales credit for cash credit [7].

Proponents of rate ceilings argue that consumer credit markets are not sufficiently competitive to keep lenders from charging unconscionably high rates for credit. To give further credence to this argument, they propose that lenders can charge high rates and stay in business because consumers are insensitive to the rate of finance charge for credit and shop only for availability of credit or low monthly payments. To support their hypotheses, proponents of rate ceilings present examples of credit contracts in which rates charged by used car dealers are very high.

Determinants of Rates on Consumer Loans

The determinants of the level of finance rates in a market is a particularly important aspect of this study. In the absence of interest rate ceilings the level of finance rates charged is determined by such factors as the intensity of competition, level of production costs, and strength of demand.

Given that commercial banks provide the bulk of consumer credit, the structure of banking in a market has a significant influence on the level of competition and the level of rates for consumer credit. Analyses of interstate variations in average rates of charge for new auto credit performed by the National Commission on Consumer Credit showed that the average rate in a state was associated with bank concentration and the type of banking structure permitted (unit vs. branching).[2] Rates were highest in states that permitted statewide branching

and had highly concentrated banking (a small number of banks held the bulk of bank assets in a state). Rates were lowest in states with unit banking laws where concentration of bank assets was relatively low.

The strength of demand also influences the level of interest rates observed in the market. If other things are held constant, in markets where demand for credit is high, the level of rates will be high relative to that in markets where demand is low. For example, holding other things constant, in states where the population is growing at a rapid pace, rates may be higher than in states with no growth or where population is declining. A high level of demand and restrictions on the supply of funds in a market are conditions for very high rates.

Although commercial banks hold the largest share of outstanding consumer credit, other creditors such as credit unions, consumer and sales finance companies, and retailers are also important competitors. These competitors have different sources of funds, different costs of production, and different objectives for the activity of consumer lending. Consequently, profitable rates of charge for a given type of credit may vary widely across types of lenders. To operate in a competitive market, some lenders specialize in serving high-risk customers. Or they may deliver loans such a way (greater convenience, speedier processing, friendlier service, more liberal debt rescheduling in the event of delinquency) as to enhance the value of the high-priced loan relative to the low-priced loan. While specialization may result in cost efficiencies, such practices lead to less competition among types of creditors and a broad range in available rates in a market for a given type of credit.

In addition, because of imperfect and costly credit information, creditors may establish house rates for the various types of loans offered. The house rate may reflect the creditor's experience with consumers of various risk classes or a strategy to penetrate a particular segment of the market. The house rate limits the creditor's ability to serve a diverse group of consumers and affects intersource as well as intrasource variation of rates.

DESIGN OF THE PROJECT

Purpose of Research

The goals of this research were to map the distribution of rates charged for various types of cash and noncash credit by a representative sample of creditors in an unregulated state, to evaluate the level of rates on consumer credit relative to the general level of interest rates. and to analyze the level of rates in light of the competitive nature of the credit market. Although the relevant market for consumer credit is generally a local market, in this project we have measured rates on a statewide basis.

Research Methodology

We collected data concerning rates charged by all types of creditors in two states that have removed rate ceilings for consumer credit--Illinois and Arizona.[3] The two states were chosen to represent markets with potentially large differences in competitive conditions. The state of Illinois is a heavily populated midwestern state with regulations that limit branch banking[4]--there are 1252 banks serving the state of Illinois which had a population of 11.4 million people in 1980. This translates

into a population/bank ratio of 9120. Population per bank office was 5931. The population in Illinois increased by 0.3 percent annually between 1970 and 1980.[5]

The state of Arizona has statewide branching and a relatively small number of banks. There are 34 banks serving a population of 2.7 million people in Arizona for a population/bank ratio of 79,941. Population per bank office was 4369. The banking structure in Arizona is very concentrated with three banks holding about 85 percent of bank assets. This combination of statewide branching and high concentration creates conditions most detrimental to new entry, a factor that influences the level of competition in a market.[6] The population in Arizona increased by 4.3 percent annually between 1970 and 1980.[7] Given the differences in the structure of banking and growth in population or demand for credit in the two states, we expected to find higher rates for credit in Arizona than in Illinois. However, if rates are at reasonable levels in Arizona, one can deduce that rate ceilings are even less appropriate where competition is keener.

Data were collected through a mail questionnaire sent to each creditor included in the sample frame. A sample questionnaire is available in Appendix A. The creditor sample was drawn from a list of banks, savings and loan associations, consumer finance companies, and credit unions that operated in one of the two states. National and independent retailers who offered credit and carried their own paper were also included in the study.

Each creditor was asked to quote the most likely rates and other charges assessed during a specified period of time for each of several types of credit contracts: credit cards, unsecured cash loans with

specified size and maturity, direct new and used auto loans with specified size, maturity, and loan-to-value characteristics and second mortgage loans. Finance charges for standard contracts were collected from retailers and dealers. Data on rates of charge were collected from those retailers who issued proprietary cards.

Since the commercial bank chains in Arizona did not vary rates from city to city, no effort was made to collect data on intrastate markets. In Illinois, data were collected from all respondents concerning the competitive character of the local credit market served (number of banks in the market) and the population in the town where the respondent was located. In both states, respondents were asked to indicate the dollar value of total consumer credit outstandings as of year-end 1982. With these data, we analyzed the relationship between the size of the consumer credit function and market structure on the level of rates for various types of credit contracts within the state of Illinois.

The Sample Selection Procedure

To design a random sample of creditors we obtained complete lists of banks, credit unions, and savings and loan associations (S&L) in the two states. In Illinois, from a random starting point, we selected every other bank, credit union, and S&L on the list. This procedure was also followed for credit unions in Arizona. All of the banks and S&Ls in Arizona were included in the sample because of the small number of institutions serving that state. The number of each type of creditor in the population and in the sample frame is shown in Exhibit 1.

EXHIBIT 1

POPULATION AND SAMPLE FRAME

	Population	Number Of Questionnaires Mailed	Percent Of Population
Illinois			
Banks	1252	626	50%
Finance companies*			
National & regional	22	22	100
Independent	95	95	100
Credit unions	870	435	50
Savings & loan	316	158	50
Retailers**	132	132	100
Arizona			
Banks	34	34	100%
Finance companies*			
National & regional	22	22	100
Independent	4	4	100
Credit unions	64	32	50
Savings & loan	10	10	100
Retailers**	239	239	100

*Members of the American Financial Services Association.

**Retailers who regularly requested credit reports from national credit reporting agencies.

There were a large number of finance company offices representing national or regional chains in both states. The national companies indicated that rates charged for various types of loans were typically the same for all offices of a single company within a state. The finance company offices were grouped by interstate companies and independents and a questionnaire (two if a company operated in both states) was sent to the headquarters of each of the national and regional chains. All of the independent finance companies in each state were included in the sample frame. The finance affiliates of automobile manufacturers were also included in the sample although they were providing special finance programs for certain models of new autos at the time.[8]

The sample frame of retailers included those who, on the basis of their relationships with credit reporting agencies in Illinois or Arizona, were believed to carry their own credit. Those creditors were oversampled relative to their share of credit outstanding because, as a "last ditch" source of credit, one might expect then to require a higher rate than creditors who assume less credit risk.

The Respondents

The response rate for the study was very high, ranging between 25 percent and 77 percent across types of creditors sampled (Exhibit 2). A second mailing was made to major banks and independent finance companies in both states to boost the response rate of those creditors.

To assure that the respondent banks were representative of the original sample, the total assets of all banks included in the sample frame and of the responding institutions were compared (Exhibit 3).

EXHIBIT 2

ANALYSIS OF RESPONSE

	Sent	Returned Undeliverable	Responses Returned	Response Rate	Coded Responses (Returned before deadline)
Banks					
Illinois	660	3	235	36%	232
Arizona	34	1	15	45	12
Credit unions					
Illinois	435	2	225	52	213
Arizona	32		12	38	11
S&L					
Illinois	158		58	37	40
Arizona	10		4	40	2
Retailers					
Illinois	132	8	39	31	33
Arizona	239	15	64	29	53
Independent Finance Companies					
Illinois	95	23	23	32	18
Arizona	4		1	25	1
National Finance Companies					
Illinois	22		17	77	17
Arizona	22		15	68	15

EXHIBIT 3

DISTRIBUTION OF SIZE OF ORIGINAL SAMPLE AND RESPONDENTS

	Sample Frame	Percent	Respondent Sample	Percent
Banks In Illinois				
Size (dollar value of assets)				
Less than $50 million	497	75%	164	73%
$50-100 million	87	13	31	14
> $100 and ≤ $500 million	71	11	28	12
> $500 and ≤ $1000 million	3	<1	1	<1
More than $1 billion	9	<1	1	<1
	667	100%	225	100%
Banks In Arizona				
Less than $50 million	26	76%	6	46%
$50-100 million	1	3		
> $100 and ≤ $500 million	3	9	4	31
> $500 and ≤ $1000 million	1	3		
More than $1 billion	3	9	3	23
	34	100%	13	100%
Credit Unions In Illinois				
Less than $500,000	251	54%	105	48%
$500,000-1,000,000	74	16	35	16
> $1 and ≤ $5 million	103	22	52	24
> $5 and ≤ $10 million	21	4.5	13	6
> $10 and ≤ $25 million	12	2.5	9	4
More than $25 million	4	1	3	1
	465	100%	217	100%*

*Total does not add to 100% due to rounding.

The size distribution for the respondent group was almost exactly like that of the original sample of banks in Illinois. The respondent banks in Arizona were more likely to be large banks with total assets of $1 billion or more than [illegible] in the population in Arizona. However, the three large respondent banks represent 85 percent of total bank assets in Arizona. Consequently, the rates from our sample in Arizona are representative of the most common rates available from banks in Arizona.

I. THE LEVEL AND RANGE OF FINANCE RATES

Financial institutions were asked to provide the most likely rate (APR) charged on loans approved to depositors and nondepositors during the business week of March 28 - April 2, 1983. They were also asked to provide the highest and lowest rates charged on the same types of loans during the 30 days before the date the survey was completed.

The types of loans for which data were collected varied slightly by type of creditor, but the common set for each creditor included new auto, late model used auto, older model used auto, second mortgage (APR and points) and unsecured personal loans. The specific characteristics of the loans were:

(1) New car, $8000, 85% loan-to-dealer-cost (wholesale) ratio, 48-months;

(2) Late model used car, (under 2 yrs. old) $5000, 90% loan-to-dealer-cost (wholesale) ratio, 42-48 months;

(3) Older model used car, (3-4 yrs. old) $3000, 90% loan-to-dealer-cost (wholesale) ratio, 36-months;

(4) Second mortgage loan, $10,000, 5 years, loan-to-equity value not greater than 75%;

(5) Unsecured personal loans:

(1) $1000, 12-month

(2) $2000, 24-month

(3) $4000, 36-month

In the presentation of the results, the mode of the distributions of most likely rates available to nondepositors for auto and unsecured personal loans, second mortgage loans, and for bankcard accounts and revolving credit for each creditor are analyzed. The rates for non-depositors were used because data concerning depositor requirements which could affect the cost of credit were not collected. In addition, for each type of creditor the group maximum and the group minimum of rates charged in the 30 days before the survey are summarized. The range of most likely rates charged in a state ("the market") is shown for a given loan type by consolidating all the distributions of most likely rates for all responding creditors. This presentation does not represent the frequency of dollar volume of loans with various rates but rather the frequency with which various rates were the "most likely" rates for each type of respondent making a particular type of loan.

A. Rates on New and Used Automobile Loans

The Benchmark Rate

It is difficult to identify a "free" market finance rate which is useful to evaluate the "appropriateness" of all consumer credit rates because those contracts vary greatly in term and risk. More than half of total consumer credit outstanding was extended for the purchase of vehicles, and data are collected periodically by the Federal Reserve Board concerning the "most likely" rate charged by a national sample of

commercial banks for new auto loans with maturity of 36-months. We estimated the time series relationship between the three-year constant maturity Treasury bill rate (a "free" market rate) and the average rate charged by commercial banks for 36-month new car loans and found that the two rates were highly correlated (Exhibit 4).[9] Based on the historical relationship between the three-year Treasury bill rate and the 36-month commercial bank new car rate, we estimated the average market rate (APR) for new auto loans at the end of March 1983 in an unregulated market to be about 14.02 percent.[10]

The Federal Reserve Board reported that the most likely rate from commercial banks in February 1983 for new car loans maturing in 48 months was 14.81 percent.[11] During April 1983, Chase Manhattan Bank reported a base rate on auto loans of 15 percent. Manufacturers Hanover Trust reported a rate of 14-1/2 percent on new auto loans and the Bank of New York announced a cut in auto loan rates to 13-3/4 percent.[12] These rates suggest that there was not a large movement in rates nationwide from February to April although rates were trending downward.[13] From these quotations and the estimated free market rate above, we expected "most likely" rates in Illinois and Arizona for new car loans from commercial banks to range between 13 and 16 percent, with the higher rates in Arizona.

<u>The Most Likely Rates</u>

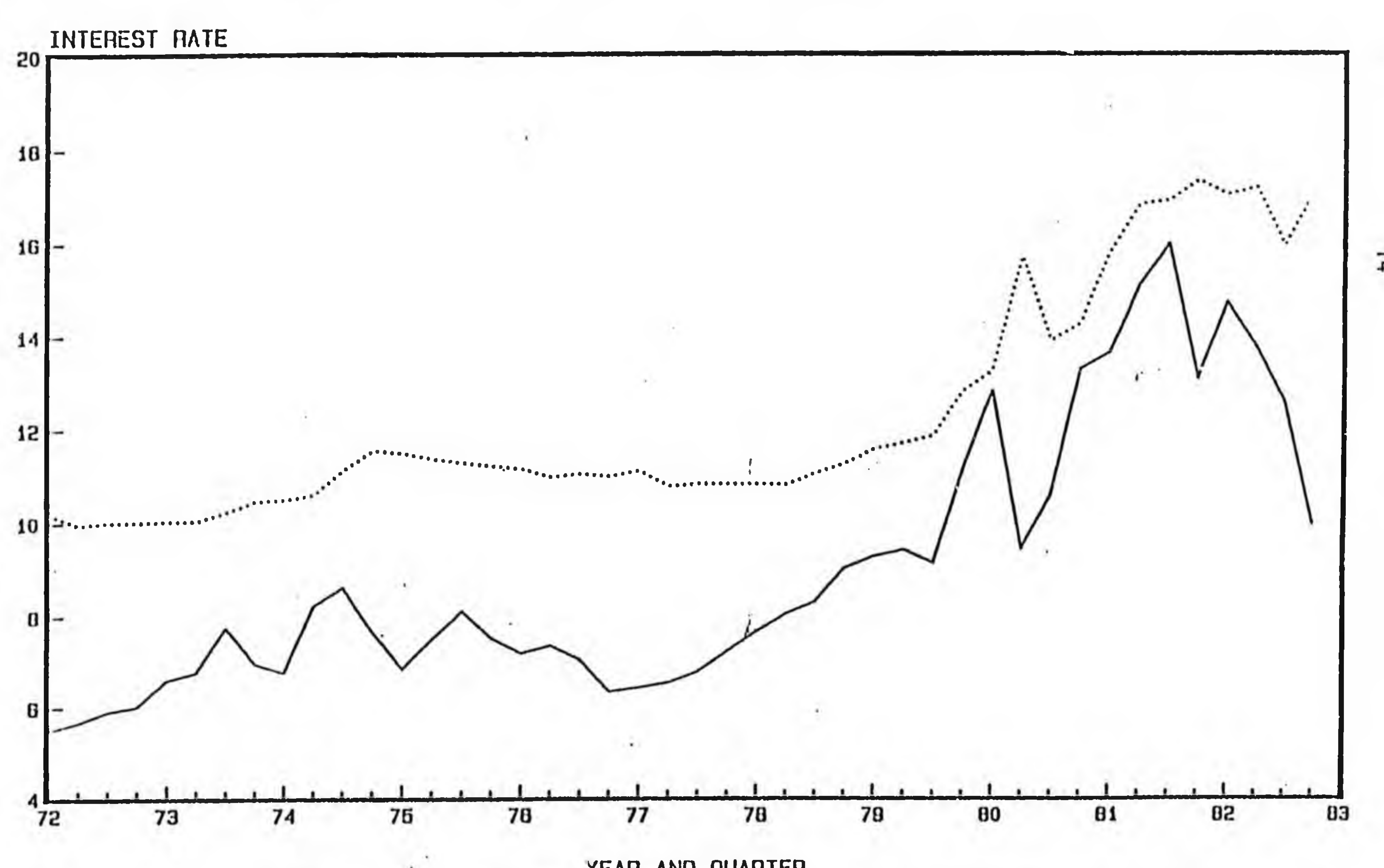
Commercial Bank Rates. The modal "most likely" APR charged by commercial banks in Illinois during the last week of March for direct new auto loans of $8000 with maturity greater than or equal to 48-months was 14.00 percent, a rate which was consistent with our expectations

EXHIBIT 4

36 MONTH NEW CAR LOAN RATE

VERSUS 3 YEAR TREASURY BILL RATE

MONEY MARKET ———————— COMMERCIAL BANK ....



(Exhibit 5). The range of rates offered by banks in Illinois in the previous 30 days was surprisingly broad with a low rate of ten percent and a high rate of 18.50 percent. The low rates probably reflect the competitive influence of the low rates offered on indirect auto loans by the financial affiliates of automobile manufacturers.

The modal most likely rate for new auto loans from banks in Arizona was higher than that in Illinois by 100 basis points. The range of available rates in the previous 30 days was not as broad as that found in Illinois--the lowest rate in Arizona was considerably higher than the lowest rate available in Illinois. This difference may be attributed to the lower level of competition (fewer banks) and th high level of concentration of banks assets in Arizona or to high consumer demand.

The mode of the most likely rates available to nondepositors in Illinois for both types of used car loans was 15.00 percent. The rates charged in the 30 days before the survey ranged from ten percent to 21.5 percent. The mode of the most likely rates for both types of used car loans from commercial banks in Arizona were higher than those in Illinois (again by 100 basis points) and the range of available rates was not as wide as that found in Illinois.

The surprising finding is the breadth of the range of rates for automobile loans from commercial banks in both states. Banks do not use similar house rates or do not use house rates at all. A consumer who shops for an auto loan who does not have a deposit account with a bank may find that there is considerable benefit in extending the search across many banks, although studies have shown that bank loan customers

EXHIBIT 5: ANNUAL PERCENTAGE RATES FOR AUTOMOBILE LOANS (UNWEIGHTED RATES)***

Loan Type		Banks		Credit Unions		Savings and Loans		National Consumer Finance Companies		Independent Consumer Finance Companies	
		Illinois	Arizona	Illinois	Arizona	Illinois	Arizona	Illinois	Arizona	Illinois	Arizona**
New auto, $8000	Mode	14.00	15.00			14.00	16.50	16.00*	19.50*	22.00	
85% loan-to-dealer cost,	N	175	12			25		-	-	8	
≥ 48-month maturity	High	18.50	18.00			16.80	16.75	24.00	19.50	25.00	
to nondepositors	Low	10.00	13.50			11.50	16.50	16.00	19.50	11.89	
New auto, $8000	Mode			12.00	15.00						
85% loan-to-dealer cost,	N			165	7						
≥ 48-month maturity	High			18.00	18.00						
to depositors	Low			9.00	10.80						
Late model used car,	Mode	15.00	16.00			15.00	17.50	24.00	18.26	23.00	
$5000, 90% loan-to-dealer cost,	N	145	12			20		5	-	6	
≥ 42-48 month maturity	High	20.50	20.00			17.08	17.59	24.00	19.50	26.00	
to nondepositors	Low	10.00	14.00			12.00	17.50	16.00	18.26	18.00	
Late model used car,	Mode			15.00	15.00						
$5000, 90% loan-to-dealer cost,	N			169	6						
≥ 42-48 month maturity	High			18.00	16.00						
to depositors	Low			9.00	13.00						
Older model used car,	Mode	15.00	16.00			14.00	17.50	24.00	20.02	25.00	
$3000, 90% loan-to-dealer cost,	N	147	12			18		6	5	13	
≥ 36-month maturity	High	21.50	20.00			19.87	17.50	29.29	30.00	30.00	
to nondepositors	Low	10.00	14.50			13.00	17.50	17.00	19.50	14.55	
Older model used car,	Mode			15.00	15.00						
$3000, 90% loan-to-dealer cost,	N			173	6						
≥ 36-month maturity	High			18.00	16.00						
to depositors	Low			9.00	15.00						

*Does not include the financial affiliates of the major domestic auto manufacturers.

**No responses.

-Less than four national finance companies made new auto loans in either state.

***Mode of most likely rate during week of March 28 - April 2, 1983; High is highest rate and low is lowest rate offered by the respondent group for that loan type in the previous 30 days.

do not shop for credit terms as much as loan customers of other types of financial institutions [6]. In Illinois, where banks are limited in terms of the geographic scope of the market they may serve, the diversity in rates may reflect different levels of competition in different geographic markets encompassed by the survey. Every consumer in Illinois may not have had such a range of choices when shopping for auto credit. However, in Arizona, where the major banks have many branches, these data may approximately reflect the range of choices available to a given bank loan customer.

Credit Union Rates. The modal most likely rates available at credit unions were the same in both states for each type of auto loan, with the exception of new auto loans. The modal rates were less than or equal to the modal rates for bank loans in all cases. In both states, most rates on new car loans were either 12 percent or 15 percent. Although credit unions were obviously not limited by law to charge these rates, the prevalence of those rates probably reflects the overhang of old restrictions on allowable rates of charge for state and federal credit unions.

Savings and Loan Association Rates. These financial institutions have not been major forces in the market for consumer credit until recent legislation facilitated their diversification into that market. In December 1982, S&Ls held 2.5 percent of total consumer credit outstandings. However, from December 1981 to December 1982, consumer credit outstandings at S&Ls increased by 19.8 percent in contrast to a three percent increase in total consumer credit outstanding over the same period.

There was only a small number of S&Ls in either state making automobile loans. Less than half of responding S&Ls from Illinois made new auto loans and fewer made used auto loans. Only half of those responding from Arizona made automobile loans.

The modal rate for new auto loans from S&Ls in Illinois was 14 percent with rates ranging from 11.50 percent to 16.80 percent. Modal rates for all auto loans from S&Ls in Illinois were similar to those available to nondepositors from banks. The range of rates was less broad, however. The rates charged on auto loans by S&Ls in Arizona were higher than modal rates charged by banks in Arizona and by associations in Illinois for similar loans.

Finance Company Rates. The national average finance rate charged for new car loans by auto finance companies in March was 12.07 percent (reflecting the special financing programs available at the time). The national average rate charged for used car loans by auto finance companies was 19.38 percent in March.[14]

Few of the national consumer finance companies responding to the questionnaire made loans for new vehicles in either state. The most likely rates available on new auto loans from consumer finance companies ranged from 16 percent to 24 percent in Illinois. In Arizona, the company that made new car loans charged a most likely rate of 19.5 percent. About one-third of responding companies made loans for older model used cars and a broad range of rates was available. In both states, the modal rate for auto loans from finance companies was considerably higher than rates available from banks, credit unions, and savings and loan associations. Independent finance companies in

Illinois generally charged rates competitive with those available from the national chains. No independent finance company making consumer loans in Arizona responded to the surveys.

The Market. To portray the diversity of available rates for automobile loans, a histogram showing the frequency distribution of most likely rates charged to nondepositors for each type of auto loan in each state was prepared. If one views a state as the relevant market for consumer credit, the histograms display the breadth of choice in rates that consumers had when shopping for a direct auto loan. The histograms were not constructed to show the frequency with which various rates were charged for new auto loans extended in a state during the week of the study. Rather the histograms show the frequency of "most likely" rates charged by various types of lenders and how the various lenders differ in terms of diversity and levels of available rates. Given that all lenders do not generate equal volumes of loans, these charts cannot be used to portray the incidence of various rates in the market.

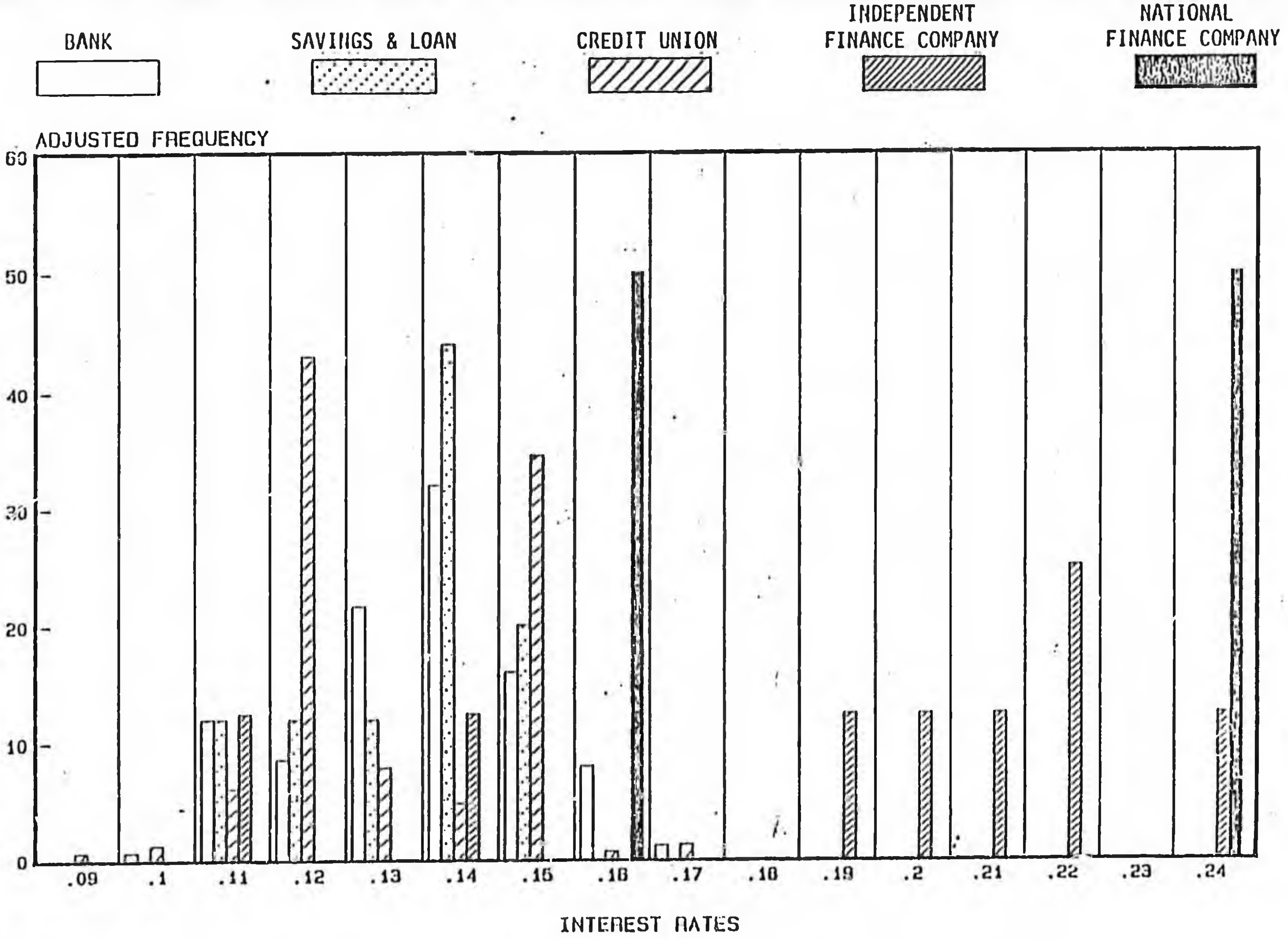
One could argue that the relevant market for consumer credit is a local market rather than statewide and consequently the histograms do not represent the choice of rates available to any one consumer. Perhaps the histograms are more likely to represent the choices for a consumer in Arizona than that of a consumer in Illinois because of the restrictions on bank branching in Illinois. However, in markets in Illinois sufficiently large to be served by several banks, a credit union, and a finance company, the range of rates was extensive and the histograms may be used to approximate that range.

The range of rates on auto loans in these markets may reflect fertile credit shopping opportunities for consumers. An explanation for such a broad range of rates on loans that are constant in terms of size, collateral and maturity is that various types of credit grantors have strategies for differentiating other terms of loans that would affect the value of the loan to the consumer (availability, service) or serve unique risk segments of the population (lenders that specialize in high-risk consumers must charge high rates and vice versa).

The level of price competition in this market can be likened to that for a shirt with a designer label. The shirt, a relatively homogeneous commodity, can be obtained at a top price from one of many department stores that also offer credit, home delivery and other consumer services. Or, the shirt could be obtained from a no-frills discount store that accepts no credit cards and will not accept returned merchandise. The discount price can be as much as 75 percent less than the department store price. The price competition between the two types of stores is determined by the value consumers place on the prestige and extra services provided by the department store and the extent to which consumers shop in both stores.

Illinois. Most likely rates for direct new auto loans ranged from nine percent to 24 percent. Reading from the chart, slightly less than ten percent of banks, about 12 percent of S&Ls and about 44 percent of credit unions reported that their "most likely" rate for new auto loans was between 12 and 12.9 percent. Given that banks, credit unions, and sales finance companies (not included) extend most new auto credit, it is clear from Chart 1 that rates for most new auto loans extended

CHART 1: DIRECT NEW AUTO LOANS - ILLINOIS



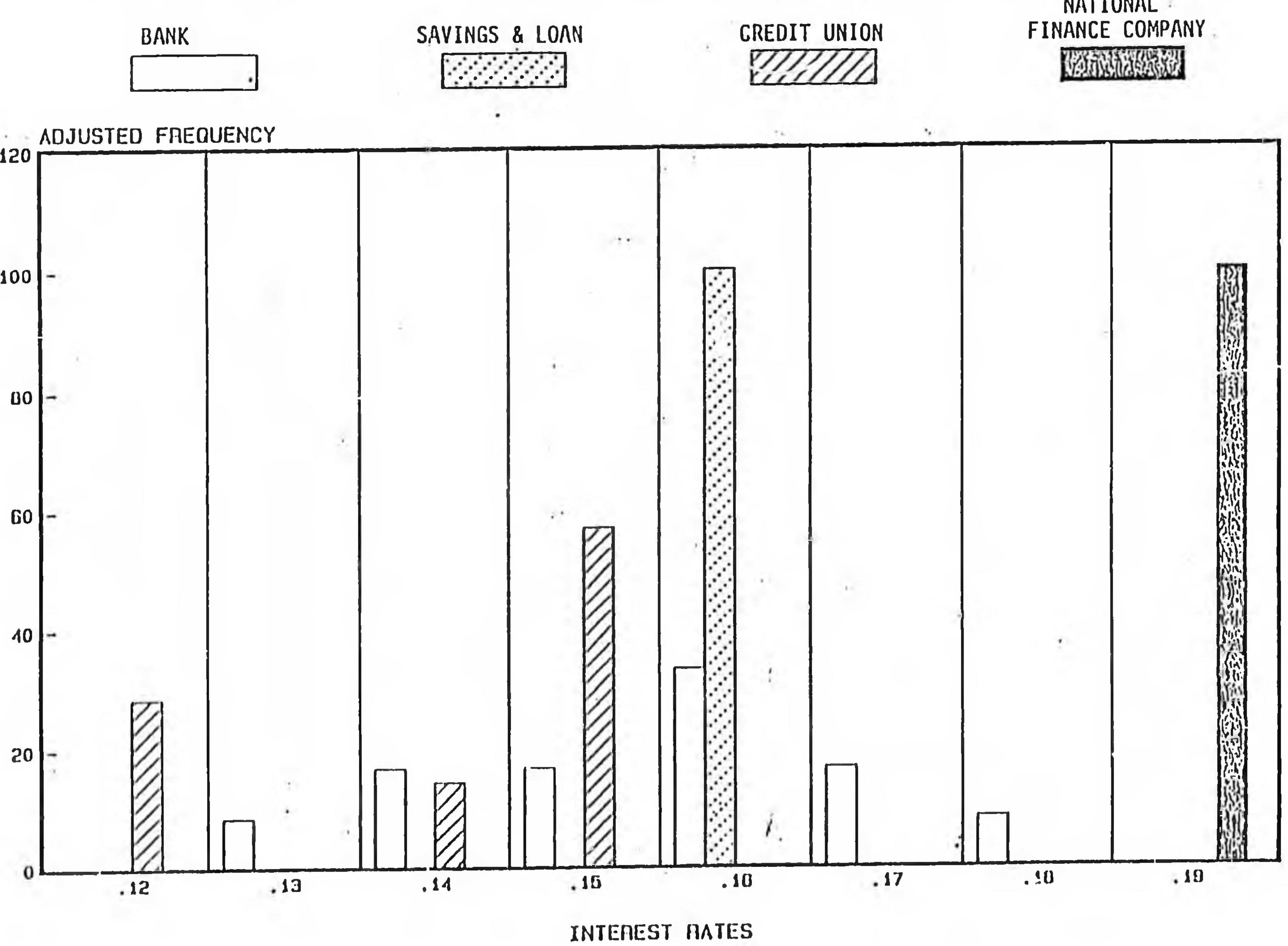
NUMBER OF CASES: Banks-175; Savings & Loan-25; Credit Unions-165; National Finance Companies-2; Independent Finance Companies-8

*Each segment on the horizontal axis represents 100 basis points. For example, rates that fell between .1200 and .1299 fall into the segment labeled .12.

during the last week of March in Illinois fell between 12.0 and 15.9 percent. These rates are consistent with those charged by the national sample of banks during a similar time period and our benchmark rate. Credit unions were the low price leaders with the bulk of credit unions charging 12 percent. Very few credit unions charged rates above 15 percent. Rates for banks and S&Ls were similar, both occupying the middle of the histogram. The most frequently specified rate for banks and S&Ls fell between 14 percent and 14.99 percent. Most finance companies, whether national chains or independent, were not offering rates competitive with those of other lenders in the market.

Historically, rate ceilings for banks and finance companies in the state of Illinois were structured such that banks specialized in the low-risk segment of the market and finance companies served high-risk consumers. Even without rate ceilings, that tradition still appears to be generally followed.[15] The important thing to note, however, is that the major competitors in the auto credit market charged rates well below the highest rates charged in a market with no rate ceiling. And the rates clustered at a level that was consistent with the prevailing level of interest rates in the economy.

Arizona. The distribution of most likely rates in Arizona went from 12 percent to 19 percent (Chart 2). Rates provided by the most voluminous lenders of direct new auto loans (banks, credit unions) in Arizona clustered in the range of 14 percent to 16.9 percent. The narrower distribution of rates for auto loans in Arizona than that in Illinois could reflect the concentration of the market in Arizona. Credit unions offered the lowest rates. Rates available from commercial banks were almost normally



NUMBER OF CASES: Banks-12; Savings & Loan-2; Credit Unions-7; National Finance Companies-1

*Each segment on the horizontal axis represents 100 basis points. For example, rates that fell between .1200 and .1299 fall into the segment labeled .12.

distributed around a mean of 16 percent. All rates from S&Ls were the same--16 percent. Finance companies occupied the high end of the continuum. Again, in metropolitan markets in Arizona, this continuum is probably representative of the choices for consumers shopping for direct auto credit.

Volume-Weighted Rate Distribution. The lenders included in the study are not equally important in the market for direct new auto loans in terms of volume of loans extended. However, the frequencies in Chart 1 and 2 are not weighted to reflect the importance of a particular lender or group of lenders in terms of dollar volume of loans extended. To get a better idea of the actual incidence of various rates for a new auto loan in the two states, we calculated a frequency distribution of rates weighted by the dollar volume of consumer loans held by the respondent.

The volume-weighted frequency of rates for new auto loans in the two states is shown in Charts 3 and 4. To construct these charts we assumed that each respondent's total dollar volume of consumer loans was invested in new auto loans. The bar at .12 in Charts 3 and 4 is the percent of respondents' total outstandings that was held by respondents whose most likely rates for new auto loans fell between 12 percent and 12.9 percent.

The dollar weighted distribution of new auto loans in Illinois was bimodal with about 23 percent of the dollar volume of loans outstanding at rates between 11 and 12.9 percent and about 32 percent at rates between 14 and 14.9 percent. The distribution in Arizona spiked at the 16-16.9 interval--that being the most likely range of rates offered

CHART 3

ILLINOIS

DIRECT NEW CAR LOANS

(Volume-Weighted Frequency)

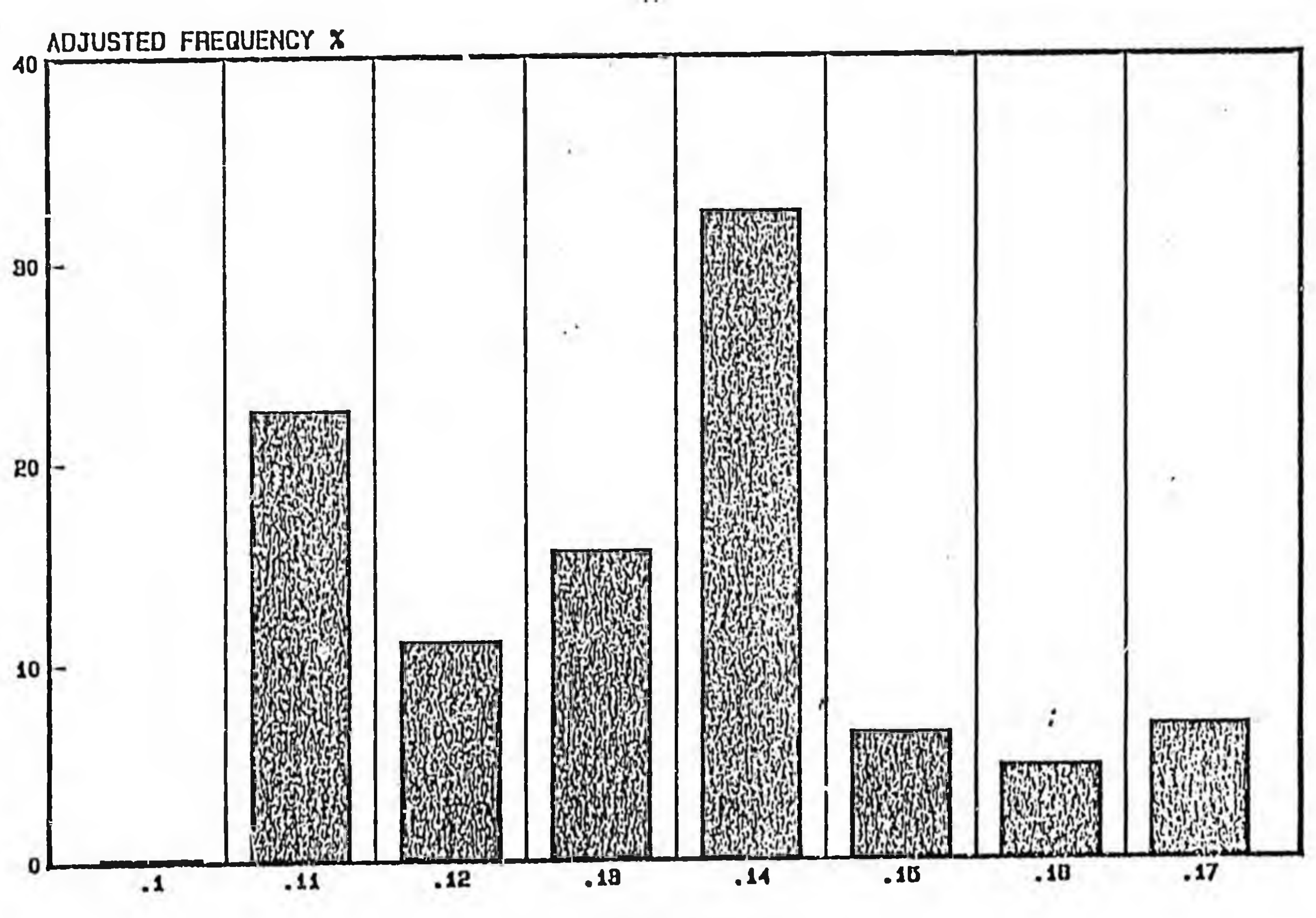
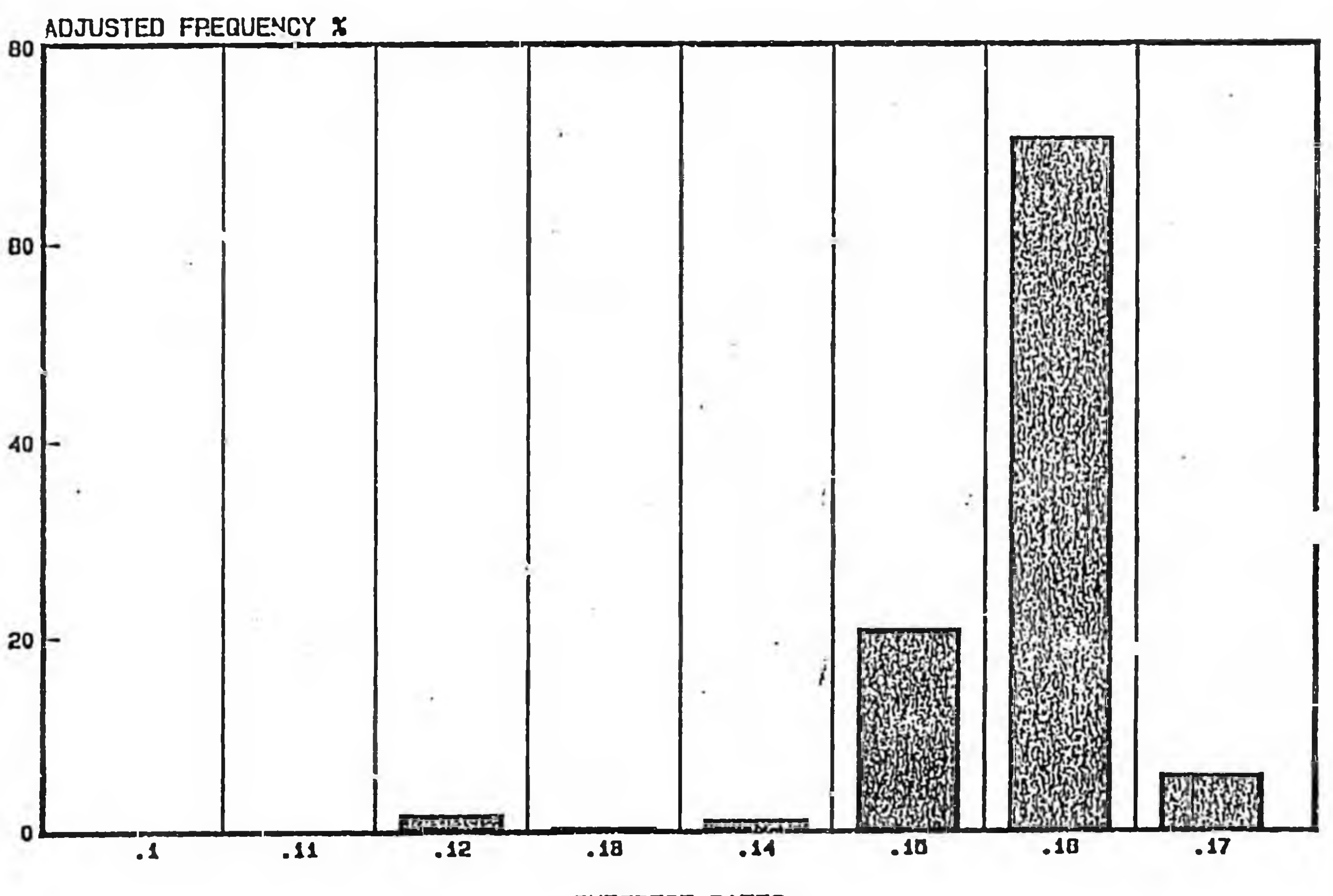


CHART 4

ARIZONA

DIRECT NEW CAR LOANS

(Volume-Weighted Frequency)



by the major commercial banks in that state. In both states, less than seven percent of the dollar volume of new auto loans was extended at rates of 17 percent or more.[16] These charts accentuate the rather sharp differences in rates for new auto credit in the two states.

Availability of Special Loan Terms. A limited number of banks (eight banks or 3.5 percent) in Illinois had variable rate loans available for the purchase of a new automobile. Even fewer made used car or second mortgage loans with variable rates. A survey conducted by the American Bankers Association in 1982 found that four percent of a national sample of banks offered variable rate consumer loans.[17]

About 40 percent of banks that made new auto loans in Illinois provided different rate schedules for depositors versus nondepositors. The mean difference in rates for depositors versus nondepositors was about 64 basis points in both states. Savings and loan associations in Illinois did not offer variable rate loans, but about 22 percent offered rate schedules that differed for depositors and nondepositors by an average of 57 basis points.

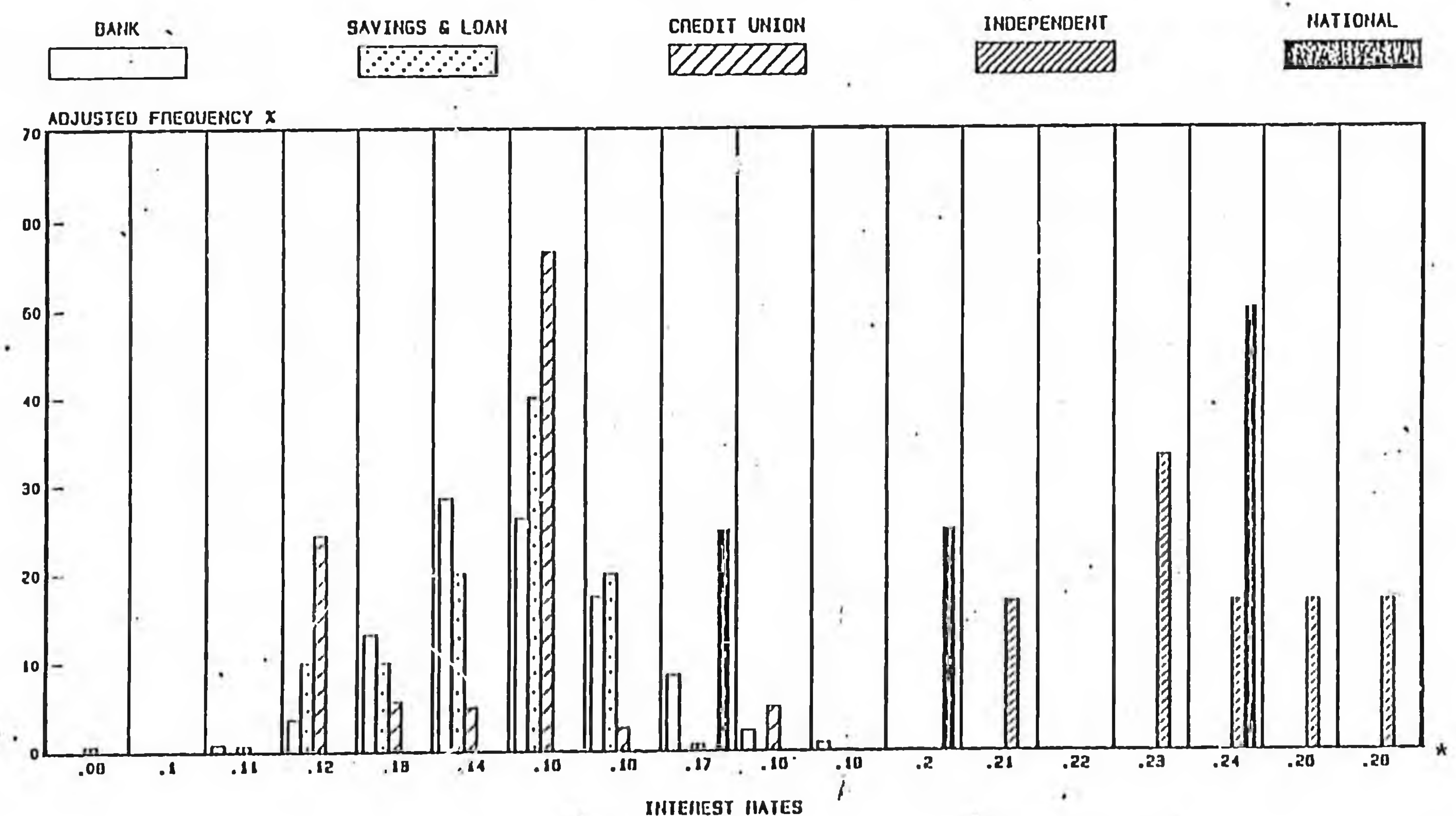
Variable rate auto loans were generally not available in Arizona but seven out of 12 responding banks (58 percent) making loans for the purchase of a new automobile offered different rate schedules for depositors and nondepositors. Twelve credit unions (seven percent) in both states offered variable rate contracts on new auto loans.

Market for Used Auto Loans. The distributions of "most likely" rates for loans for late model used cars in Illinois ranged from nine percent offered by a credit union, to 26 percent offered by an independent finance company (Chart 5). The bulk of rates fell in the range

CHART 5

ILLINOIS

LATE MODEL USED AUTO LOANS



NUMBER OF CASES

Banks-145

Savings & Loan-20

Credit Unions-168

National Finance Companies-4

Independent Finance Companies-6

*Each segment on the horizontal axis represents 100 basis points. For example, rates that fell between .1200 and .1299 fall into the segment labeled .12.

of 14 percent to 16.9 percent. In January, the most likely rate charged nationally by auto finance companies for used auto loans was 20.20 percent.[18] Again, there was quite a distinct separation between the most likely rates offered by banks, savings and loans, and credit unions and rates offered by finance companies. The bulk of rates offered by banks and credit unions were well below the maximum rate offered. Within the finance company group, the rates offered by the national companies were generally lower than those offered by the independent companies. This differential is consistent with data that show that the weighted average cost of funds is higher for independent companies versus national companies.

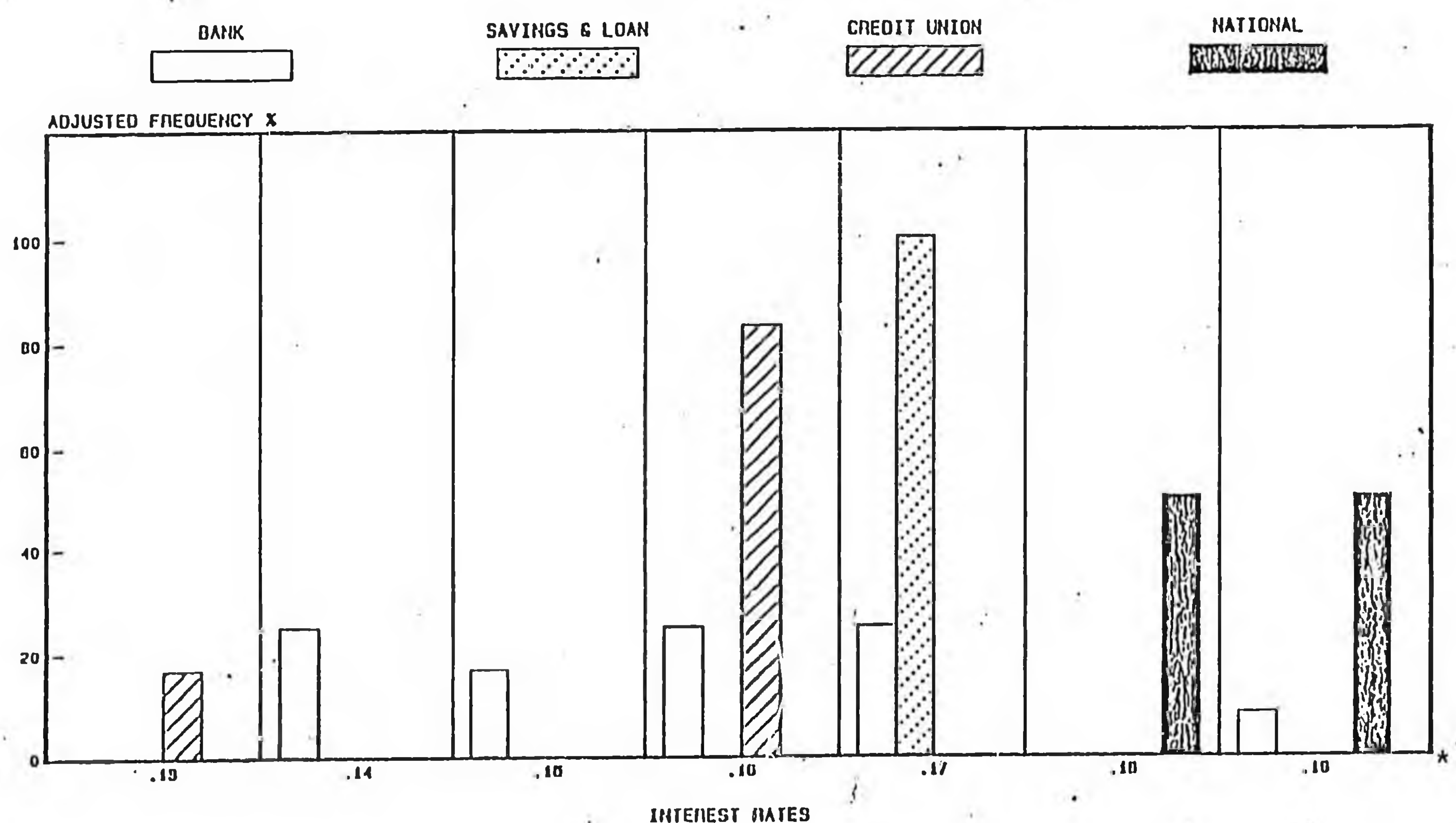
In Arizona, the spread of most likely rates for late model used cars ranged from 13 percent to 19 percent with the bulk of rates falling between 16 percent and 17.9 percent (Chart 6). There was relatively little diversity in rates offered by credit unions and all S&Ls offered the same rate. The national finance companies offered a very narrow range of rates and some banks offered rates comparable to the high rate offered by finance companies. Banks offered the most diverse array of rates of all the lenders in that state.

Loans in Illinois for older model used cars again had a very broad range of most likely rates, varying from nine percent to 30 percent (Chart 7). The distribution in Illinois appears to be bimodal with rates from financial institutions clustering around 14 percent to 16.9 percent, and rates from finance companies (both national and independent) clustering in the range of 24.0 percent to 26.9 percent. Generally, credit unions charged low rates, banks and savings and loans charged rates in the

CHART 6

ARIZONA

LATE MODEL USED AUTO LOANS



NUMBER OF CASES

Banks-12

Savings & Loan-2

Credit Unions-6

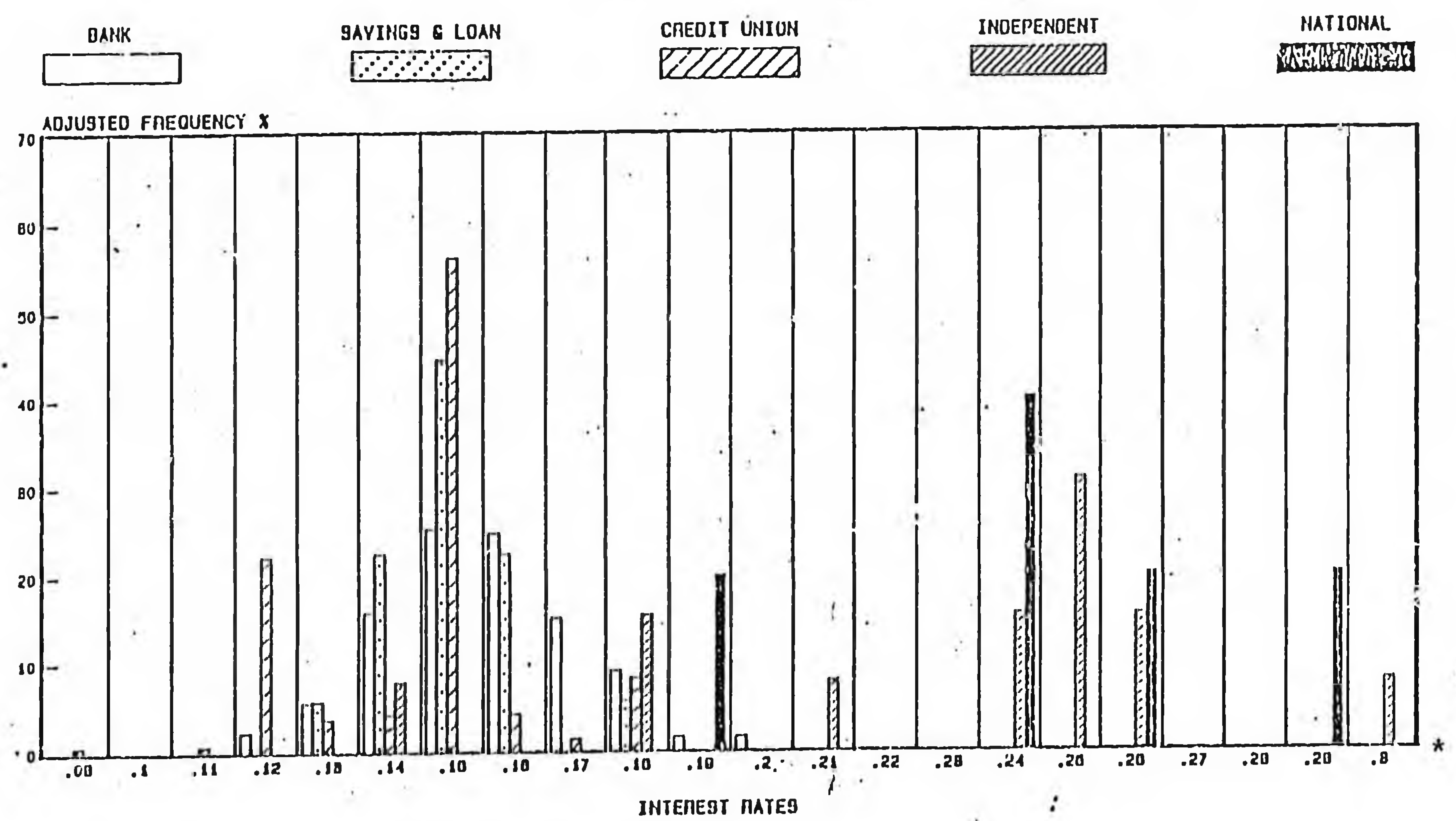
National Finance Companies-2

*Each segment on the horizontal axis represents 100 basis points. For example, rates that fell between .1200 and .1299 fall into the segment labeled .12.

CHART 7

ILLINOIS

OLD USED AUTO LOAN



<u>NUMBER OF CASES</u>

Banks-147

Credit Unions-173

Independent Finance Companies-13

Savings & Loan-18

National Finance Companies-5

*Each segment on the horizontal axis represents 100 basis points. For example, rates that fell between .1200 and .1299 fall into the segment labeled .12.

middle range and finance companies occupied the high end of the continuum. A few independent finance companies charged rates similar to those of banks, savings and loans and credit unions. And some commercial banks seemed to be easing into the high risk end of the continuum with rates above 18 percent.

In Arizona, commercial banks offered the lowest most likely rates available for older model used cars and national finance companies offered the highest rates (Chart 8). The bulk of rates fell between 15 percent and 17.9 percent. Rates for loans from S&Ls and some banks were competitive with rates from finance companies. Although the distribution was relatively narrow most likely rates still ranged from 14 percent to 24 percent. The level of rates charged on credit contracts from used car dealers in Arizona has received some attention and has been used to argue for the reimposition of a rate ceiling. The data in Chart 8 show that consumers who are nondepositors at banks have many alternative sources of credit when financing the purchase of a used auto in addition to the used car dealer.

Summary. The markets for new and used automobile loans are some of the more competitive segments of the consumer credit market. The data presented with regard to those markets show:

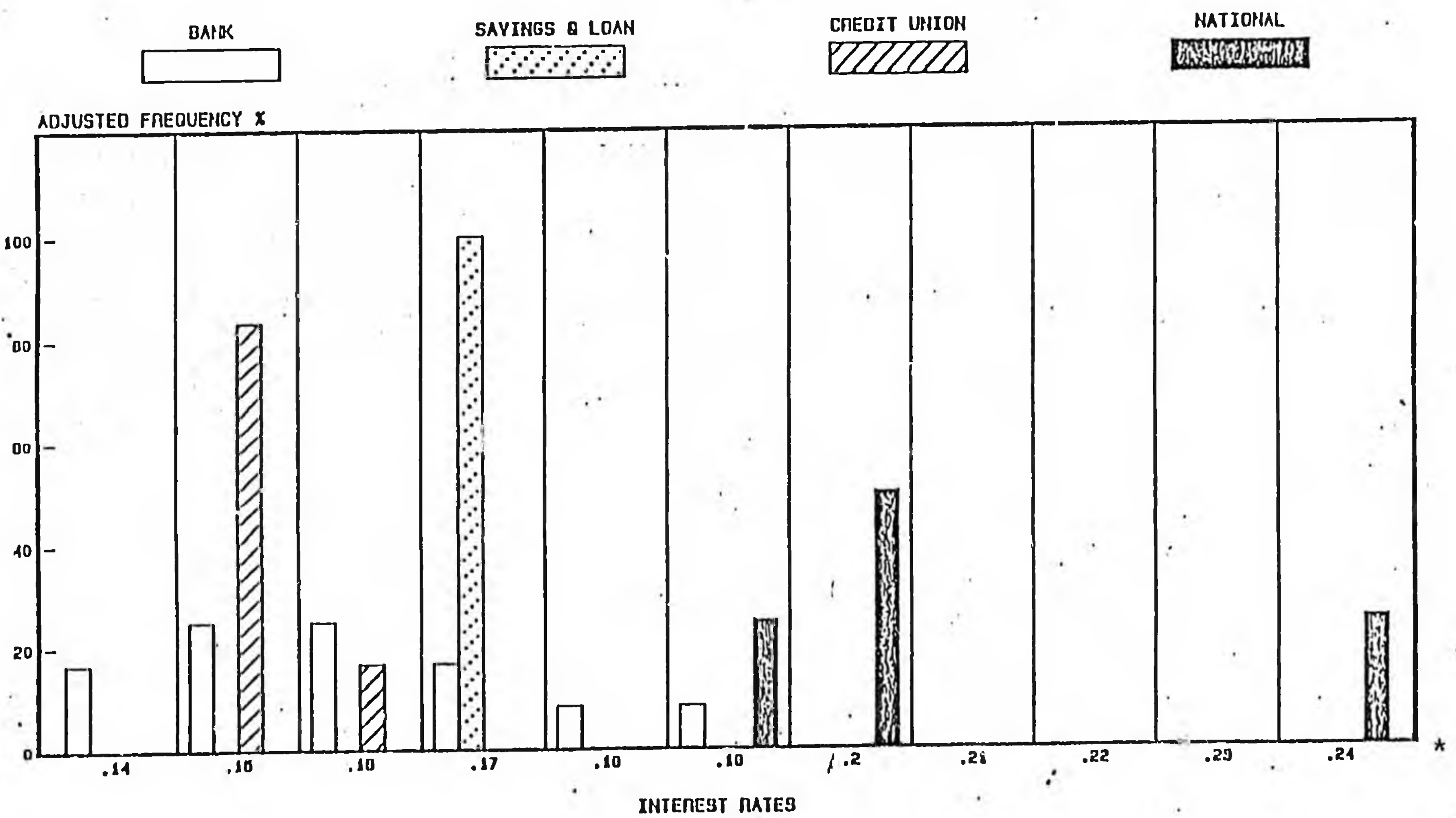
(1) There was greater diversity in most likely rates in markets with no rate ceilings.

(2) The modal rates for new auto loans in markets with no rate ceilings were similar to the average rate charged by a national sample of commercial banks.

CHART 8

ARIZONA

OLD USED AUTO LOANS



NUMBER OF CASES

Banks-12

Savings & Loan-2

Credit Unions-6

National Finance Companies-4

*Each segment on the horizontal axis represents 100 basis points. For example; rates that fell between .1200 and .1299 fall into the segment labeled .12.

(3) The modal most likely rate charged by credit unions, commercial banks and savings and loan associations for various types of auto loans was consistently lower than the modal rate charged by finance companies.

(4) The level and diversity of rates appears in part to be a function of the concentration of banking in a market. In general, rates on auto loans in Arizona were higher than rates for similar loans in Illinois. The range of rates in Arizona was more narrow then the range for similar loans in Illinois.

(5) The modal "most likely" rates charged by each lender for various types of auto loans were logically related to the risk and size characteristics of the loan. In other words, new car loans were less expensive than late model used car loans, which in turn were less expensive than older model used car loans. These rate differentials reflect competitive behavior that causes the price of credit to reflect the risk and administrative costs of the contract rather than some arbitrary pricing rules of lenders.

B. Unsecured Personal Loans

Unsecured personal loans do not represent a large percentage of total credit outstanding relative to auto credit or revolving credit. With the change in the federal bankruptcy law, the availability of unsecured personal loans has been restricted as creditors replaced unsecured credit with second mortgage loans. In addition, because of the unsecured nature and small dollar denomination of these loans, rates

are considerably higher than rates on new auto loans. We did not ask specific questions about the availability of unsecured personal loans but one might expect them to be made to the more creditworthy of credit customers generally.

According to data released by the Federal Reserve System, the average most likely rate charged in February by commercial banks on unsecured personal loans with maturity of 24-months was 17.59 percent.[18] Another publication of regional bank loan rates, effective February 1983, showed a range of rates from 14.50 percent to 20 percent for unsecured personal loans maturing in 24 to 48 months.[19]

Commercial Banks. The modal most likely rate charged by commercial banks in Illinois to nondepositors for cash loans of $1000 with maturity of 12 months was 15 percent with rates in the previous 30 days ranging from 11 percent to 22 percent (Exhibit 6). The modal rate for the larger, longer-termed unsecured loans were the same or slightly higher but with similar ranges of available rates.

In Arizona, modal rates for unsecured personal loans from banks were generally higher than those in Illinois by 100 to 300 basis points. Again, the range of available rates was narrower with the low rate in Arizona being above the low for Illinois, but the high rate in Arizona was below the high rate in Illinois.

Credit Unions. The modal most likely rate charged by credit unions in Illinois for all types of unsecured personal loans was 15 percent. The range of rates for each loan type was also identical with rates falling between eight percent and 18 percent. In Arizona, the modal rate for unsecured personal loans from credit unions was 18.00 percent with available rates ranging from 12 percent to 18 percent.

EXHIBIT 6: ANNUAL PERCENTAGE RATES FOR UNSECURED PERSONAL LOANS (UNWEIGHTED RATES)**

Loan Type		Banks		Credit Unions		Savings and Loans		National Finance Companies		Independent Finance Companies	
		Illinois	Arizona	Illinois	Arizona	Illinois	Arizona	Illinois	Arizona	Illinois	Arizona*
$1000 balance, 12-month maturity to nondepositors	Mode	15.00	18.00			16.00	17.50	24.00	20.50	36.00	
	N	164	12			17	-	16	13	18	
	High	22.00	20.00			24.00	17.50	36.00	36.00	48.00	
	Low	11.00	15.50			12.50	17.50	18.00	18.00	18.00	
$1000 balance, 12-month maturity to depositors	Mode			15.00	18.00						
	N			108	7						
	High			18.00	18.00						
	Low			8.00	12.00						
$2000 balance, 24-month maturity to nondepositors	Mode	15.00	17.00			16.00	17.50	22.27	23.00	27.00	
	N	149	12			17	-	36	13	15	
	High	21.57	20.00			24.00	17.50	33.75	33.75	35.00	
	Low	11.00	16.00			14.00	17.50	18.00	18.00	20.00	
$2000 balance, 24-month maturity to depositors	Mode			15.00	18.00						
	N			129	6						
	High			18.00	18.00						
	Low			9.00	12.00						
$4000 balance, 36-month maturity to nondepositors	Mode	16.00	17.00			16.00	17.50	24.00	19.50	25.00	
	N	120	10			11	-	16	10	0	
	High	21.21	19.00			19.00	17.50	29.41	29.41	30.00	
	Low	11.00	14.50			14.00	17.50	18.00	18.00	18.00	
$4000 balance, 36-month maturity to depositors	Mode			15.00	18.00						
	N			03	5						
	High			18.00	18.00						
	Low			9.00	15.00						

*No independent consumer finance companies from Arizona responded.

**Mode of most likely rate during week of March 28 - April 2, 1983; High is highest rate and low is lowest rate offered by the respondent group for that loan type in the previous 30 days.

Savings and Loan Associations. These lenders were positioned in the market for unsecured personal loans to compete with commercial banks and credit unions rather than consumer finance companies. The modal rates offered by S&Ls were higher than those offered by banks in Illinois for the two smaller-sized unsecured loans and the ranges of rates offered by S&Ls were broader than those of banks for similar loans. The rate charged by S&Ls making unsecured personal loans in Arizona fell between those charged by banks and credit unions.

Consumer Finance Companies. The rates charged for unsecured personal loans by finance companies in both states were considerably higher than those charged by other lenders. The modal most likely rates for such loans from national finance companies in Illinois ranged from 22 percent to 24 percent and 25 percent to 36 percent for the independent companies in Illinois. The range of available rates during the previous 30 days went from 18 percent up to 36 percent for national companies and from 18 percent up to 48 percent for independent companies in Illinois.

The modal most likely rate offered by finance companies in Arizona was higher than the modal rate in Illinois for the smallest sized loan (28.50 percent vs. 24.0 percent) but lower for the largest sized loan (19.5 percent vs. 24.0 percent). The ranges of rates offered by national companies in the two states were exactly the same.

The Market. Unlike secured auto loans, where the risk of the loan is limited by the quality of the collateral, the risk of unsecured personal loans is solely a function of the creditworthiness of the borrower. Consequently, it is not surprising to find a wider spread

in available rates in that market. In fact, the spread of available rates in a state is probably indicative of the availability of unsecured personal loans for consumers in higher credit risk groups. The distributions of most likely rates from all competitors provide an overview of the market for unsecured personal loans in the two states (Charts 9 through 14).

In Illinois, most likely rates for unsecured personal loans clustered in the range of 14 percent to 18.99 percent. Rates for similar loans in Arizona clustered from 15 percent to 18.99 percent. In both states the rates compare favorably with available national statistics on rates for unsecured personal loans.

In both states, a rather distinct segmentation of most likely rates charged by banks, credit unions and savings and loan associations and rates charged by national and independent finance companies is apparent. Only for the largest size loan was there any significant overlap of rates offered by banks and finance companies in Arizona. In Illinois, a few finance companies offered rates that were competitive with those offered by the depository institutions and vice versa for unsecured personal loans.

Several observations concerning the amount of competition in the market for unsecured personal loans in Illinois can be made from this overview of the market.

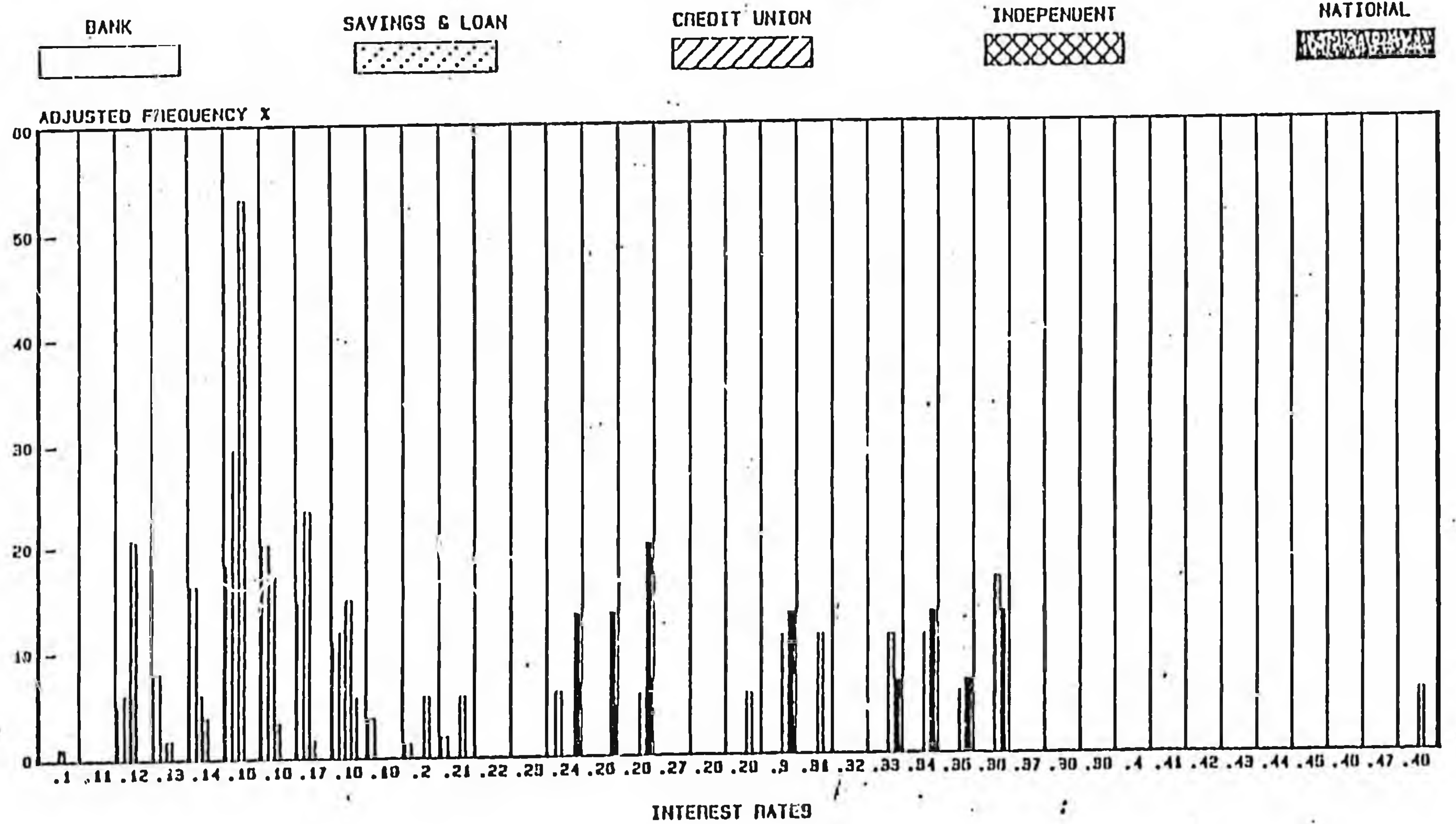
(1) There is considerable price competition among depository institutions and among finance companies.

(2) There is great diversity among finance companies in terms of positioning in an unregulated market for unsecured personal loans.

CHART 9

ILLINOIS

UNSECURED PERSONAL LOANS-$1,000 FOR 12 MONTHS



NUMBER OF CASES

Banks-164

Savings & Loan-17

Credit Unions-188

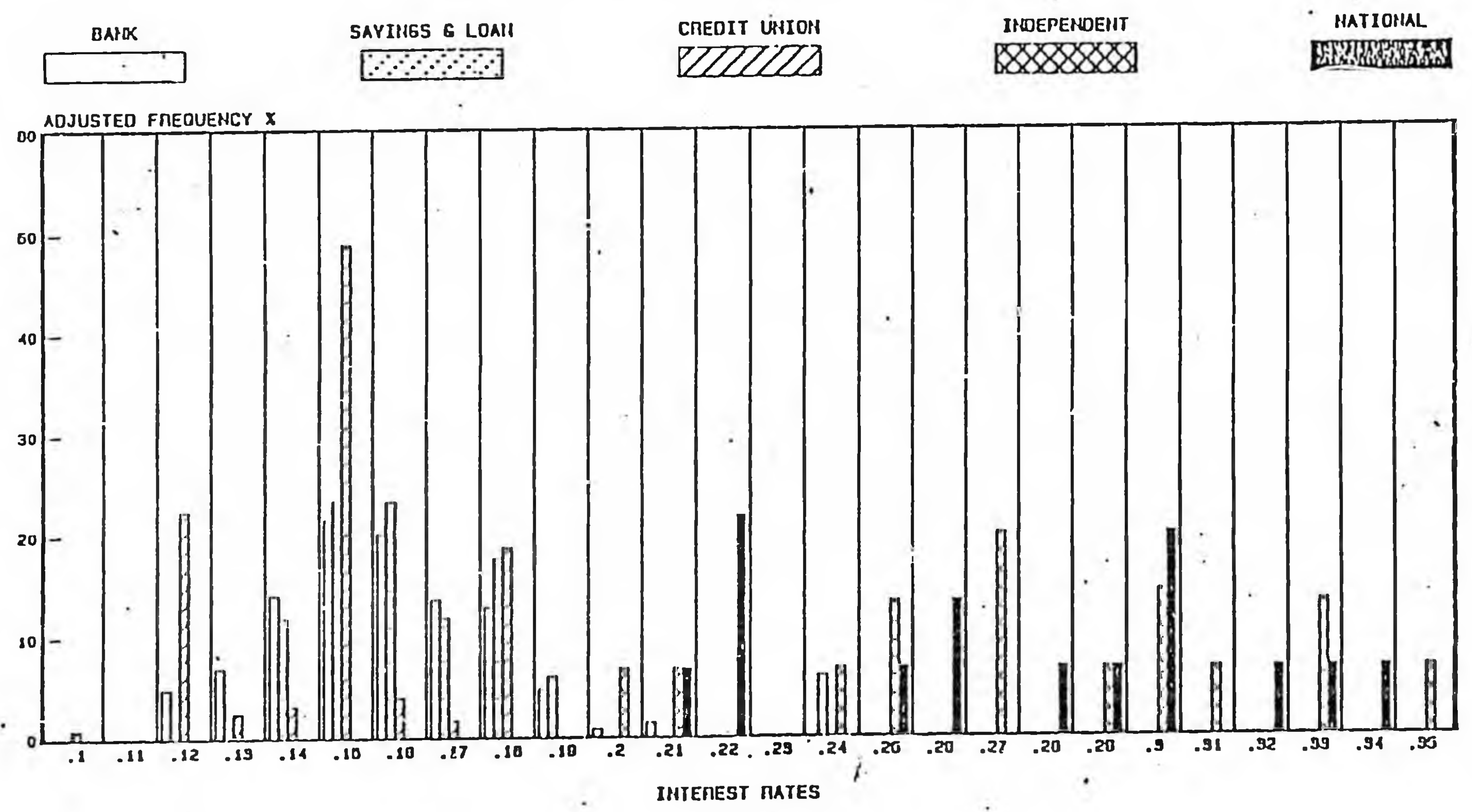
National Finance Companies-15

Independent Finance Companies-18

CHART 10

ILLINOIS

UNSECURED PERSONAL LOANS—$2,000 FOR 24 MONTHS



<u>NUMBER OF CASES</u>

Banks-149

Savings & Loan-17

Credit Unions-129

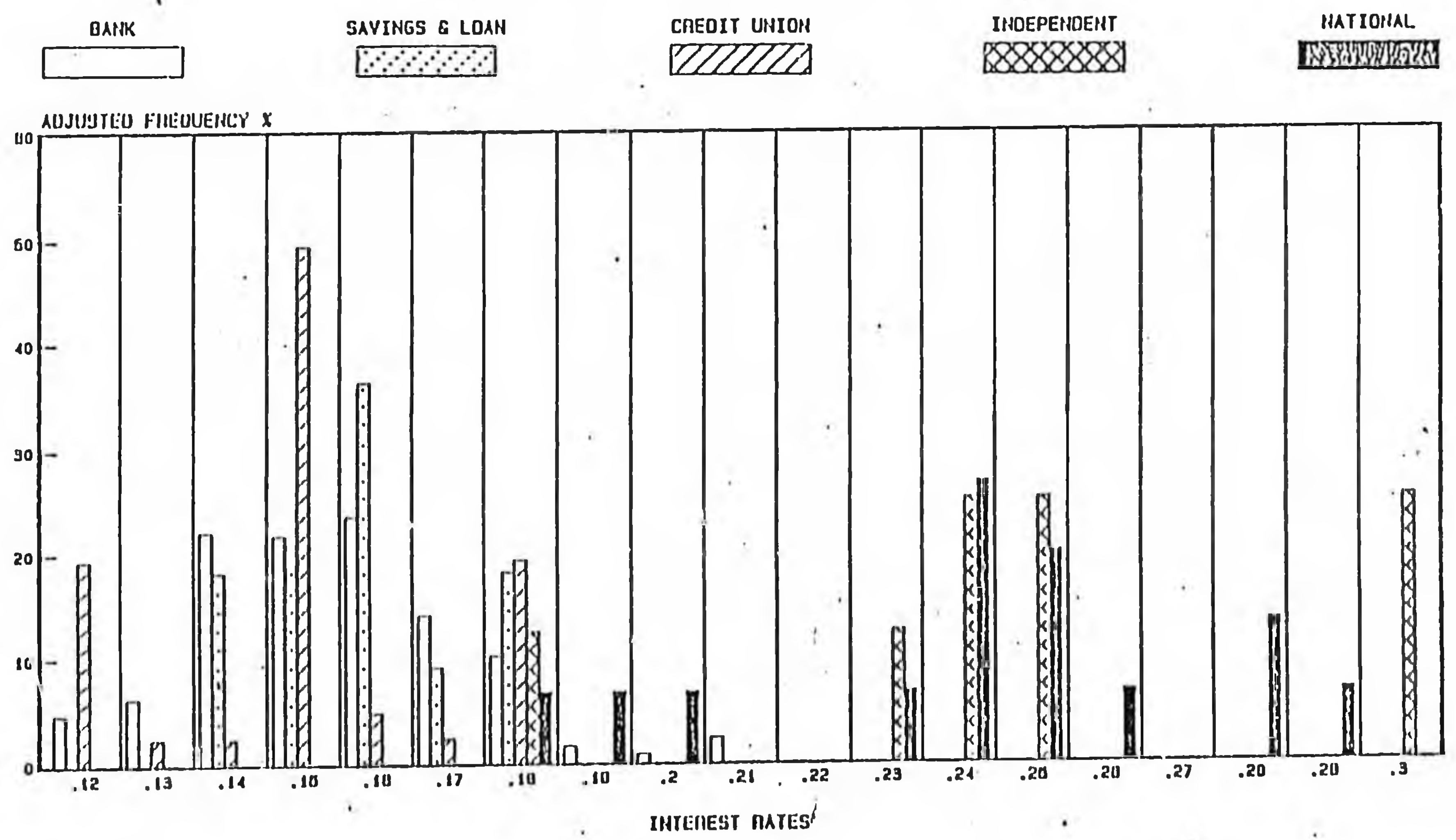
National Finance Companies-15

Independent Finance Companies-15

CHART 11

ILLINOIS .

UNSECURED PERSONAL LOANS-$4,000 FOR 36 MONTHS



NUMBER OF CASES

Banks-128

Savings & Loans-11

Credit Unions-83

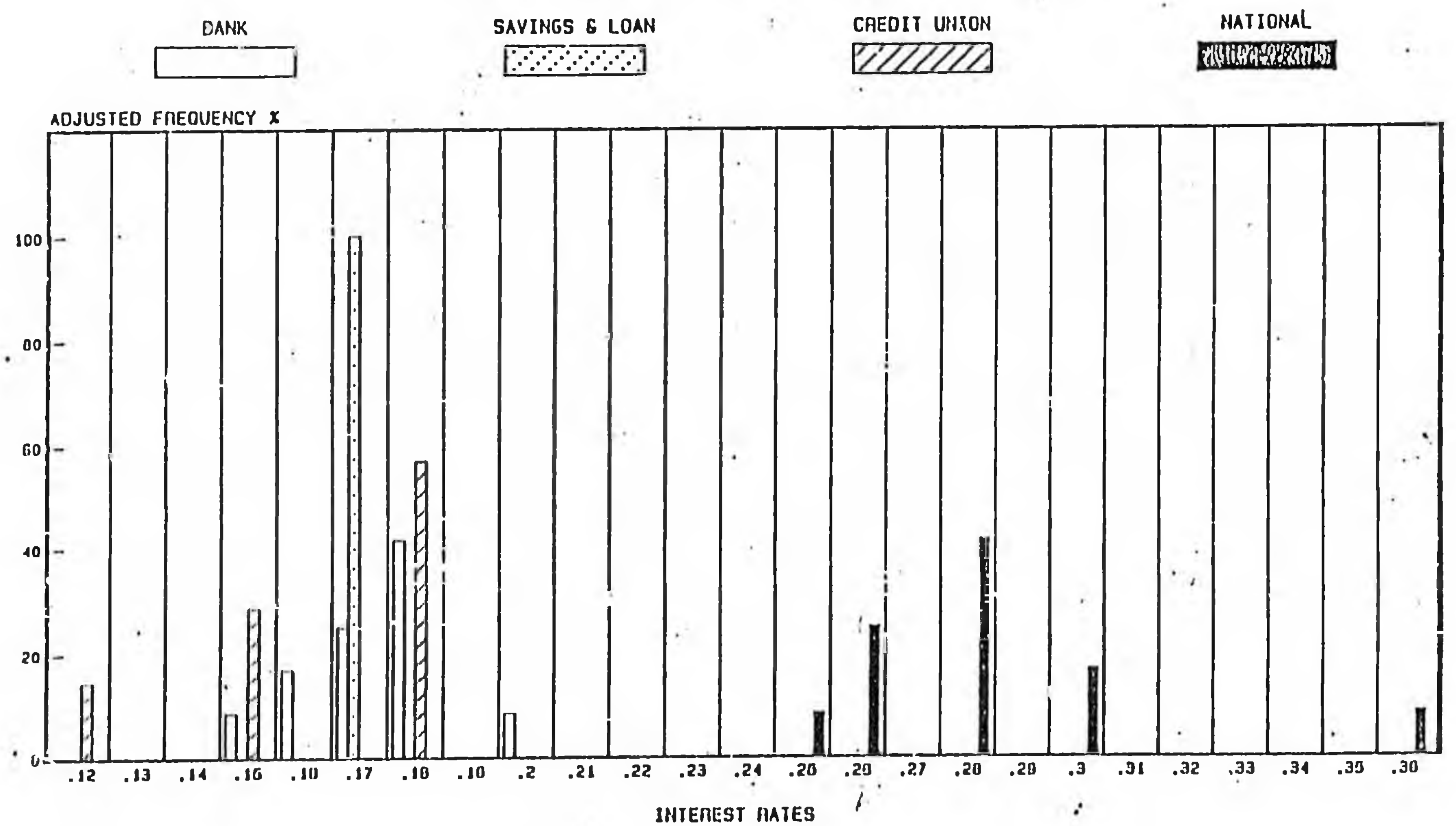
National Finance Companies-15

Independent Finance Companies-8

CHART 12

ARIZONA

UNSECURED PERSONAL LOANS-$1,000 FOR 12 MONTHS



NUMBER OF CASES

Banks-12

Savings & Loan-1

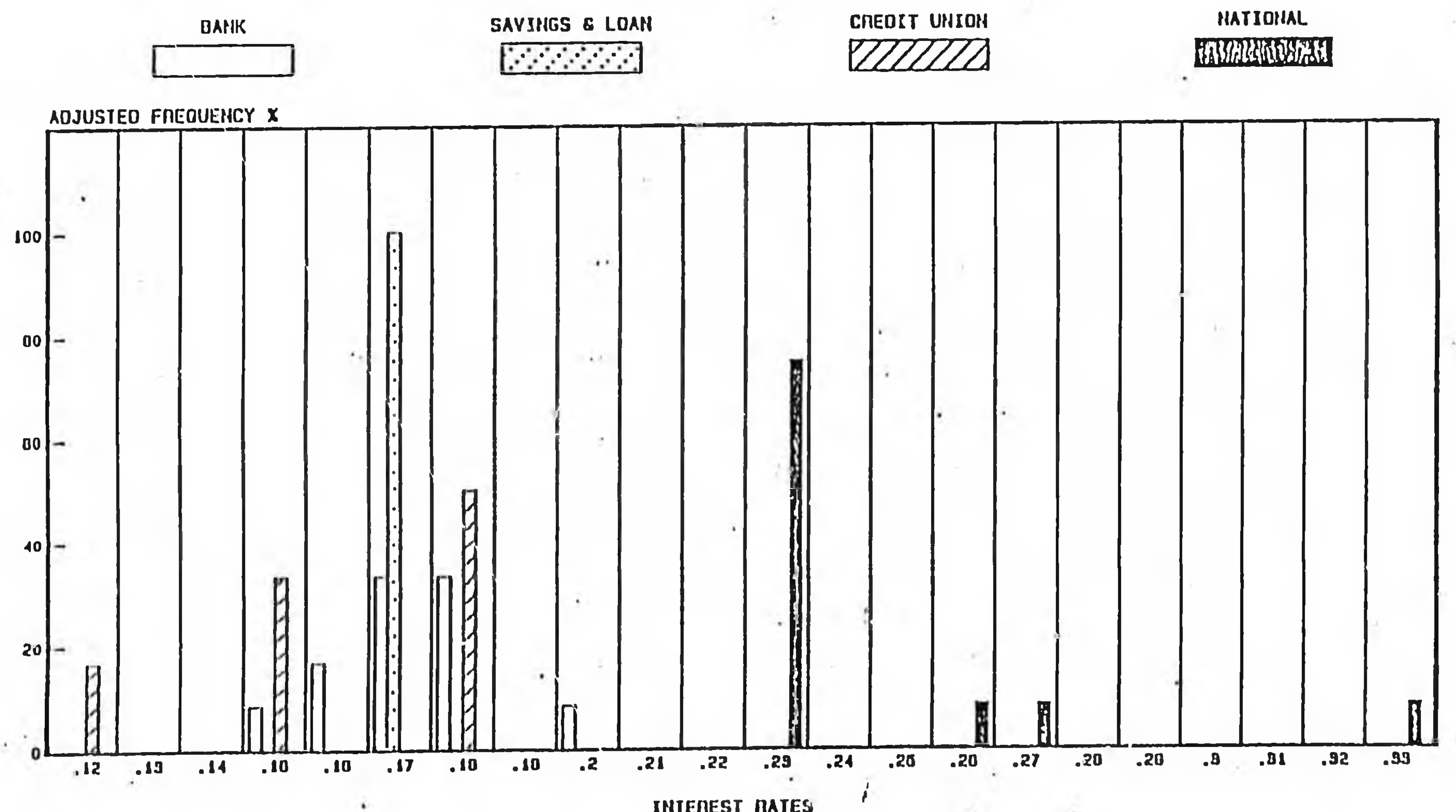
Credit Unions-7

National Finance Companies-12

CHART 13

ARIZONA

UNSECURED PERSONAL LOANS-$2,000 FOR 24 MONTHS



NUMBER OF CASES

Banks-7

Savings & Loan-1

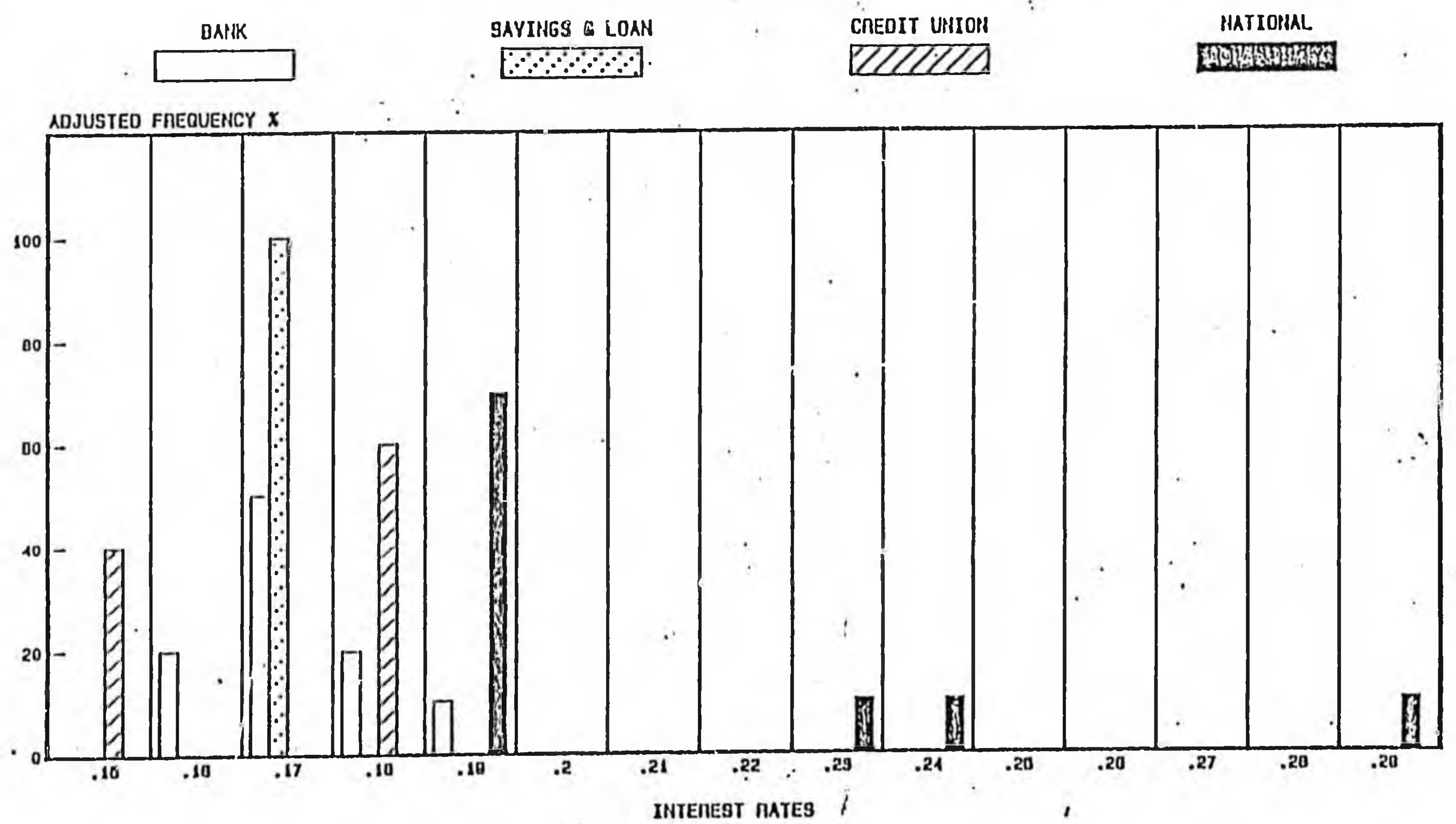
Credit Unions-6

National Finance Companies-12

CHART 14.

ARIZONA

UNSECURED PERSONAL LOANS-$4,000 FOR 36 MONTHS



NUMBER OF CASES

Banks-10

Savings & Loan-1

Credit Unions-5

National Finance Companies-10

(3) The most likely rates offered by depository institutions in Illinois for unsecured loans maturing in 24-months were lower than those reported in a national survey of commercial banks for the period of the first week of February. This may be attributed in part to the general decline in interest rates that took place between the first of February 1983, and the end of March when these data were collected.

In Arizona, there was a broad range of most likely rates for unsecured credit but a tight clustering of rates by type of creditor. This pattern may be attributable to the smaller number of competitors in that state. However, the modal most likely rates available for unsecured personal loans from banks were also similar to the average found in the national survey of banks performed in February 1983. There was a rather sharp distinction between rates offered by depository institutions and rates offered by finance companies. The range of ten percentage points in most likely rates offered by national finance companies suggests the diversity of strategies for market position which have been adopted by these lenders.[20]

We conclude that there is a high level of price competition in the Arizona market and a broad range of available rates. Although the market may be more concentrated than that in Illinois, all financial institutions do not follow the same pricing strategy nor do most likely rates differ excessively from national norms. Rather, in their attempt to gain a particular market share or market segment, various creditors offer many different prices for unsecured personal loans.

C. Second Mortgage Loans

In the last five years, second mortgage loans have become an important source of credit for consumer purposes. Because of a rapid rate of inflation in the value of real estate many households had large accumulations of wealth in the form of equity in their family residence. Second mortgage loans were a method used to access that wealth. In addition, with the 1978 Bankruptcy Reform Act, lenders were no longer as willing to make unsecured personal loans but required borrowers to use household equity as collateral. Consequently, the rates charged on second mortgage loans represent the cost of one of the more important sources of consumer credit from banks, finance companies, S&Ls and credit unions.

A benchmark rate for second mortgage loans from a national sample of lenders was not available. A regional survey of rates for various types of consumer loans showed that as of the end of February 1983 available rates for a 60-month second mortgage loan from commercial banks ranged between 15.75 percent and 17.00 percent.[21]

In states where it is legal, lenders who make second mortgage loans may charge points in addition to the stated rate. The percentage of respondents making second mortgage loans who charged points on the loan ranged between 7.4 percent of credit unions to 59.3 percent of national finance companies (Exhibit 7).

To obtain distributions of most likely rates (APR) on second mortgage loans we first recalculated the "most likely" annual percentage rates for those lenders who charged points to reflect the "most likely" number of points charged. The statistics for the distributions of "most

EXHIBIT 7

SECOND MORTGAGE LOANS

	Makes Second Mortgage Loans	Charges Points *	Makes Second Mortgage Loans At Variable Rates
Commercial banks (both states) N = 247	67.21%	30.72%	3.61%
Savings and loan N = 44	84.09	54.05	13.51
Credit union N = 231	11.69	7.41	3.70
National finance companies N = 32	84.38	59.26	-
Independent finance companies N = 20	80.00%	25.00%	-

*Percent making second mortgage loans who also charged points.

likely" APRs charged by lenders who charged no points, by those who charged points, and overall statistics are shown in Exhibit 8.

An example of the recalculation follows: For a $10,000 second mortgage loan with maturity of 60-months assume the stated APR on the loan was 12 percent and two points were charged. We first calculated the size of monthly payment required to retire the $10,000 loan with APR of 12 percent or one percent per month in 60 months:

$$\$10,000 = x(\text{PVAF}, 1\%, 60 \text{ months})$$

$$x = \$222.44 \text{ monthly payment}$$

Then we solved for the adjusted APR which reflected the fact that two percent of the face value of the loan was paid when the loan was extended:

$$\$10,000 - .02(10000) = 222.44\ (\text{PVAF}, x, 60)$$

$$9800 = 222.44\ (\text{PVAF}, x, 60)$$

$x = 44.057$ represents a rate of 1.074% per month or 12.89% adjusted APR

Commercial Banks. About two-thirds of the responding banks in the two states made second mortgage loans like the one described in the questionnaire (balance equal to $10,000, 5-year maturity, with loan-to-value no greater than 75 percent). Only about 30 percent of banks making second mortgage loans in Illinois reported that points were charged. Almost half of banks making such loans in Arizona assessed points for second mortgage loans.

EXHIBIT 8: MOST LIKELY ANNUAL PERCENTAGE RATES ON SECOND MORTGAGE LOANS*

	Commercial Banks		Savings and Loan Associations		Credit Unions		Independent Finance Company		National Finance Company	
	Illinois	Arizona	Illinois	Arizona	Illinois	Arizona	Illinois	Arizona	Illinois	Arizona
Those who charged NO points										
Mode	14.00%	17.00%	16.00%	15.50%	15.00%	15.00%	22.00%	-	19.00%	19.00%
N	110	7	16	1	20	5	12	-	6	5
Low	12.00	14.25	11.50	15.50	12.00	15.00	14.99	-	18.30	17.00
High	20.31	17.00	17.50	15.50	18.00	16.00	24.00	-	21.00	19.80
Those who charged points										
Mode	14.40	15.96	16.44	16.92	14.16		22.44	-	20.40	15.89
N	45	6	19	1	2	0	4	-	8	8
Low	12.84	14.64	13.44	16.92	14.16		19.44	-	16.08	15.89
High	21.24	18.72	18.96	16.92	15.84		22.44	-	21.96	24.00
Overall distribution										
Mode	14.00	15.96	16.00	15.50	15.00	15.00	22.00	-	19.00	19.00
N	155	13	35	2	22	5	16	-	14	13
Low	12.00	14.25	11.50	15.50	12.00	15.00	14.99	-	16.08	15.89
High	21.24	18.72	18.96	16.92	18.00	16.00	24.00	-	21.96	24.00

*The low and high rates shown in this exhibit are the lowest and highest of the reported most likely rates rather than the group minimum and maximum rates for the 30 days before the survey.

The modal "most likely" rate charged by banks in Illinois that did not charge points was 14.00 percent while the modal adjusted APR for those who charged points was 14.40 percent. For the total sample of banks, most likely rates ranged from 12 percent to 21.24 percent with a mode of 14.00 percent.

The mode of the distribution of rates from banks in Arizona that charged no points was 17.00 percent while the mode for those that charged points was 15.96 percent. The mode rate for all responding banks in Arizona (15.96 percent) was higher than that in Illinois for second mortgage loans.

Savings and Loan Associations. Almost 84 percent of S&Ls that responded to the survey offered second mortgage loans and 54 percent of those charged points. The modal rates for S&Ls in Illinois were considerably higher than those charged by banks. In Arizona, only two S&Ls made second mortgage loans and the rates charged were not unlike those charged by banks.

Credit Unions. Just slightly more than one-tenth of the credit unions that participated in our study made second mortgage loans and few credit unions charged points on these loans. The modal most likely rates charged by credit unions in the two states were equal at 15.00 percent.

National Finance Companies. A higher proportion of participating national finance companies made second mortgage loans, relative to other types of lenders, and national finance companies were the most likely of all the lender types to charge points on those loans. The modal most likely rate charged by finance companies that charged no points in Illinois

was 500 basis points above the mode for bank loans. The mode for those finance companies that charged points was 600 basis points above that for commercial banks that charged points in Illinois. The modal rates for national finance companies were identical in the two states and considerably above the mode for bank loans in both states.

Independent Finance Companies. The independent finance companies making second mortgage loans generally did not charge points but offered second mortgage loans at a wide range of rates (14.99 percent to 24.00 percent). The modal rates for independent finance companies in Illinois was the highest of all the lenders at 22.00 percent.

The Market. In both Illinois and Arizona, the bulk of most likely rates for second mortgage loans fell between 15.0 and 15.9 percent (Charts 15 and 16). Most likely rates ranged from 11 percent to 24 percent in Illinois and from 14 percent to 24 percent in Arizona. In Illinois, there was considerable segmentation of rates offered by financial institutions versus finance companies, although some independent finance companies offered rates that were competitive with those offered by banks, savings and loans and credit unions. There was relatively more overlap in the rates offered by banks and finance companies for second mortgage loans in Arizona. In fact, some of the national finance companies were providing serious price competition to banks for these loans.

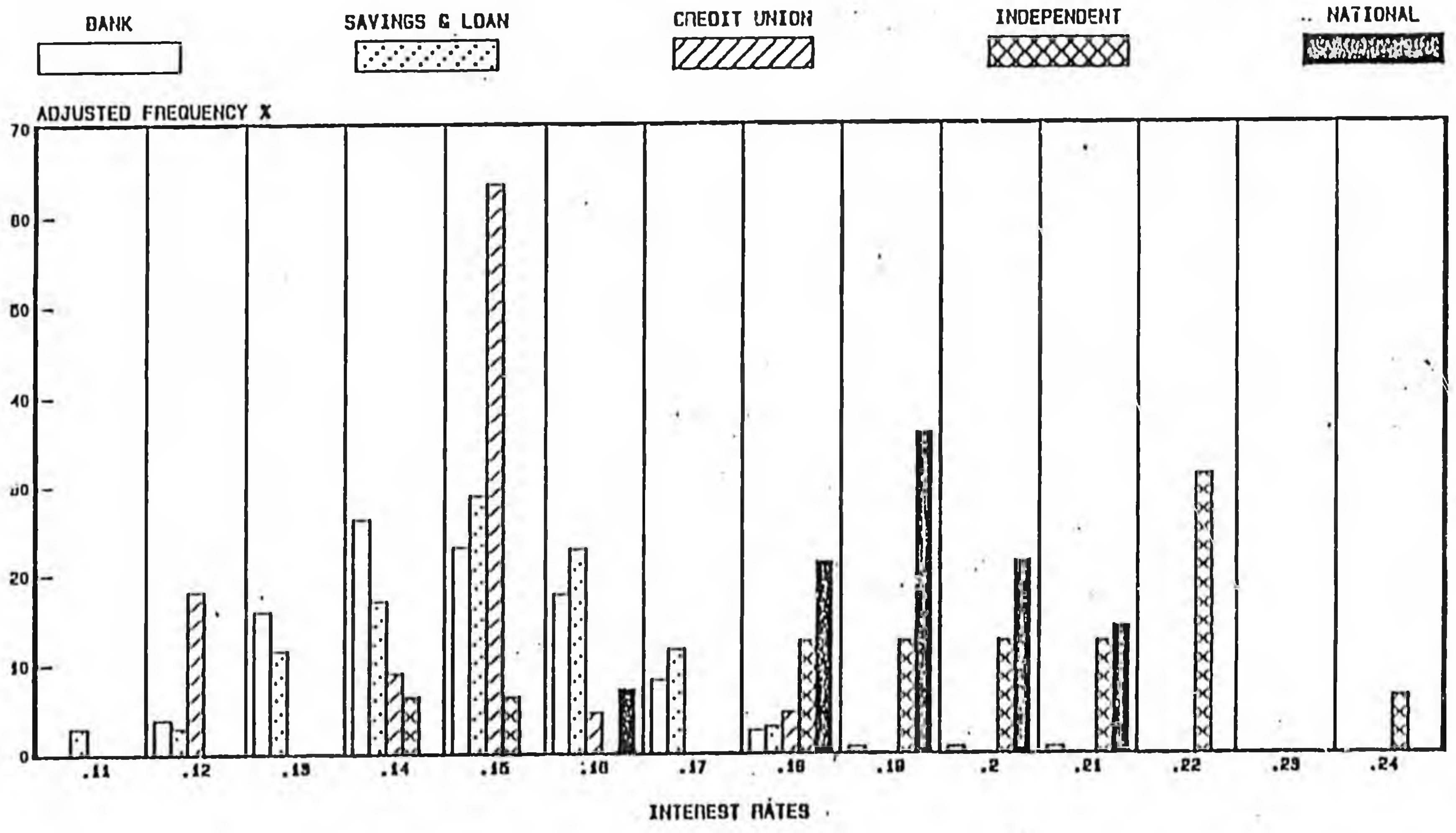
D. Revolving Credit.

Bank Credit Cards. Revolving credit on bank credit cards has grown very rapidly in the last 15 years. As this type of credit grew in share of total credit outstanding, retail revolving credit and unsecured

CHART 15

ILLINOIS

SECOND MORTGAGE LOAN



NUMBER OF CASES

Banks-155

Savings & Loan-35

Credit Unions-22

National Finance Companies-14

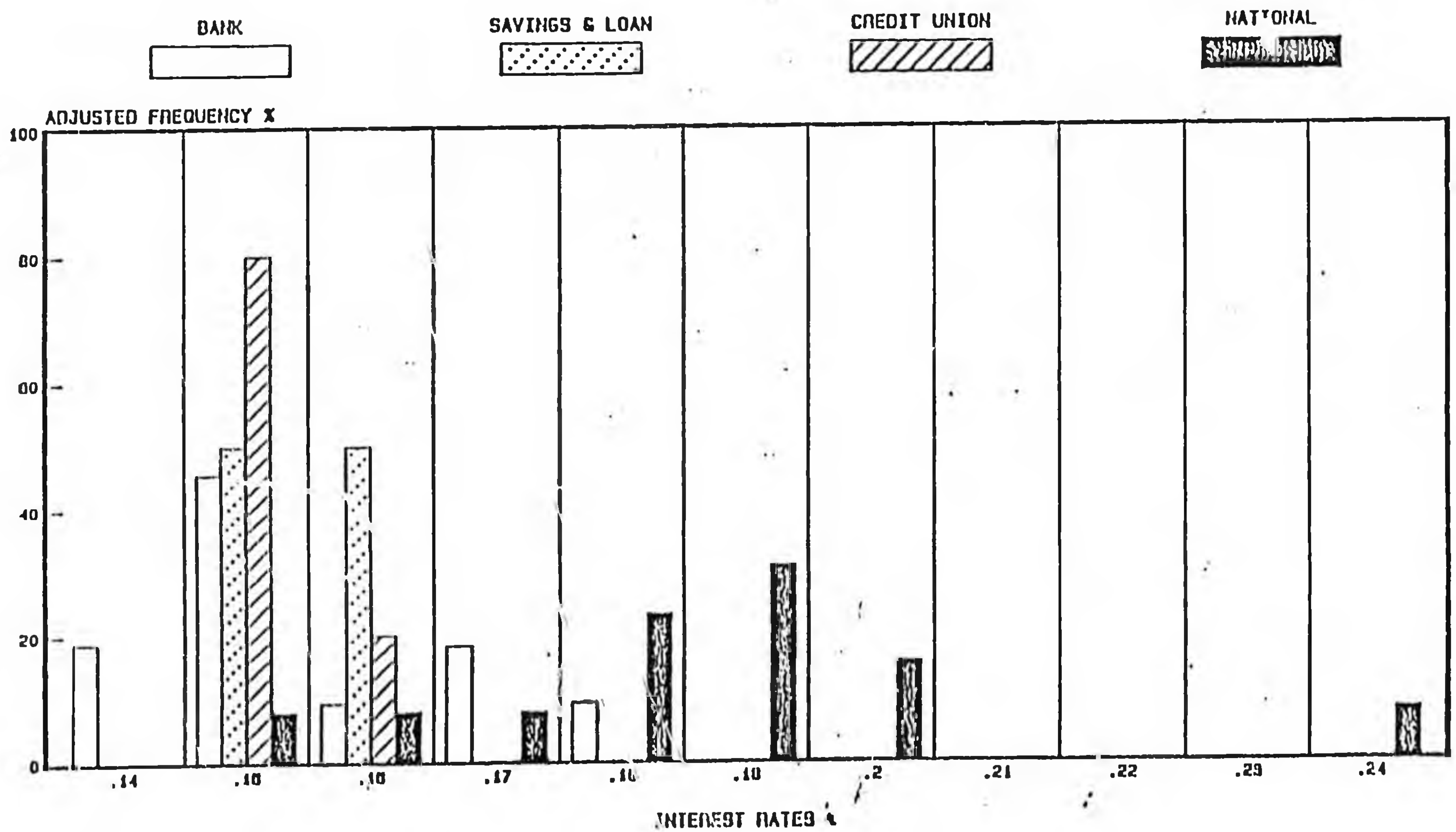
Independent Finance Companies-16

CHART 16

ARIZONA

SECOND MORTGAGE LOAN

FINANCE COMPANY



NUMBER OF CASES

Banks-11

Savings & Loan-2

Credit Unions-5

National Finance Companies-13

personal loans from finance companies declined. Commercial banks are not the only type of institution offering credit card programs. In this study, credit unions and savings and loan associations also offered their retail customers one of the national credit cards.

Credit card pricing practices have undergone dramatic changes in the last several years. Many of the changes, most notably the annual fee, were initiated by commercial banks in 1980 with the ill-conceived attempt by the federal government to limit consumers' use of revolving credit. The imposition of an annual fee is not universal--some banks are charging interest from the date of purchase (no "free" period) or have a minimum deposit requirement.

The Federal Reserve reported that the average "most likely" rate charged for credit cards by commercial banks during the first calendar week of February 1983 was 18.82 percent. No information was reported on annual fees or transaction fees in that survey. In another survey of bank rates reported on March 2, 1983, APRs charged on bank credit card plans ranged from 15.0 percent to 21 percent and annual fees ranged from $12 to $15.[22]

The market for credit cards can be characterized as a national market. A creditor can offer credit card services to consumers anywhere in the country and export a rate which is limited by laws in the state where the card-issuer is domiciled. Citicorp, with the largest national card-holder base, charged 19.80 percent and a $15 annual fee for bank credit cards at the time of the study and issued the cards from South Dakota, a state with no rate ceiling for bank credit cards.

In our study of Illinois and Arizona, information on the annual percentage rate and annual fees were collected. Banks and S&Ls offered the MasterCard in Illinois while banks, credit unions, and S&Ls offered the Visa card in that state. Banks offered MasterCard in Arizona while banks, credit unions and S&Ls offered Visa.

Commercial Banks. The modal APR charged by banks on MasterCard and Visa in Illinois was 18.00 percent (Exhibit 9). Available rates ranged from 12.01 percent to 21.6 percent. Three banks in Illinois followed a rate structure that had a break rate. The modal annual fee for MasterCard and Visa cards was $20. In several cases, banks indicated that both cards were available for one annual fee of $20. However, if a consumer wanted just one of the cards, the annual fee was still $20. Some banks did not charge an annual fee.

In Arizona, the modal rate charged by banks was 21.00 percent on both MasterCard and Visa. Only one of the 12 responding banks that offered MasterCard charged an annual fee. Six banks offered Visa and two charged an annual fee of $15. One bank required a minimum deposit of $100.

Credit Unions. Only three responding credit unions in Illinois offered a credit card to their customers. The APRs ranged from 16.8 percent to 19.0 percent and only one charged an annual fee of $10. One credit union in Arizona offered a Visa card with a 16.80 percent rate and no annual fee.

Savings and Loan Associations. Four responding S&L's in Illinois offered credit cards. These credit cards were generally priced like those offered by commercial banks. The APRs ranged from 18 percent to 21 percent and annual fees were $15 or less for either card plan. In

EXHIBIT 9

BANKCARD PRICING

	Illinois			Arizona		
	Banks	Credit Unions	Savings And Loans	Banks	Credit Unions	Savings And Loans
MasterCard						
APR						
Mode	18.00		--	21.00	-	-
Number	44*		3	12	-	-
Minimum **	18.00		18.00	18.00	-	-
Maximum	21.60		21.00	21.00	-	-
Annual Fee						
Mode	$20.00		$15.00	0	-	-
Number	45		3	12	-	-
Minimum	0		0	0	-	-
Maximum	$20.00		$15.00	$15.00	-	-
Visa						
APR						
Mode	18.00	--	18.00	21.00	16.80	21.00
Number	43*	3	4	6	1	1
Minimum	12.00	16.80	18.00	21.00	16.80	21.00
Maximum	22.00	19.00	21.00	21.00	16.80	21.00
Annual Fee						
Mode	$20.00	0	$15.00	0	0	0
Number	43	3	3	6	1	1
Minimum	0	0	0	0	0	0
Maximum	$20.00	$10.00	$15.00	$15.00	0	0

*Three banks reported pricing structures with break rates.

**The minimum of the most likely APRs reported by the group.

Arizona, only one S&L offered a credit card--the annual percentage rate charged was 21 percent with no annual fee.

Summary. In general, there was considerable variability in credit card pricing programs across lenders in both states especially with regard to annual fees. The cards were not priced out of line with those offered by other banks located outside of the states included in the study.

Revolving Credit From Retailers. Retailers represent an important source of credit, especially for high-risk consumers who may not qualify for cash credit. Consequently, retailers may have justification for charging higher rates for revolving credit than financial institutions. However, because their credit programs must generally compete with revolving plans from financial institutions and because some of the cost of credit may be recovered in the markup of merchandise, we expected the pricing structure of retail revolving credit to be similar to that of bank credit cards. To date, however, no retailer has initiated an annual fee for a credit card.

Six retailers that were national chains with outlets in Illinois and five with outlets in Arizona participated in the study. These were typically large department stores. Six of six respondents in Illinois had their own revolving credit program. Four of the five respondents in Arizona offered their own revolving credit plans. In Illinois, the minimum rate available on these plans was 21.00 percent, and the maximum was 23.9 percent with an average rate of 21.8 percent (Exhibit 10). In Arizona, the minimum rate charged on a retail revolving credit plan was 21.00 percent with a maximum of 21.6 percent and a mean of 21.2 percent.

Revolving Credit From Independent Retailers. Twenty-nine independent retailers in Illinois and 47 in Arizona participated in the study. The respondents from Illinois were generally clothing stores, or department stores. The respondents from Arizona were more diverse, including jewelers, lumber stores, furniture stores, department stores, and auto supply outlets. (One could argue that this sample is not representative of the population of merchants and dealers who serve high-risk consumers in either state because so few hard-good outlets are represented.) Of these retailers, 21 in Illinois offered revolving credit. The modal rate (APR) for those plans was 18.00 percent with rates ranging from ten percent to 21.60 percent. One retailer charged 18 percent on a balance up to $500 and 12 percent on balances above $500.

Thirteen of 47 responding independent retailers in Arizona managed their own revolving credit plan. The modal rate reported by the ten retailers reporting a straight rate on their plans was 20.48 percent with a minimum of 17.97 percent and a maximum of 24.92. Three reported a break rate ranging from 18 to 21 percent on the balance up to the breakpoint and 12 percent on the remaining balance.

Closed-end Credit Plans from Retailers. Eight participating retailers in Illinois had closed-end credit plans and 20 retailers in Arizona had such plans (Exhibit 11). The rates charged in Illinois fell between 18 percent and 21.78 percent. The rates on these contracts fell between those charged by banks and finance companies for unsecured personal loans of similar size and maturity.

The average rates for closed-end credit plans from retailers in Arizona were lower than rates for similar loans in Illinois for two types of contracts. These differences can likely be attributed to differences

EXHIBIT 11

INDEPENDENT RETAILERS

CLOSED-END RETAIL CREDIT

	Illinois*	Arizona**
$500, 12 months		
Mean	18.17	20.12
Number	7	11
Minimum	10.00	17.97
Maximum	24.60	27.99
$1500, 24 months		
Mean	21.78	19.43
Number	2	5
Minimum	18.25	12.00
Maximum	25.30	27.99
$1500, 20 months		
Mean	21.78	18.77
Number	2	5
Minimum	18.25	12.00
Maximum	25.30	24.92
$2000, 36 months		
Mean	18.00	20.58
Number	1	4
Minimum	18.00	12.00
Maximum		28.00

*Nine respondents had nonrevolving credit plans.

**Twenty respondents had nonrevolving credit plans.

in the types of retailers in the samples of the two states. In Arizona the rates from retailers ranged from 12.00 percent to 28.00 percent for $2000, 36-month contracts.

E. Conclusions

The distributions of "most likely" rates charged for various types of consumer credit in two states with no rate ceilings show that the level of rates was not inconsistent with the prevailing level of rates in the economy although rates appear to be generally higher in Arizona than in Illinois. In both states, the ranges of rates charged by financial institutions to nondepositors for various types of loans were surprisingly broad, reflecting the different types of lenders making up the market and different strategies for competing in the market. Generally, rates charged by banks, credit unions and savings and loan associations were lower than those charged by independent and national finance companies who have historically served the high-risk segment of the market.

The level of rates (APR) charged on bank credit cards was consistent with that of rates for similar plans offered by lenders from other states and prevailing rates in the economy. There was quite a diversity in the assessment of fees, the level of fees and other pricing practices for bank credit cards. Rates for closed-end credit from retailers were generally higher than rates on similar sized cash loans from banks, but lower than rates from finance companies.

A. Concentration and Bank Loan Rates

Restrictions on branch banking in Illinois allows the perpetuation of about 1200 banks and created a very low concentration of bank assets in that state. The statewide branching law in Arizona has fostered a banking structure that is extremely concentrated.[23] Although there may be other differences in market conditions in the two states that could influence the level of interest rates for consumer credit, we concentrated on the effect of the different banking structures in the two states. The rate of growth in population was extremely different in two states but there was no indication that the flow of funds into Arizona had been impeded. Also, banks' cost of funds may be different across the two states although the savings market is a national one where interregional differences in rates paid on savings should be small.

The mean most likely rates charged by banks for each of eight types of consumer loans (three auto loans, three unsecured personal loans, two revolving credit accounts) in the two states are shown below. The means were significantly different for five of eight types of credit.

Loan Type	Illinois	Arizona	t-value
New auto	14.06	15.80	4.23*
Late model used auto	15.12	16.09	2.32*
Older model used auto	15.96	16.21	.51
$1000, 12-month unsecured	15.92	17.44	2.62*
$2000, 24-month unsecured	16.02	17.36	2.43*
$4000, 36-month unsecured	15.92	17.25	2.24*
Visa	19.98	21.00	.99
MasterCard	19.87	20.25	1.04

*Significant at the five percent level.

For every type of bank credit analyzed, with the exception of older model used cars and credit cards, average rates in Arizona were significantly higher than rates for similar loans in Illinois. The unweighted average significant difference in rates on bank loans in the two states was 138 basis points with the largest difference occurring for new auto loans. The average most likely rate for new auto loans was 174 basis points higher in Arizona than in Illinois.[24] Note that the average rate for new auto loans in Illinois was 14.06 compared to our estimated benchmark of 14.02 percent.

The relationship between loan rates and bank structure in a state is consistent with those documented in earlier studies. Generally, greater concentration of banking in a state has been associated with higher average loan rates. The explanation of this phenomenon is that in a concentrated market a few banks have a great deal of market power and can charge higher loan rates thus driving up the average rate charged. However, we have evidence that raises some questions about that explanation.

B. Rates and Size of Consumer Loan Portfolio

In this study we measured bank size by the dollar value of consumer credit outstanding as of December 1982. This measure of size is appropriate if banks generally operate each loan function as a profit center. The distribution of respondent banks by size in the two states showed that there was a larger percentage of banks with relatively small consumer credit portfolios in Illinois than in Arizona.

Dollar Value Of Consumer Loans	Arizona	Illinois
Less than $1 million	8%	14%
$1 - 9.9 million	33	66
$10 - 80 million	25	18
$80.1 - 999 million	25	2
$1 billion or more	8	--
	100%	100%

The average rates charged to nondepositors for six types of consumer loans were calculated for the banks in each state grouped into four size categories. (There was only one respondent bank in each state with more than $1 billion in consumer loans. To protect the confidentiality of data provided by these banks, the largest-size group in each state contains all banks with consumer loans totaling more than $80 million.) These data are shown below:

Average Rates Charged By Illinois Banks

	Consumer Loan Portfolio (millions)			
	≤1 million	1-10	10.1-80	>80
New car ≥ 48 months	14.6	14.00	13.7	14.6
Late model used car ≥ 42-48 months	15.0	15.2	14.7	16.7
Older model used car ≥ 36 months	15.4	16.1	15.8	16.5
Unsecured personal loans:				
$1000, 12-month	14.7	16.0	16.4	16.8
$2000, 24-month	14.6	16.1	16.4	16.8
$4000, 36-month	14.7	16.1	16.2	16.8
Average difference between rates for group relative to rates for > 80 group (basis points)	-153	-53	-83	0

Average Rates Charged By Arizona Banks

	Consumer Loan Portfolio (millions)			
	<1 million	1-10	10.1-80	>80
New car loan ≥ 48 months	15.0	15.5	15.5	16.2
Late model used car > 42-48 months	15.0	16.1	16.0	16.2
Older model used car ≥ 36 months	15.0	16.2	16.5	16.2
Unsecured personal loans:				
$1000, 12-month	17.0	17.9	18.0	16.9
$2000, 24-month	17.0	17.6	18.0	16.9
$4000, 36-month	17.0	17.5	17.5	17.0
Average difference between rates for banks in Arizona vs. Illinois (basis points)	+117	+1[illegible]2	+138	+20
Average difference between rates for group relative to rates for > 80 group (basis points)	-57	+23	+35	0

On average, rates were higher in Arizona than in Illinois for all size categories of banks. However, the difference in average rates between the two states was smallest for the banks in the largest size category. (The greatest difference in rates from the two groups of largest banks occurred for loans for new autos.) This result suggests that the differences in average rates charged by banks in the two states is not driven by differences in the behavior of the largest banks in each state. Even though the Arizona market is extremely concentrated, a high level of price competition among the major banks in that market may keep rates charged by the banks with the greatest share of the market in line with those charged by banks in less concentrated markets.

The variance in average rates across the size categories of banks in each state show interesting differences in the intrabank competition within each state. In Illinois, all the group average rates were lower than the average rate for the largest size category. The rates from the smallest sized banks showed the greatest deviation from the rates charged by the largest banks. The average rates charged by the groups of small banks and largest banks were significantly different for all the types of loans except new auto.

In Arizona, only the banks in the smallest size category charged rates lower than those charged by the banks holding the largest portfolios of consumer credit. The banks in the two middle-sized categories charged average rates that were higher than the average rates charged by the largest banks by approximately 30 basis points.

The different pricing strategies followed by the medium-sized banks in the two states may explain the differences in average rates. However, it is difficult to devise a scenario that explains the differences in behavior. Benston showed that average operating costs for both branch and unit state banks were U-shaped or upward sloping for several measures of bank output [1]. He concluded that the optimal size for a bank is from ten to 25 million in deposits. If cost of funds is constant across banks in a state, the smaller-size banks all enjoy cost advantages over the largest sized banks in the unit banking state. But only banks in the smallest size category in Arizona enjoy cost advantages over the largest-sized banks in that state. It is difficult to understand how the medium-sized banks compete for consumer loans in a statewide branching state.

An alternative explanation might be that one cannot assume that the cost of funds is constant across banks in a state. Perhaps the middle-sized banks in Arizona pay relatively high rates on savings to attract customers from the large banks in that state and consequently charge higher loan rates to nondepositors. Three out of seven banks in the size categories of one to 80 million dollars charged different rates to nondepositors versus depositors. The average difference in rates charged was 50 basis points. However, all of the banks in the largest size category offered rates that were different for depositors and nondepositors.

In summary, we found that, on average, bank rates on consumer loans were significantly lower in Illinois relative to Arizona. There was a difference of 20 basis points in average rates charged by the largest banks in the two states. However, there were larger differences between average rates charged by the medium- and small-sized banks in the two states. On average, rates from banks in Illinois that were not in the largest size category were lower than those charged by the largest banks. This was not true in Arizona where the medium-sized banks charged rates higher than those charged by the largest-sized banks. These differences in behavior patterns for medium-sized banks in the two states could be related to differences in cost of funds or operating costs. However, data are not available in this study to perform further analysis of this phenomenon.

C. Rates From Credit Unions

Many credit unions do not have the operating expenses of other lenders and all are nonprofit organizations. These factors combine to enable credit unions to offer lower rates on consumer loans than are available from other lenders. One would not expect to find that size of institution had a significant effect on rates from credit unions. However, past studies have found that credit union rates are influenced by the number of bank competitors in the credit union's market. In the following analysis, we investigate both questions.

The average rates for consumer loans offered by credit unions in Arizona were consistently higher than the rates in Illinois. Significance tests of the differences in rates showed that the average rates for credit union loans in the two states were significantly different for only two classifications of unsecured personal loans.

Loan Type	Illinois	Arizona	t-value
New auto	13.29	14.00	1.18
Late model used auto	14.28	14.67	.59
Older model used auto	14.51	15.16	.93
$1000, 12-month unsecured	14.78	16.29	2.05*
$2000, 24-month unsecured	14.81	16.00	1.43
$4000, 36-month unsecured	15.03	16.80	1.99*

*Significant at the five percent level.

In Illinois and Arizona, large credit unions charged lower rates for new auto loans than small credit unions. There was not a significant relationship between rates charged by credit unions for any of the types of credit and the number of banks in the market served by the credit union. There were no significant differences in average rates charged by credit unions operating in small towns versus large cities in Illinois. The analysis of rates from credit unions suggest that the banking structure in a state has little influence on those rates. Credit union rates were generally the lowest rates available in either state and reflect historical regulations of rates. Average rates from credit unions were not significantly different in the two states except for two types of unsecured personal loans. In those cases, rates were significantly lower in Illinois than in Arizona.

D. Rates From Savings and Loan Associations

A small number of S&Ls competed in the consumer credit market in either state. However, given that these institutions are relatively new to the area of consumer lending, these data provide some interesting insights into the market positioning strategies adopted by S&Ls.

Loan rates charged by S&Ls in Arizona were significantly higher than those charged by S&Ls for similar loans in Illinois. There was evidence that large S&Ls in Illinois charged lower rates, relative to small S&Ls, for auto loans and mobile home loans but charged higher rates for unsecured personal loans. Perhaps large S&Ls positioned themselves in the market to gain share in auto loans and mobile home loans--both loan types that are relatively less risky than other types

of consumer credit because of the marketability of collateral on the loan. There was no evidence that S&Ls in Illinois charged rates that varied according to the number of bank competitors in their local market.

E. Rates From Consumer Finance Companies

Significance tests of differences in average "most likely" rates offered by national finance companies showed that average rates for unsecured personal loans of $2000 and $4000 was 293 basis points lower in Arizona than in Illinois. For other types of loans, rates were lower in Arizona but the differences were not significant. Large independent finance companies tended to have higher rates than small companies in Illinois. Independent finance companies in markets with a large number of bank competitors charged higher rates in general than did finance companies serving markets with a small number of competitors.

F. Conclusions

The structure of the banking market in a state has been found to be significantly related to the cost of credit and other banking services in cross-state analyses. In this analysis of the level of prices for consumer loans in two states that differed in terms of bank structure, average rates for some types of credit were significantly different across the states but were not significantly different for others. And the results were not consistent across all types of lenders.

Rates of finance charge for revolving credit were not significantly different between the states. However, there was notable diversity in fees and other requirements on revolving credit accounts both within

states and across states. In contrast to the results for revolving credit, the level of rates for unsecured personal loans differed significantly between states for banks, credit unions, and finance companies and within states across local markets. The results for auto loans were mixed. Banks in Arizona, on average, charged significantly higher rates for new auto loans than did banks in Illinois. Although there are important national competitors in that market, there were still significant interstate differences in bank rates for auto loans that may be attributed to differences in competitive conditions in markets that may be traced to the structure of banking in the state. Average rates for new auto loans from credit unions were not significantly different across states.

The public policy implications of the results of this study are that even in a market with highly concentrated banking there was workable competition that kept rates for consumer credit at a level that was consistent with the general level of rates in the economy. In a market with greater competition among banks, rates for most types of consumer credit were significantly lower than those found in the concentrated market. Deregulation of rates is typically associated with an increase in variation of terms available and this study found a wide range of rates available in an unregulated market which highlights the importance of credit shopping.

FOOTNOTES

[1]New York state had a sunset provision and voted to extend the 25 percent ceiling in June 1983.

[2]Report of the National Commission on Consumer Finance, Consumer Credit in the United States, December 1972, p. 117.

[3]Legislation to remove rate ceilings in Arizona was approved on April 23, 1980. Rate ceilings for certain types of credit and for certain types of lenders still existed but these restrictions were not relevant to this study.

[4]In January 1982, banks in Illinois were granted authority for limited branching within that state.

[5]State and Metropolitan Area Data Book, U.S. Department of Commerce, Bureau of the Census, p. 449.

[6]Donald Jacobs, "The Framework of Commercial Bank Regulation: An Appraisal," Studies on Banking Competition and the Banking Structure, p. 347.

[7]State and Metropolitan Area Data Book, U.S. Department of Commerce, Bureau of the Census.

[8]The rate available to the consumer from these companies at the time the data were collected was 11.9 percent for certain models of new cars.

[9]The series of rates for new auto loans switched from 36-month loans to 48-month loans in February 1983 when the longer term loan became the more common maturity offered.

[10]A multiple regression of the commercial bank auto loan rate on the Treasury bond rate yielded the following:

$$\text{Auto loan rate} = 6.82 + .56\,(\text{3-year Treasury rate})_{-1} + 1.72\,(\text{Dummy} = 1)$$

$R^2 = .95$. With this equation, the estimate for the 36-month auto loan rate for February 1983 from commercial banks is 14.02 percent.

[11]G.19, Federal Reserve Statistical Release, Federal Reserve Board, March 10, 1983.

FOOTNOTES (continued)

[12]"Bank Cuts Consumer Loan Rates," New York Times, April 7, 1983.

[13]There is some belief that rates are lowest on the East coast and trend upward as one moves West. Consequently, these rates may represent the minimum most likely rate for new auto loans from banks during the study period.

[14]G.19, Federal Reserve Statistical Release, Federal Reserve Board, March 10, 1983.

[15]See [8] for an analysis of competition between banks and finance companies in Illinois.

[16]A similar distribution for each state including only the activity of banks is included in Appendix B.

[17]Retail Banking Report, Vol. II, Number 8, April 26, 1983, p. 8.

[18]G.19, Federal Reserve Statistical Release, Federal Reserve Board, March 10, 1983.

[19]The Consumer Rate Journal, Financial Information Center, March 1, 1983.

[20]"Finance Companies Expand," American Banker, June 8, 1983, p. 1.

[21]The Consumer Rate Journal, The Financial Information Center, March 1, 1983.

[22]"Banks to Charge You More for Credit Card Privileges," USA Today, March 2, 1983.

[23]The four-firm concentration ratios for direct consumer lending in 1972 was three percent and 67 percent in Illinois and Arizona, respectively [9].

[24]The difference in average rates on new auto loans made by banks in the two states in 1971 was 179 basis points ([10], p. 119).

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APPENDIX A:

SAMPLE QUESTIONNAIRE

Bank Questionaire - Illinois

CREDIT RESEARCH CENTER

The Credit Research Center, Purdue University is conducting a survey of RATES ON CONSUMER CREDIT CONTRACTS in states without rate ceilings. Your institution was selected at random to be included in the sample for the study, and your cooperation is most important to the success of the project. The questions pertain to terms of loans issued by your bank to consumers IN THE STATE OF ILLINOIS ONLY. The information that you provide will be handled exclusively by personnel of the Credit Research Center. The identities of the participants will not be disclosed with the results of the study. You may receive a copy of the final study at no charge by filling in the form at the end of the questionnaire.

A self-addressed, stamped envelope is enclosed for you to return the completed questionnaire. A prompt return is critic , since we wish to measure finance rates which were charged throughou. the state during the week that you receive the questionnaire (March 28 - April 2, 1983).

Please respond to the following short set of questions.

1. First, let us consider the FINANCE RATES charged on loans made to NON-DEPOSITORS. Please answer the following questions:

a. What is the ANNUAL PERCENTAGE RATE (APR) that you were MOST LIKELY to have charged for the following direct loans to consumers? The "most likely" rate is that charged on the largest dollar volume of new loans made in each category during the period March 28-April 2, 1983.

b. Over the past 30 days, what has been the HIGHEST and LOWEST rates that your bank has charged on two or more contracts to NON-DEPOSITORS?

c. Please CHECK box if majority of loans are at a VARIABLE RATE.

	Most Likely Rate	Highest Rate	Lowest Rate	Don't Provide This Type Of Credit (Check if appropriate)
☐ (1) NEW CAR, $8000, 85% loan-to-dealer-cost (wholesale) ratio, 48-months	____	____	____	____
☐ (2) LATE MODEL USED CAR, (under 2 yrs.) $5000, 90% loan-to-dealer-cost (wholesale) ratio, 42-48 months	____	____	____	____
☐ (3) OLDER MODEL USED CAR, (3-4 yrs.) $3000, 90% loan-to-dealer-cost (wholesale) ratio, 36-months	____	____	____	____
☐ (4) SECOND MORTGAGE LOAN, $10,000, 5-years, loan-to-equity value not greater than 75%:				
(a) APR	____	____	____	____
(b) POINTS	____	____	____	____
(5) UNSECURED PERSONAL LOANS:				
(1) $1000, 12-month	____	____	____	____
(2) $2000, 24-month	____	____	____	____
(3) $4000, 36-month	____	____	____	____

2. Next, let us consider the FINANCE RATES charged on loans to YOUR OWN DEPOSITORS.

a. IN COMPARISON TO RATES CHARGED TO NON-DEPOSITORS do you charge LOWER RATES to depositors as a GENERAL POLICY or charge lower rates ONLY TO DEPOSITORS WHO HAVE "PACKAGE ACCOUNTS" that provide several services for which the customer pays a monthly fee?

YES ____ NO ____

b. If you answered NO, GO TO QUESTION 3; otherwise, please continue with question 2 on the next page.

Question 2 - continued

(b-1). What is the ANNUAL PERCENTAGE RATE (APR) that you were MOST LIKELY to have charged for the following direct loans TO YOUR OWN DEPOSITORS? The "most likely" rate is that rate charged on the largest dollar volume of new loans in each category during the period March 28-April 2, 1983.

(b-2) Over the past 30 days, what has been the HIGHEST and LOWEST rates that your bank has charged on two or more contracts to YOUR OWN DEPOSITORS?

c. Please CHECK box if majority of loans are at a VARIABLE RATE.

	Most Lik / Ra	Highest Rate	Lowest Rate	Don't Provide This Type Of Credit (Check if appropriate)
☐ (1) NEW CAR, $8000, 85% loan-to dealer-cost (wholesale) ratio, 48-months	____	____	____	____
☐ (2) LATE MODEL USED CAR, (under 2 yrs.) $5000, 90% loan-to-dealer-cost (wholesale) ratio, 42-48 months.	____	____	____	____
☐ (3) OLDER MODEL USED CAR, (3-4 yrs.) $3000, 90% loan-to-dealer-cost (wholesale) ratio, 36 months	____	____	____	____
☐ (4) SECOND MORTGAGE LOAN, $10,000 5 years, loan-to-equity value not greater than 75%:				
(a) APR	____	____	____	____
(b) POINTS	____	____	____	____
(5) UNSECURED PERSONAL LOANS:				
(1) $1000, 12-month	____	____	____	____
(2) $2000, 24-month	____	____	____	____
(3) $4000, 36-month	____	____	____	____

3. Does your bank ISSUE BANK CREDIT CARDS (as direct issuer or as an agent bank)? YES ____: a. MasterCard ____ VISA ____ (Check both if applicable)

If NO, go to question 10.

4. What is the PREDOMINANT ANNUAL PERCENTAGE RATE (APR) currently charged on those credit card accounts by your bank to CARDHOLDERS IN THE STATE OF ILLINOIS?

a. MasterCard _____%

b. VISA _____%

5. Do you charge an ANNUAL FEE on any of these credit cards?

YES _____ If NO, go to Question 7.

6. What is the PREDOMINANT ANNUAL FEE currently charged by your bank ON THESE CREDIT CARD ACCOUNTS IN THE STATE OF ILLINOIS?

a. MasterCard $_____ per year

b. VISA $_____ per year

7. Do you REQUIRE a cardholder to maintain a MINIMUM DEPOSIT BALANCE in your bank?

_____ NO

_____ YES: What is the minimum? $ ____________________________

8. Do you charge a TRANSACTION FEE each time your bank credit card is used at retailers or at other points of sale? YES _____ If NO, go to question 10.

9. What is the PREDOMINANT TRANSACTION FEE ON THESE CREDIT CARD ACCOUNTS IN THE STATE OF ILLINOIS?

a. MasterCard _____ cents per transaction

b. VISA _____ cents per transaction.

10. Approximately HOW MANY other different COMMERCIAL BANKS COMPETE WITH YOU in your market area for direct consumer loans in the state of Illinois? ________

11. Finally, to help us measure the adequacy of our sample coverage, please provide the following:

a. Name of your bank ______________________________

b. City ______________________

c. Approximate DOLLAR AMOUNT OF CONSUMER CREDIT OUTSTANDING (excluding first mortgage credit, but NOT excluding second mortgage loans) at your bank on December 31, 1982 for office(s) located in Illinois?

$ ______________________

If you wish to receive a copy of the completed study without charge, please show below the name and address of the person to whom it should be sent:

____

____

____

____

____
Zip Code

Should you have questions or comments, please write or telephone.

Thank you for your help!

Robert W. Johnson, Director

A. Charlene Sullivan, Associate Director

Credit Research Center
Krannert Graduate School
of Management
Purdue University
West Lafayette, IN 47907

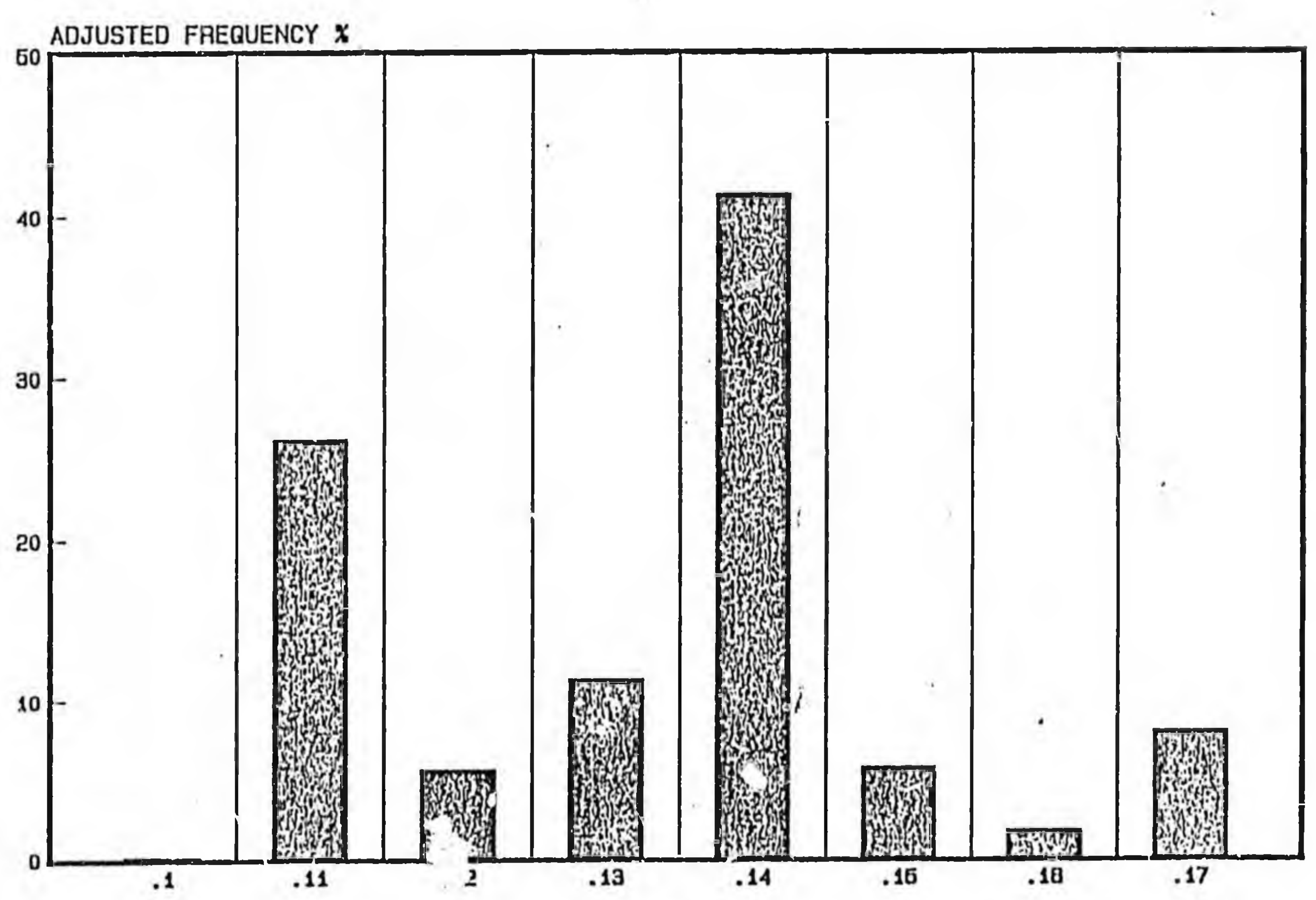
(317) 494-4380

APPENDIX B:

VOLUME-WEIGHTED FREQUENCY DISTRIBUTION OF RATES ON NEW AUTO LOANS FOR BANKS

ILLINOIS

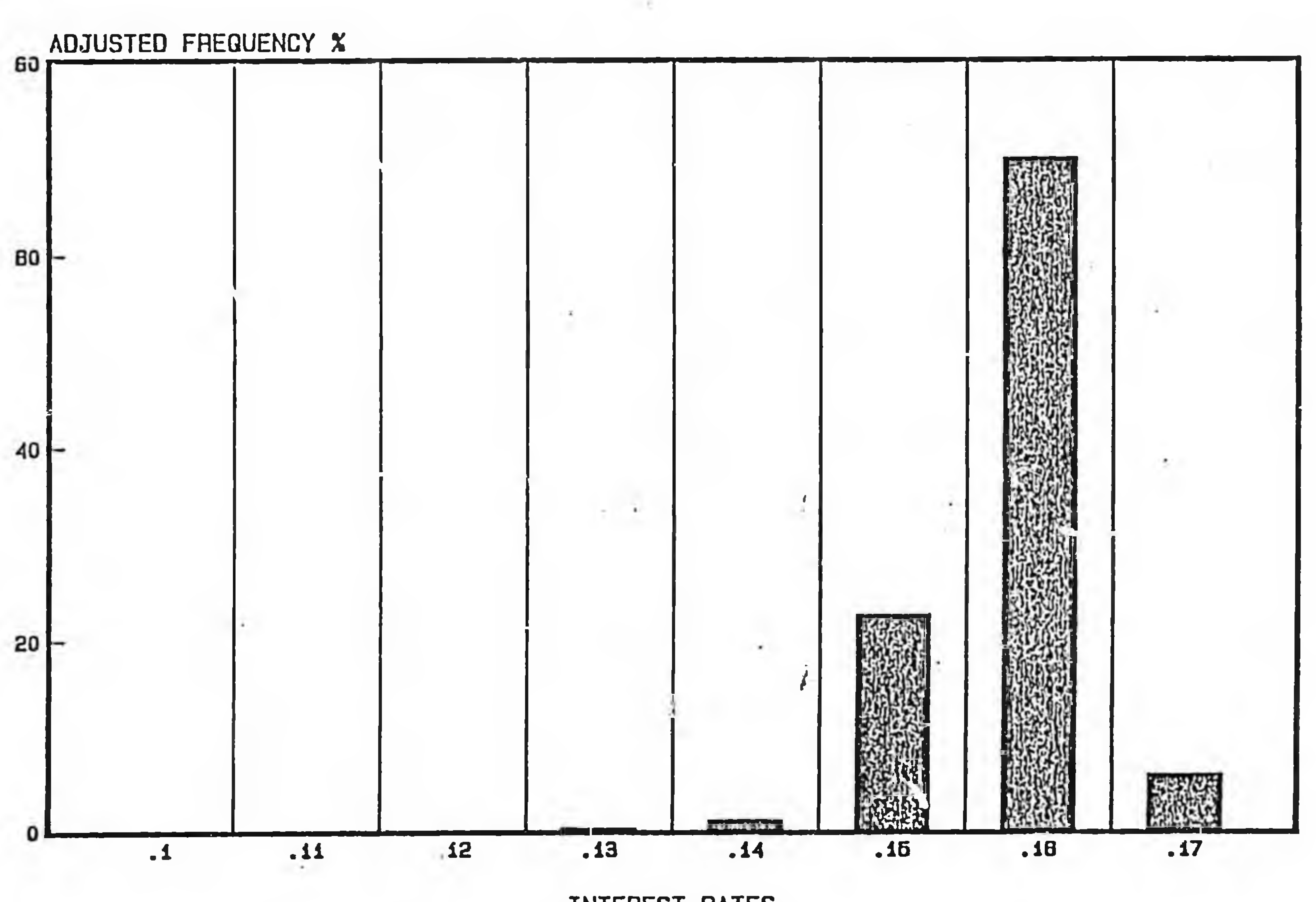
BANKS NEW CAR LOANS



INTEREST RATES %

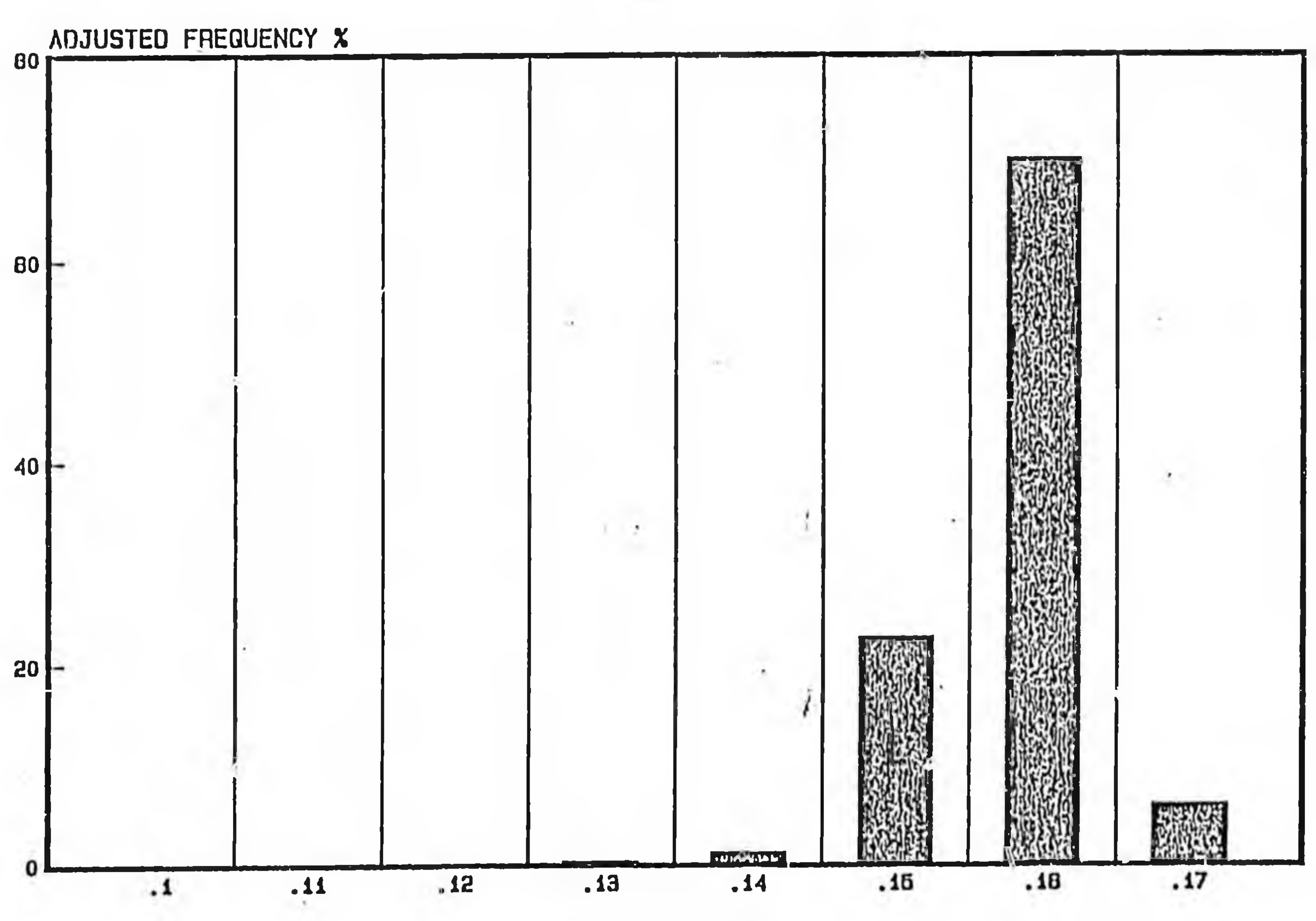
ARIZONA

BANKS NEW CAR LOANS



ARIZONA

BANKS NEW CAR LOANS



Rainier seeks higher credit card rates

by Annette Taylor
Times Business Writer

Rainier Bancorporation may move its credit card operations from Seattle to Anchorage if the legislature raises or eliminates interest rate ceilings on charge cards, a bank spokesman said Wednesday.

"If Alaska were to raise its credit card rate competitive to that in states like New York, then Alaska will be attractive to banks, especially Rainier, which have operations there," said Chuck Mullen, a Seattle attorney representing Rainier.

Despite the lure of possible new jobs here — as many as 1,400, according to Sen. Joe Josephson, D-Anchorage, who introduced a bill raising state limits from 18 to 24 percent interest on charge cards — a consumer group contends that consumers seeking credit would suffer.

Maureen Kennedy of the Alaska Public Interest Research Group said deregulating all interest rates as proposed by Rep. Bob Bettisworth, R-College, in House Bill 246, could result in "loan-sharking."

If that bill became law, interest rates and other fees would be a set by contract between the consumer and lender.

Most small businesses also oppose changing the state's interest rate laws, according to a survey of 3,700 Alaska businesses by the National Federation of Independent Business.

"In many communities, no competition exists either for banking or retail credit," said the group's Alaska spokesman, Gary Jenkins of Auke Bay. "Small business owners fear the removal of all lending limits would leave no opportunity to borrow money for expansion because of sky-high interest rates."

Rainier's credit administration vice president Terry Potter in Seattle disputed those claims.

He said lenders will tighten their eligibility requirements for consumers or withdraw from the market if they cannot make a profit on their credit card operations or enough money to cover their expenses.

"The options available to consumers will shrink and give banks like Citicorp a chance to charge to whatever they choose," Mullen said.

"And the money-grabbers back East take their profits out of the state; the funds are not reinvested in the community," Potter said.

Mullen said Washington's interest rate limitations already have restricted Rainier's profit margin and its ability to extend credit to consumers. Interest rate ceilings are set by the state in which the bank or its credit offices is based.

Potter said the current maximum rate in Washington is a floating rate of 4 percent above the discount rate set by the Federal Reserve Bank, currently about 9 percent.

As a nationally-chartered bank, Rainier can invoke the "most favored lenders doctrine," which allows a minimum access charge of 15 percent interest. The bank invokes the doctrine when the state limit falls below the going rate of the bank's cost of funds, Potter said.

Rainier once considered moving its credit card operation to Alaska because of the higher ceilings, but found the complex rate structure "more than we could handle," Potter said.

"You'd have to talking no limit on rates for a move," he said. "It's a $5 million investment to move up there."

But a cap of 24 percent would be worth seriously considering for a possible move, he added.

Josephson said he does not necessarily advocate passage of his bill, introduced at Rainier's request. But, he said, Rainier deserved a hearing.

Ralph Bennett of Bettisworth's staff said he understood Alaska Public Interest Research Group's position that rural areas, which have only one or two banks, might not benefit from deregulation and competition.

"But you have to consider that with a grain of salt," he said. "Akpirg is a consumer advocacy group and is not in tune with the business community."

On the other hand, Jenkins noted that California banks in 1983 were charging 20 to 25 percent interest on small loans while rates in Alaska were about 14 percent. California has no interest rate limitations.

Rainier bought Peoples Bank & Trust Co. in May and changed the named to Rainier Bank Alaska last December. Rainier Mortgage Co. has operated in Anchorage and Fairbanks since 1972.

Rainier's profit for 1983 was $47.2 million compared with $30.1 million in 1982. Rainier chairman G. Robert Truex Jr. attributed the record earnings to deregulation, which permited Rainier to focus on financial services.

THE PRICE AND AVAILABILITY OF CONSUMER CREDIT IN NEW YORK STATE

by

Ernest Kohn
Carmen J. Carlo
Bernard Kaye

New York State Banking Department
December 1982

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I. INTRODUCTION

In November 1980, the New York State Legislature passed, and the Governor signed into law, the Omnibus Banking Bill. One of its key provisions was the elimination of virtually all interest rate ceilings, except criminal usury, on consumer loans in New York State. However, this deregulation of consumer credit interest rates expires June 30, 1983. Unless the State Legislature acts by that date, the interest rate ceilings that had existed prior to passage of this bill will go back into effect.

In order to provide information to the Legislature on the current and past status of interest rates, charges and fees on consumer loans as well as the availability of consumer credit, the Banking Department undertook a survey of financial institutions and others who extend credit to consumers in New York State.

This is the second such survey by the Banking Department. The first survey was conducted in January-February 1981 to develop information on the initial experience with deregulation under the Omnibus Banking Bill. The major findings of that first survey were that interest rates on consumer credit had risen after passage of the bill since the previous rate ceilings had been unrealistically low; that there was an increase in the availability of consumer credit for New Yorkers; and that banks were offering a wide range of rates and fees, thereby providing consumers with alternative choices which they could take advantage of by shopping for credit.

The second survey was conducted in September 1982 when question-

naires were sent to both State and federally chartered financial institutions in New York State, including commercial banks, savings banks, savings and loan associations, credit unions and licensed lenders. In addition, questionnaires were sent to a [illegible] of retail stores and automobile dealers throughout the State. [illegible]ses were received from more than 72% of the financial institutio[illegible] from a much lower proportion of retailers and car dealers (Table 1). Among the banking institutions, a higher rate of response was received from those under State charter than those under federal charter.

The questionnaires sought information on the "most common" interest rate or finance charge to borrowers for various types of consumer loans. The "most common" rate or charge was defined as that charged on the largest dollar volume of new loans made in that particular category on the dates indicated on the questionnaire form. In the case of credit cards and other types of revolving credit, data on annual fees or other charges were also requested. In addition, the institutions and firms surveyed were asked to indicate whether the rates, charges and fees were the same at all their offices or places of business in New York State; whether they were the same for all borrowers regardless of whether the applicant had an established relationship with the institution or firm; and whether, since February 198[illegible] there had been any further liberalization of credit standards, increased participation in consumer lending or larger credit lines made available on consumer loans.

Information on rates, charges and fees was sought for three dates: January 2, 1981, which was the final date utilized in the Department's

first questionnaire survey, January 2, 1982 and September 15, 1982. The respondents were also asked to list the effective dates of any changes in these rates, charges or fees since January 2, 1981.

In order to update the findings, a telephone survey was made during November 1982 of a sample of financial institutions, retail stores and car dealers.

TABLE 1

NUMBER OF QUESTIONNAIRES SENT OUT
AND RESPONSES RECEIVED

	Number of Questionnaires Sent Out	Number of Responses Received
Commercial Banks	222	160
Savings Banks	98	92
Savings & Loan Associations	95	65
Credit Unions	105	54
Licensed Lenders	38	31
Retail Stores	80	15
Automobile Dealers	260	58
Total	898	475

II. SUMMARY OF MAJOR FINDINGS

The major findings of the Banking Department's survey are the following:

First, because the Omnibus Banking Bill granted additional consumer lending powers to savings banks and savings and loan associations, the number of banking institutions offering consumer loans has increased substantially (Chart 1). Many thrift institutions are now offering automobile loans on both new and used cars, second mortgage loans and unsecured personal instalment loans. As a result, there is a greater degree of competition in consumer lending and a wider range of choice for consumers among different types of banking institutions.

While the aggregate dollar amount of consumer loans made by thrift institutions is still small relative to the consumer lending activity of commercial banks, they are making inroads into this type of lending and can be expected to increase their market share in the future. Competition and consumer choice can therefore be expected to be further enhanced as time goes on.

Second, the survey revealed that there are wide variations in rates charged by different institutions in the same market area for the same type of loan, thereby providing consumers with alternative choices which they can take advantage of by shopping for credit. This is best illustrated by the results of the telephone survey made in early November 1982 of a sample of large commercial banks in New York City and upstate (Chart 2).

In New York City, for example, the current rate structure on consumer loans indicates that:

- On conventional home improvement loans, different banks are charging rates ranging from 16.5% to 19% for depositors, and 18% to 21% for others.

- On new car loans, the available rates range from 14.5% to 18% for depositors, and from 14.5% to 20% for non-depositors; on used car loans, from 16.5% to 19% for depositors, and 17.25% to 21% for non-depositors.

- On second mortgage loans, the rates range from 14.5% to 17.7% for depositors, and 14.5% to 19% for non-depositors.

- On overdraft checking loans, the rates range from 18% to 19.8%; on other unsecured personal loans, from 17.5% to 19% for depositors, and 19% to 21% for non-depositors.

- On credit cards, rates range from 18% to 19.8%, with annual fees ranging from zero to $20 for depositors, and $12 to $20 for non-depositors.

Substantial variation in rates is also evident in each of the major upstate metropolitan areas. Since a number of New York City banks as well as some of the large upstate banks have branches in various upstate communities, their rates and charges are available in many different parts of the State. As a result, there is a broad range of choices available to the public among banks in every major metropolitan area in upstate New York. For example, in the Albany area, the following range of rates is available from banks with offices there:

- On home improvement loans, rates range from 15% to 19% for depositors, and from 15% to 19.75% for non-depositors.

- On new car loans, rates range from 14.5% to 18% for depositors and non-depositors; on used car loans, from 15% to 19% for depositors, and from 15% to 20.5% for non-depositors.

- On second mortgage loans, the rates range from 15.5% to 17% for depositors, and from 16% to 17.5% for non-depositors.

- On overdraft checking loans, the rates range from 18% to 20%; on other unsecured personal loans, from 16% to 19% for depositors, and from 16% to 20.5% for non-depositors.

- On credit cards, rates range from 18% to 19.8% with annual fees ranging from $12 to $20.

Similar patterns of variation in rates are evident among banks in the Utica, Syracuse, Rochester and Buffalo metropolitan areas.

The figures cited actually understate the degree of variation in rates available to the public since they do not include all of the banks with offices in these areas. Moreover, since commercial banks make the bulk of the consumer loans, the telephone survey was limited to those banks and therefore does not include the rates available at thrift institutions as well as at other lenders located in those areas.

Variation in rates is also evident among other types of lenders in the consumer credit field, including thrift institutions, licensed lenders, automobile dealers and retail stores.

Third, as market interest rates have fluctuated there have been changes in rates charged on consumer loans. Rates generally increased for most types of consumer loans during 1981 reflecting the high level of market interest rates throughout most of the year. However, as market rates eased off and then fell sharply during the second half of 1982, many commercial banks, including most of the large banks in New York City and upstate, cut their consumer loan rates during 1982 by an average of up to about 1-1/2% (Charts 3, 4 and 5). This was particularly evident for automobile loans on both new and used cars, home improvement loans, second mortgage loans and unsecured personal loans, although about a dozen banks increased their rates or fees on credit cards during 1982. In addition, many thrift institutions lowered their rates during 1982 on automobile loans, home improvement

loans, second mortgage loans and unsecured personal loans. Some car dealers also cut their rates on new and used car loans during 1982.

Fourth, the more liberal credit standards for consumer lending, the larger credit lines and the greater participation in consumer loan activity by banks which occurred in early 1981, shortly after passage of the Omnibus Banking Bill, has continued since then and further liberalization of, and participation in, consumer lending later in 1981 and in 1982 was reported by a significant number of banks (Charts 6 and 7).

The detailed findings of the survey are set forth in Section III.

CHART 1

INCREASE IN NUMBER OF FINANCIAL INSTITUTIONS
OFFERING VARIOUS TYPES OF LOANS
SINCE PASSAGE OF OMNIBUS BANKING BILL

250
200
150
100
50
0

New Car Loans
Used Car Loans
Unsecured Personal Loans

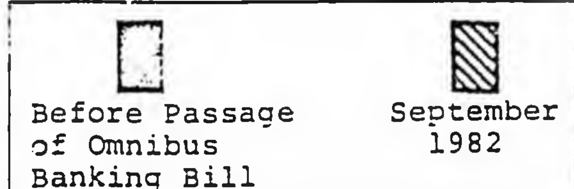


CHART 2

RANGE OF RATES ON VARIOUS TYPES OF CONSUMER LOANS

OFFERED BY COMMERCIAL BANKS IN NEW YORK CITY AND ALBANY AREAS

NOVEMBER 1982

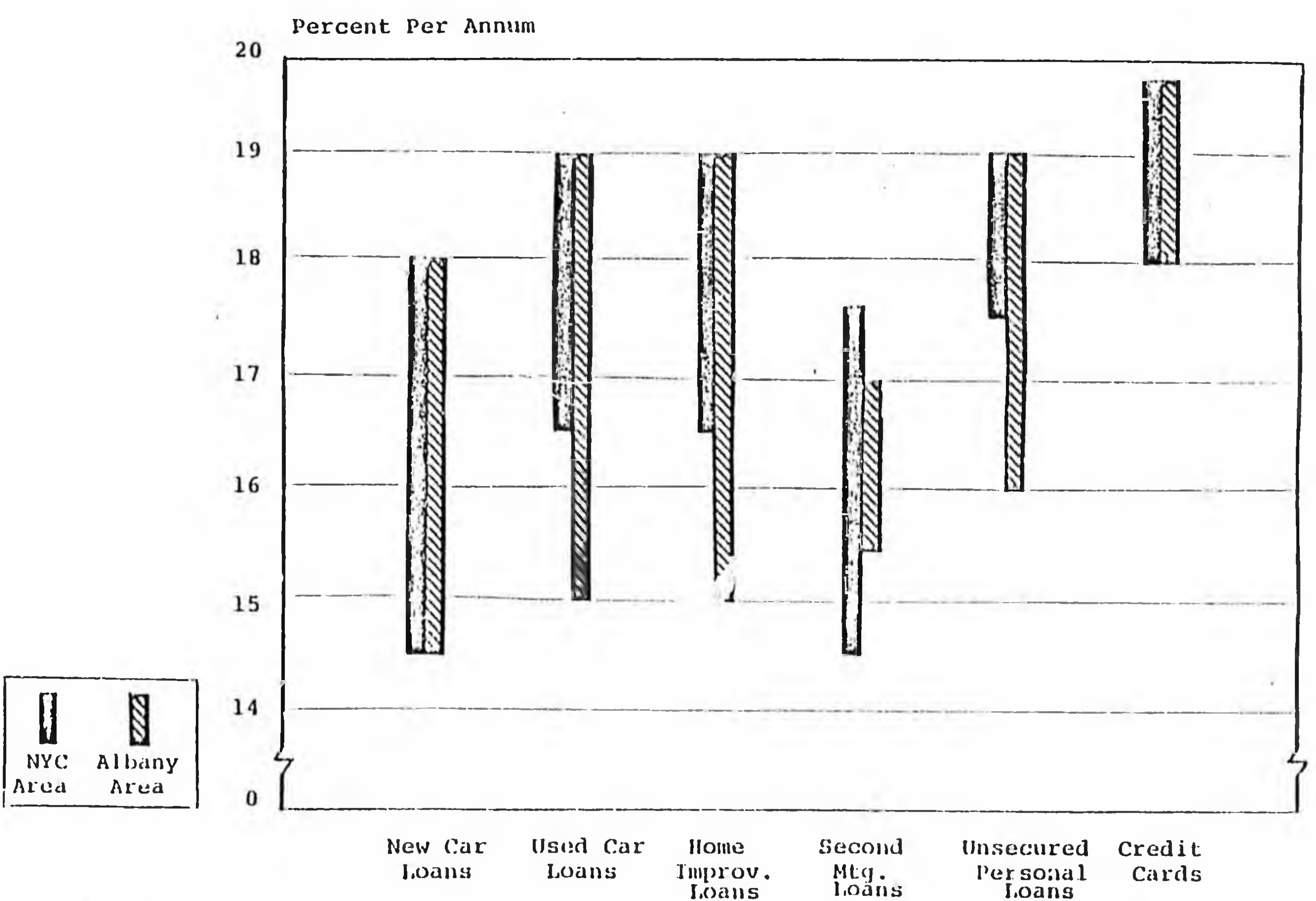


CHART 3

NUMBER OF FINANCIAL INSTITUTIONS WHICH REDUCED RATES ON VARIOUS TYPES OF CONSUMER LOANS DURING 1982

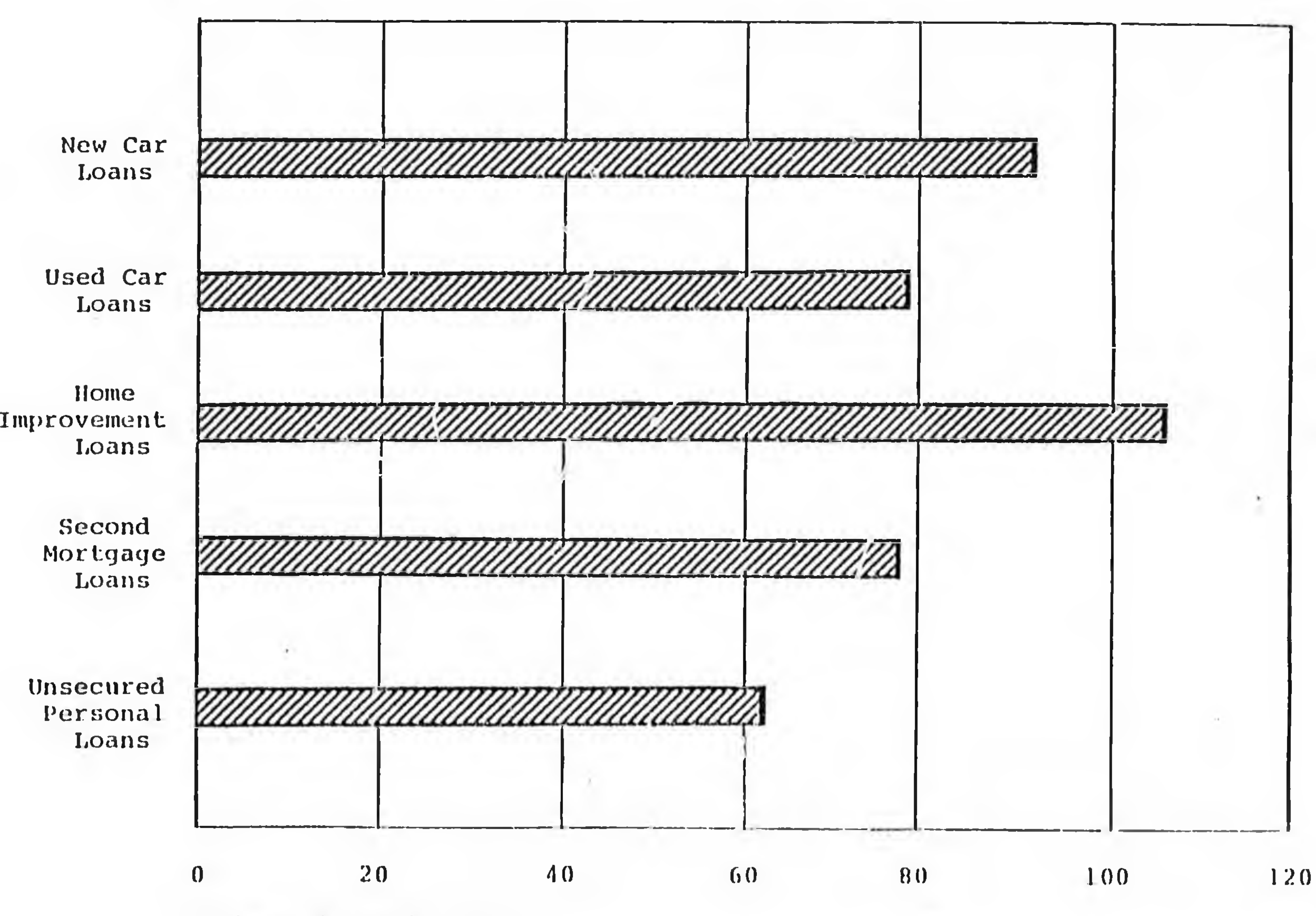


CHART 4

PERCENTAGE OF FINANCIAL INSTITUTIONS WHICH REDUCED RATES

ON VARIOUS TYPES OF CONSUMER LOANS DURING 1982

CHART 5

AVERAGE RATE REDUCTION BY FINANCIAL INSTITUTIONS

ON VARIOUS TYPES OF CONSUMER LOANS DURING 1982

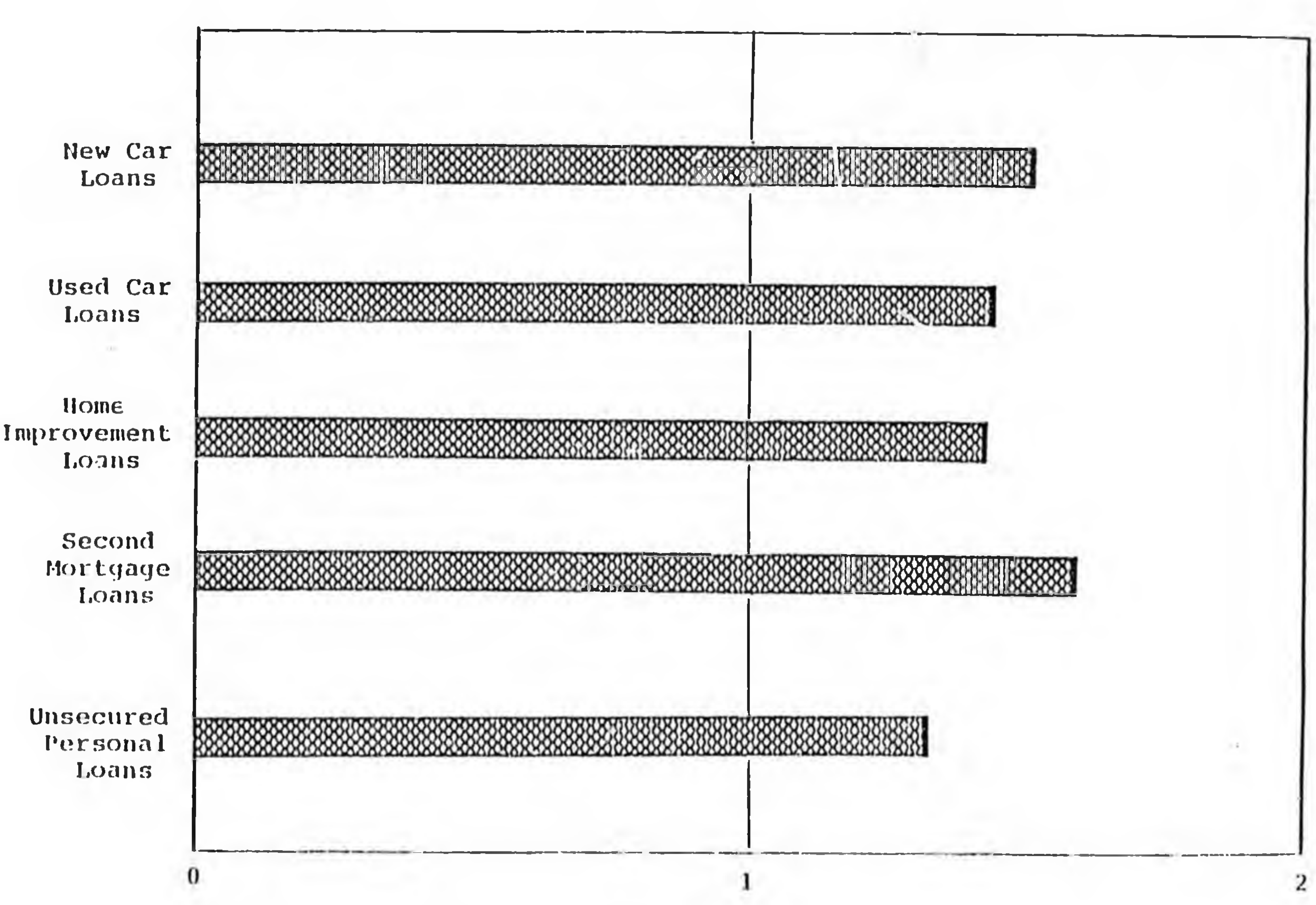


CHART 6

NUMBER OF FINANCIAL INSTITUTIONS

WHICH FURTHER LIBERALIZED CONSUMER CREDIT

SINCE FEBRUARY 1981

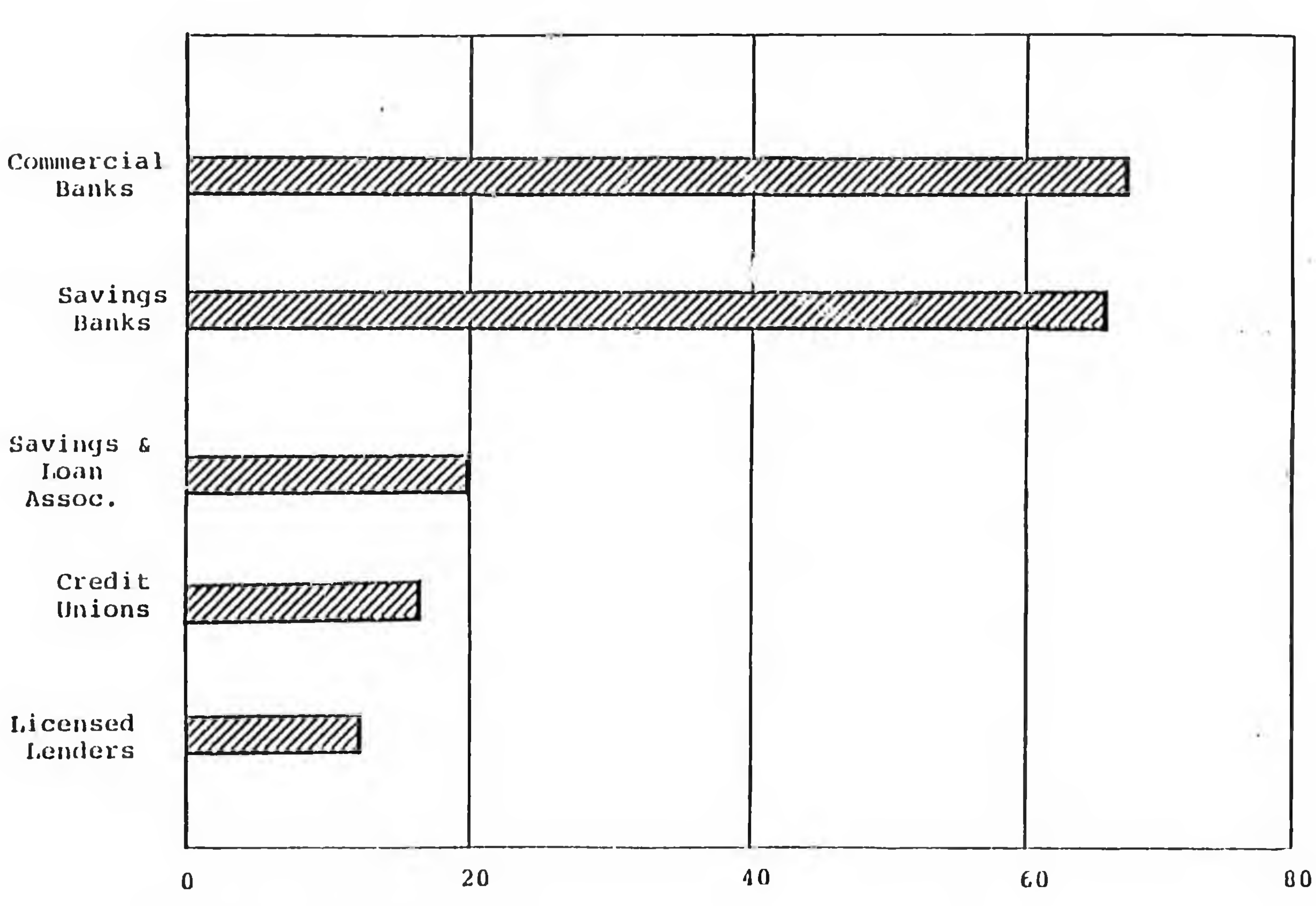
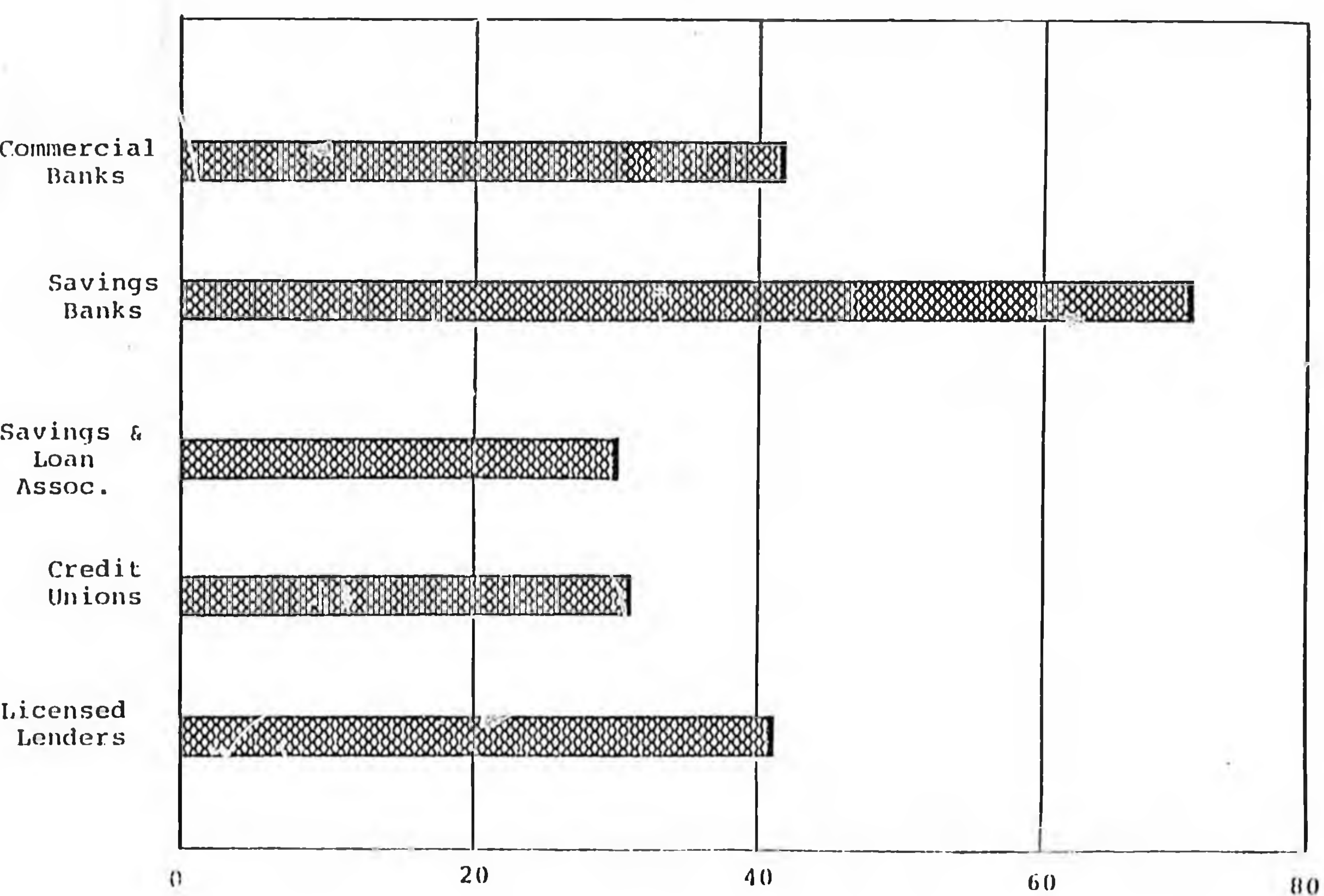


CHART 7

PERCENTAGE OF FINANCIAL INSTITUTIONS WHICH FURTHER LIBERALIZED CONSUMER CREDIT SINCE FEBRUARY 1981



Percent of Institutions

III. DETAILED RESULTS OF THE SURVEY

A. Commercial Banks

Responses were received from 160 commercial banks, of which 130 were headquartered outside New York City and 30 were headquartered in the City. Some banks did not report interest rates on all types of loans specified in the questionnaire because they did not offer such loans. This was particularly true for education loans, second mortgage loans and the issuance of credit cards.

Generally, the survey indicated that the average interest rates at New York City banks trended upward for most types of consumer loans between January 2, 1981 and September 15, 1982. Outside the City, average interest rates for some types of loans increased during 1981 and then declined somewhat during 1982 while for other types of credit (such as credit cards, overdraft checking and loans secured by savings accounts), average rates moved upward both during 1981 and 1982 (Tables 2 to 5).* Throughout the period covered by the survey, New York City bank rates usually averaged higher than those upstate.

However, the sample telephone survey in November 1982 indicated reductions in rates for many types of consumer loans since September 15, 1982 at almost all of the large New York City and upstate banks contacted. For example, eight of the nine large New York City banks

* The tabulations in this study are based on the rates charged to customers who had deposit or loan relationships with the bank, which almost invariably were the most common rates on loans made. The tabulations as of November 1982 for the sample of banks contacted by phone also include, in parentheses, the rates for those borrowers who had no other relationships with the bank. This procedure was utilized throughout this report.

surveyed by telephone reported reductions in interest rates on various types of loans since September 15, 1982 while two banks reported an increase in their annual fees on credit cards. The cuts in loan rates applied most frequently to home improvement loans, new and used car loans, second mortgage loans, loans secured by savings accounts and unsecured personal loans (Table 6).

Outside New York City, 13 out of 14 banks contacted by telephone indicated that they had cut loan rates since September 15, 1982, mainly on home improvement loans, new and used car loans, second mortgage loans, loans secured by savings accounts and unsecured personal loans (Table 7). Two banks reported an increase in loan rates since September 15, one for overdraft checking loans and the other for used car loans.

There were wide variations in rates charged by banks both in New York City and upstate. This was evident from the ranges in rates cited in Tables 2 to 5 for the various dates specified in the questionnaire. It is further highlighted by the sample telephone survey in November 1982, which is summarized in Tables 8 to 13. These tabulations indicate that there is a wide range of rates available to the public among banks in every major metropolitan area in the state, including the New York City, Albany, Utica, Syracuse, Rochester and Buffalo areas -- underscoring the importance of consumers shopping for the best credit deal available.

In terms of offering new consumer loan services, the major change was that by September 1982, 64 banks were offering loans guaranteed by the New York State Higher Education Services Corporation

to parents of students, which were first instituted in October of 1981. A total of 111 banks were making guaranteed loans to students.**

The most substantial increases in rates and fees occurred for credit cards. Statewide, on balances over $500 for purchases, the average rate increased from 12.7% in January 1981 to 18.5% in September 1982. On cash advances, the average rate rose from 12.3% to 18.4%. The number of banks statewide charging an annual fee on credit cards increased from one in January 1981 to 42 by September 1982. These increases generally presented the delayed response to the deregulation of rates by the Omnibus Banking Bill. In January 1981, most banks had not had sufficient time to change rates or institute fees on credit cards due to the 30-day advance notice requirements of that law.

Although market interest rates declined during 1982, lowering the cost of funds to banks, rates and fees on credit cards have not been reduced, and in fact have been increased at some banks during 1982. Among the factors cited by various banks as the reasons for this are the continuing increases in labor and other costs due to inflation; increased losses due to fraud; the unprofitability of credit card operations during 1981 when the cost of funds was high so that the subsequent decline in the cost of funds only reduced these losses or enabled credit card operations to become marginally profitable in 1982;

** The New York State Higher Education Services Corporation reduced the maximum rate which can be charged on guaranteed educational loans to parents of students from 14% to 12% effective November 1, 1982. All banks making these loans as well as loans to students, for which the maximum was 9%, did so at the maximum rate.

and since operating and handling costs (excluding cost of funds) are a much larger percentage of outstanding balances for credit card operations than they are for other types of consumer loans, they would tend to be less responsive to declines in cost of funds than other types of consumer loans. Sufficient data are not available to enable an independent evaluation to be made of the significance of these factors.

Almost all banks indicated that they charged the same rates at all offices and almost two-thirds of the respondents stated that their rates were the same for all customers. Among New York City banks, however, slightly over half reported that they charged different rates for different customers. Generally, persons who had no other deposit or loan accounts with the bank were charged a higher rate on their consumer loans than those who did have such accounts.

With respect to credit availability, the more liberal credit standards for consumer lending, the larger credit lines and the greater participation in consumer loan activity by banks which occurred by early 1981, shortly after passage of the Omnibus Banking Bill, have continued since then. Moreover, a substantial minority (38%) of the respondents statewide indicated that they had increased their participation in consumer lending since February 1981; 17% of the respondents (including 43% of the New York City banks) raised their maximum lines of credit since that date; and 7% of the respondents (including 24% of the New York City banks) liberalized their consumer loan standards.

TABLE 2

ANNUAL PERCENTAGE RATES
ON HOME IMPROVEMENT LOANS AND CAR LOANS
COMMERCIAL BANKS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 15 1982
Conventional Home Improvement Loans						
Average Rate	17.91 %	18.50 %	18.49 %	17.03 %	17.87 %	17.72 %
Range of Rates	12.70-21.00	17.00-20.00	14.50-21.00	9.00-20.00	15.00-20.00	15.00-20.00
New Car Loans						
Average Rate	17.59	17.80	17.94	16.57	17.18	16.90
Range of Rates	12.08-20.00	15.50-20.00	15.50-20.00	9.00-20.39	12.50-20.00	12.50-20.00
Loans On Used Cars Under 2 Years Old						
Average Rate	17.92	18.34	18.49	17.18	17.86	17.74
Range of Rates	13.38-21.00	17.00-20.00	16.75-20.00	9.00-21.08	13.50-20.00	14.54-20.00
Loans On Used Cars Over 2 Years Old						
Average Rate	18.02	18.63	18.71	17.29	18.05	17.91
Range of Rates	13.38-21.00	17.00-20.00	16.75-21.00	9.00-21.08	13.50-21.75	13.50-20.00

TABLE 3

ANNUAL PERCENTAGE RATES AND FEES
ON CREDIT CARDS
COMMERCIAL BANKS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 1[illegible] 1982
For Purchases - Balances Up to $500						
Average Rate	18.15 %	18.30 %	18.88 %	17.44 %	18.15 %	18.64 %
Range of Rates	18.00-19.80	18.00-19.80	18.00-19.80	12.00-18.00	17.50-19.92	18.00-19.92
For Purchases - Balances Over $500						
Average Rate	12.65	18.30	18.88	12.75	17.85	18.34
Range of Rates	12.00-19.80	18.00-19.80	18.00-19.80	12.00-18.00	12.00-19.92	12.00-19.92
For Cash Advances						
Average Rate	12.60	18.27	18.81	12.15	17.86	18.32
Range of Rates	12.00-19.80	18.00-19.80	18.00-19.80	12.00-15.00	12.00-19.92	12.00-19.92
Annual Fees						
Average Fee	$15.00*	$14.50	$15.20	-	$14.21	$[illegible]4.45
Range of Fees	15.00-15.00	10.00-15.00	10.00-20.00	-	10.00-15.00	10.00-15.00

* Only one respondent in New York City charged a fee on January 2, 1981, while none did outside the City.

TABLE 4

ANNUAL PERCENTAGE RATES
ON EDUCATION LOANS
COMMERCIAL BANKS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 15 1982
Loans to Students Guaranteed by NYSHESC						
Average Rate	9.00 %	9.00%	9.00 %	9.00 %	9.00 %	9.00 %
Range of Rates	9.00- 9.00	9.00- 9.00	9.00- 9.00	9.00- 9.00	9.00- 9.00	9.00- 9.00
Loans to Parents Guaranteed by NYSHESC						
Average Rate	-	14.00	14.00	-	14.00	14.00
Range of Rates	-	14.00- 14.00	14.00- 14.00	-	14.00- 14.00	14.00- 14.00

TABLE 5

ANNUAL PERCENTAGE RATES
ON OTHER TYPES OF CONSUMER LOANS
COMMERCIAL BANKS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 1 1982
Second Mortgage Loans						
Average Rate	13.63 %	18.18 %	17.78 %	14.94 %	17.34 %	17.27 %
Range of Rates	12.00-15.25	16.50-19.00	15.50-19.20	12.00-16.00	15.00-19.50	14.00-20.00
Loans Secured by Regular or DOD/DOW Accounts						
Average Rate	16.40	16.82	17.06	13.64	14.45	14.49
Range of Rates	8.25-20.00	8.25-20.00	10.27-20.00	6.25-19.60	6.25-20.00	6.25-20.00
Overdraft Checking Loans						
Average Rate	13.00	17.87	18.34	12.74	17.51	17.77
Range of Rates	12.00-18.00	12.00-21.00	12.00-21.00	12.00-20.00	12.00-20.00	12.00-20.00
Unsecured Personal Loans						
Average Rate	18.21	18.77	18.85	17.23	18.14	18.04
Range of Rates	13.38-20.00	17.00-20.00	16.75-21.00	9.00-21.08	14.54-21.00	14.54-21.00

TABLE 6

CHANGES IN RATES AND FEES CHARGED ON CONSUMER LOANS
BY COMMERCIAL BANKS IN NEW YORK CITY
SINCE SEPTEMBER 15, 1982

	Rates and Fees Charged	
	Sept. 15, 1982	November 1982
Bank of New York		
New Car Loans	17.50%(19.00%)	14.50%(14.50%)
Second Mortgage Loans	17.50 (19.00)	15.50 (17.00)
Annual Fee on Credit Cards	None*	12.00*
Chase Manhattan Bank, N.A.		
Home Improvement Loans	19.75	18.25
New Car Loans	19.25	17.75
Used (under 2 yrs.) Car Loans	18.75	17.25
Used (over 2 yrs.) Car Loans	19.75	18.25
Second Mortgage Loans	17.00	14.50
Loans Secured by Savings Accts.	19.75	19.00
Unsecured Personal Loans	19.75	19.00
Chemical Bank		
Home Improvement Loans	19.00 (20.00)	17.50 (18.50
New Car Loans	18.50 (19.50)	17.00 (18.00
Used (under 2 yrs.) Car Loans	18.50 (19.50)	17.00 (18.00
Used (over 2 yrs.) Car Loans	19.00 (20.00)	17.50 (18.50)
Second Mortgage Loans	18.50 (19.50)	16.50 (17.50)
Loans Secured by Savings Accts.	17.00	15.50
Unsecured Personal Loans	19.50 (20.50)	18.00 (19.00)
Annual Fee on Credit Cards	$15	$20**

* As of September 15, there was no fee for previous card holders but a $12 fee for new card holders. The $12 fee will apply to all card holders effective January 1, 1983.

** Effective December 1, 1982.

TABLE 6 (continued)

CHANGES IN RATES AND FEES CHARGED ON CONSUMER LOANS
BY COMMERCIAL BANKS IN NEW YORK CITY
SINCE SEPTEMBER 15, 1982

	Rates and Fees Charged	
	Sept. 15, 1982	November 1982
Citibank, N.A.		
Home Improvement Loans	21.00%(23.00%)	19.00%(21.00%)
New Car Loans	20.00 (22.00)	18.00 (20.00)
Used (under 2 yrs.) Car Loans	20.00 (22.00)	18.00 (20.00)
Used (over 2 yrs.) Car Loans	21.00 (23.00)	19.00 (21.00)
Second Mortgage Loans	18.86 (20.86)	17.05 (19.05)
Loans Secured by Savings Accts.	20.00	18.00
Unsecured Personal Loans	21.00 (23.00)	19.00 (21.00)
European American Bank*		
Home Improvement Loans	17.50 (20.00)	16.50 (19.00)
New Car Loans	17.50 (20.00)	16.50 (19.00)
Used (under 2 yrs.) Car Loans	17.50 (20.00)	16.50 (19.00)
Used (over 2 yrs.) Car Loans	17.50 (20.00)	16.50 (19.00)
Overdraft Checking Loans	16.00	18.10
Annual Fee on Credit Cards	None (None)	None ($15)
Irving Trust Company		
No changes in rates.		
Manufacturers Hanover Trust Co.		
Home Improvement Loans	18.50 (19.50)	18.00 (18.00)
New Car Loans	18.00 (19.50)	17.00 (18.00)
Used (under 2 yrs.) Car Loans	18.00 (19.50)	16.50 (18.00)
Used (over 2 yrs.) Car Loans	18.00 (19.50)	16.50 (18.00)
Second Mortgage Loans	19.20 (19.50)	17.67 (18.18)
Loans Secured by Savings Accts.	18.00	16.50
Unsecured Personal Loans	19.50 (21.00)	18.00 (19.00)

* All rate changes effective December 1, 1982. The $15 fee on credit cards, effective October 1, 1982, applies only to non-depositors.

TABLE 6 (concluded)

CHANGES IN RATES AND FEES CHARGED ON CONSUMER LOANS
BY COMMERCIAL BANKS IN NEW YORK CITY
SINCE SEPTEMBER 15, 1982

	Rates and Fees Charged	
	Sept. 15, 1982	November 1982
National Bank of North America		
Home Improvement Loans	18.00%(20.00%)	17.00%(19.00%)
New Car Loans	18.00 (20.00)	17.00 (19.00)
Used (under 2 yrs.) Car Loans	18.00 (20.00)	17.00 (19.00)
Used (over 2 yrs.) Car Loans	18.00 (20.00)	17.00 (19.00)
Loans Secured by Savings Accts.	17.00	16.00
Unsecured Personal Loans	19.00 (20.00)	18.00 (19.00)
Republic National Bank		
Home Improvement Loans	19.00 (21.00)	18.50 (20.50)
New Car Loans	18.00 (20.00)	17.50 (19.50)
Used (under 2 yrs.) Car Loans	19.00 (21.00)	18.50 (20.50)
Used (over 2 yrs.) Car Loans	19.00 (21.00)	18.50 (20.50)
Loans Secured by Savings Accts.	17.00	16.00
Unsecured Personal Loans	19.00 (21.00)	18.50 (20.50)

NOTE: Some banks charge higher rates or fees to persons who have no deposit or other relationships with that bank. In the cases where this occurs, those higher rates or fees are indicated in parentheses.

TABLE 7

CHANGES IN RATES AND FEES CHARGED ON CONSUMER LOANS
BY LARGE COMMERCIAL BANKS IN UPSTATE NEW YORK
SINCE SEPTEMBER 15, 1982

	Rates and Fees Charged	
	Sept. 15, 1982	November 1982
Bankers Trust Co. of Albany, N.A.		
Home Improvement Loans	18.00 %	17.00 %
New Car Loans	17.00	16.00
Used (under 2 yrs.) Car Loans	18.00	17.00
Used (over 2 yrs.) Car Loans	18.00	17.00
Second Mortgage Loans	18.00	17.00
Loans Secured by Savings Accts.	16.50	16.00
Unsecured Personal Loans	18.00	17.00
Key Bank, N.A. (Albany)		
Home Improvement Loans	17.00	16.00
New Car Loans	17.00	16.00
Used (under 2 yrs.) Car Loans	17.00	16.00
Used (over 2 yrs.) Car Loans	17.00	16.00
Second Mortgage Loans	18.50	16.50
Loans Secured by Savings Accts.	17.00	16.00
Unsecured Personal Loans	17.00	16.00
State Bank of Albany		
Home Improvement Loans	18.00	15.00
New Car Loans	18.00	15.00
Used (under 2 yrs.) Car Loans	18.00	15.00
Used (over 2 yrs.) Car Loans	18.00	15.00
Second Mortgage Loans	18.00	16.00
Loans Secured by Savings Accts.	18.00	16.00
Unsecured Personal Loans	18.00	16.00
Oneida National Bank (Utica)		
Home Improvement Loans	17.50	17.00
New Car Loans	16.00	15.00
Used (under 2 yrs.) Car Loans	18.00	16.50
Used (over 2 yrs.) Car Loans	18.50	16.75
Second Mortgage Loans	18.50	17.75
Unsecured Personal Loans	18.50	17.75
Overdraft Checking	18.00	19.80

TABLE 7 (continued)

CHANGES IN RATES AND FEES CHARGED ON CONSUMER LOANS
BY LARGE COMMERCIAL BANKS IN UPSTATE NEW YORK
SINCE SEPTEMBER 15, 1982

	Rates and Fees Charged			
	Sept. 15, 1982		November 1982	
Key Bank of Central New York (Syracuse)				
Home Improvement Loans	16.50 %	(17.00)	15.75 %	(16.25)
New Car Loans	15.75	(16.25)	15.50	(16.00)
Second Mortgage Loans	16.50	(17.00)	16.00	(16.50)
Loans Secured by Savings Accts.	18.50		18.00	
Unsecured Personal Loans	18.50	(19.00)	18.00	(18.50)
Lincoln First Bank, N.A.-Central Division (Syracuse)				
Home Improvement Loans	15.25	(16.25)	14.40	(15.40)
New Car Loans	14.00	(15.00)	13.40	(14.40)
Used (under 2 yrs.) Car Loans	15.00	(16.00)	14.40	(15.40)
Used (over 2 yrs.) Car Loans	15.00	(16.00)	14.40	(15.40)
Unsecured Personal Loans	15.50	(16.50)	14.90	(15.90)
Merchants National Bank (Syracuse)				
Home Improvement Loans	18.00		17.00	
New Car Loans	17.00		15.50	
Used (under 2 yrs.) Car Loans	19.00		17.00	
Used (over 2 yrs.) Car Loans	19.00		17.00	
Overdraft Checking Loans	18.00		17.50	
Loans Secured by Savings Accts.	17.00		16.00	
Unsecured Personal Loans	18.00		17.00	
Central Trust Company (Rochester)				
Home Improvement Loans	18.50	(20.50)	18.00	(20.00)
New Car Loans	17.50	(19.50)	16.00	(18.00)
Unsecured Personal Loans	18.50	(20.50)	18.00	(20.00)
Used (under 2 yrs.) Car Loans	17.50	(19.50)	18.00	(20.00)
Used (over 2 yrs.) Car Loans	17.50	(19.50)	18.00	(20.00)

TABLE 7 (continued)

CHANGES IN RATES AND FEES CHARGED ON CONSUMER LOANS
BY LARGE COMMERCIAL BANKS IN UPSTATE NEW YORK
SINCE SEPTEMBER 15, 1982

	Rates and Fees Charged			
	Sept. 15, 1982		November 1982	
Lincoln First Bank, N.A. (Rochester)				
Home Improvement Loans	19.50	%(20.50)	18.00	%(19.00)
New Car Loans	18.00	(19.00)	16.50	(17.50)
Used (under 2 yrs.) Car Loans	19.00	(20.00)	17.50	(18.50)
Used (over 2 yrs.) Car Loans	19.00	(20.00)	17.50	(18.50)
Loans Secured by Savings Accts.	18.00		16.50	
Unsecured Personal Loans	19.50	(20.50)	16.50	(17.50)
Manufacturers Hanover, N.A. (Rochester)				
Home Improvement Loans	18.00		17.50	
New Car Loans	17.00		15.50	
Used (under 2 yrs.) Car Loans	18.00		17.50	
Used (over 2 yrs.) Car Loans	18.00		17.50	
Loans Secured by Savings Accts.	18.00		17.50	
Unsecured Personal Loans	18.00		17.50	
Security Trust Company (Rochester)				
Home Improvement Loans	17.75	(18.25)	15.75	(16.25)
New Car Loans	16.75	(17.75)	14.75	(15.25)
Used (under 2 yrs.) Car Loans	18.75		16.75	(17.25)
Used (over 2 yrs.) Car Loans	19.75		17.75	(18.25)
Second Mortgage Loans	19.00		13.75	
Unsecured Personal Loans	19.75	(20.75)	18.25	
Citibank (New York State), N.A. (Buffalo)				
No changes in rates.				

TABLE 7 (concluded)

CHANGES IN RATES AND FEES CHARGED ON CONSUMER LOANS
BY LARGE COMMERCIAL BANKS IN UPSTATE NEW YORK
SINCE SEPTEMBER 15, 1982

	Rates and Fees Charged			
	Sept. 15, 1982		November 1982	
Liberty National Bank (Buffalo)				
Home Improvement Loans	18.00 %		17.00 %	
New Car Loans	18.00		16.50	
Used (under 2 yrs.) Car Loans	19.00		17.00	
Used (over 2 yrs.) Car Loans	19.00		17.00	
Second Mortgage Loans	18.00		16.50	
Loans Secured by Savings Accts.	19.00		16.00	
Unsecured Personal Loans	19.00		17.00	
Manufacturers & Traders Trust Co. (Buffalo)				
Home Improvement Loans	18.00		17.00	
New Car Loans	18.00		17.00	
Used (under 2 yrs.) Car Loans	18.00		17.00	
Used (over 2 yrs.) Car Loans	18.00		17.00	
Second Mortgage Loans	18.39		16.25	
Loans Secured by Savings Accts.	18.00		17.00	
Unsecured Personal Loans	18.00		17.00	
Marine Midland Bank, N.A. (Buffalo)				
Home Improvement Loans	18.00	(19.80)	16.00	(18.00)
New Car Loans	18.00	(19.80)	16.00	(18.00)
Second Mortgage Loans	18.00	(19.80)	16.50	(16.50)

NOTE: Some banks charge higher rates to persons who have no deposit or other relationships with that bank. In the cases where this occurs, those higher rates are indicated in parentheses.

TABLE 8

ANNUAL PERCENTAGE RATES
ON VARIOUS TYPES OF CONSUMER LOANS
LARGE COMMERCIAL BANKS
IN NEW YORK CITY
November 1982

	Conventional Home Improvement Loans	New Car Loans	Used Car Loans*
Bank of New York	18.25 % (19.75)	14.50 %	19.00 % (20.50)
Chase Manhattan Bank, N.A.	18.25	17.75	17.25-18.25
Chemical Bank	17.50 (18.50)	17.00 (18.00)	17.00-17.50 (18.00-18.50)
Citibank, N.A.	19.00 (21.00)	18.00 (20.00)	18.00-19.00 (20.00-21.00)
European American Bank	16.50 (19.00)	16.50 (19.00)	16.50 (19.00)
Irving Trust Co.	17.75 (18.00)	17.75 (18.00)	17.75 (18.00)
Manufacturers Hanover Trust Co.	18.00	17.00 (18.00)	16.50 (18.00)
National Bank of North America	17.00 (19.00)	17.00 (19.00)	17.00 (19.00)
Republic National Bank	18.50 (20.50)	17.50 (19.50)	18.50 (20.50)

* Where two used car rates are indicated for any one bank, the first is for loans on used cars less than 2 years old; the second is for loans on cars 2 years old or more.

TABLE 8 (continued)

ANNUAL PERCENTAGE RATES
ON VARIOUS TYPES OF CONSUMER LOANS
LARGE COMMERCIAL BANKS
IN NEW YORK CITY
November 1982

	Second Mortgage Loans	Loans Secured by Savings Accts.	Overdraft Checking Loans	Unsecured Personal Loans
Bank of New York	15.50 *% (17.00)*	17.50 %	19.80 %	19.00 % (20.50)
Chase Manhattan Bank, N.A.	14.50	19.00	19.50	19.00
Chemical Bank	16.50 ** (17.50)**	15.50	19.50	18.00 (19.00)
Citibank, N.A.	17.05 (19.05)	18.00	19.50	19.00 (21.00)
European American Bank	-	10.27	18.10	17.50 (20.00)
Irving Trust Co.	-	17.75	18.00	18.75 (19.00)
Manufacturers Hanover Trust Co.	17.67 (18.18)	16.50	19.80	18.00 (19.00)
National Bank of North America	-	16.00	18.00	18.00 (19.00)
Republic National Bank	-	16.00	18.00	18.50 (20.50)

* Plus 3 points.

** Plus 2 points.

TABLE 8 (concluded)

ANNUAL PERCENTAGE RATES AND FEES
ON CREDIT CARDS
LARGE COMMERCIAL BANKS
IN NEW YORK CITY
November 1982

	Credit Card			
	Purchases	Cash Advances	Annual Fees	Other Charges
Bank of New York	19.80 %	19.80 %	$12.00	-
Chase Manhattan Bank, N.A.	18.00	18.00	15.00	25 cents per cash advance
Chemical Bank	19.50	19.50	20.00	75 cents per cash advance
Citibank, N.A.	19.80	19.80	20.00	-
European American Bank	18.00	18.00	None (15.00)	-
Irving Trust Co.	19.80	19.80	20.00	-
Manufacturers Hanover Trust Co.	19.80	19.80	15.00	-
National Bank of North America	19.00	19.00	None (15.00)	25 cents per cash advance
Republic National Bank	-	-	-	-

NOTE: Some banks charge higher rates to persons who have no deposit or other relationships with that bank. In the cases where this occurs, those higher rates are indicated in parentheses. Some rates and fees indicated in this Table are effective December 1, 1982 or January 1, 1983.

TABLE 9

ANNUAL PERCENTAGE RATES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN THE ALBANY METROPOLITAN AREA
November 1982

	Conventional Home Improvement Loans	New Car Loans	Used Car Loans
Bankers Trust of Albany, N.A.	17.00 %	16.00 %	17.00 %
Key Bank N.A.	16.00	16.00	16.00
State Bank of Albany	15.00	15.00	15.00
Bank of New York	18.25 (19.75)	14.50	19.00 (20.50)
Chemical Bank	17.50 (18.50)	17.00 (18.00)	17.00-17.50 (18.00-18.50)
Citibank (New York State), N.A.	19.00	18.00	19.00
Manufacturers Hanover, N.A.	17.50	15.50	17.50
Marine Midland Bank, N.A.	16.00 (18.00)	16.00 (18.00)	18.00 (19.80)

	Second Mortgage Loans	Loans Secured by Savings Accts.	Overdraft Checking Loans	Unsecured Personal Loans
Bankers Trust of Albany, N.A.	17.00 %	16.00 %	18.00 %	17.00 %
Key Bank N.A.	16.50	16.00	18.00	16.00
State Bank of Albany	16.00	16.00	18.00	16.00
Bank of New York	15.50 * (17.00)*	17.50	19.80	19.00 (20.50)
Chemical Bank	16.50 ** (17.50)**	15.50	19.50	18.00 (19.00)
Citibank (New York State), N.A.	16.75	-	20.00	19.00
Manufacturers Hanover, N.A.	-	17.50	18.00	17.50
Marine Midland Bank, N.A.	16.50	18.00	19.80	18.00 (19.80)

* Plus 3 points.

** Plus 2 points.

TABLE 9 (concluded)

ANNUAL PERCENTAGE RATES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN THE ALBANY METROPOLITAN AREA
November 1982

	Credit Card			
	Purchases	Cash Advances	Annual Fees	Other Charges
Bankers Trust of Albany, N.A.	18.00 %	18.00 %	$15.00	-
Key Bank N.A.	18.00	18.00	15.00	-
State Bank of Albany	18.00	18.00	15.00	-
Bank of New York	19.80	19.80	12.00	-
Chemical Bank	19.50	19.50	20.00	75 cents per cash advance
Citibank (New York State), N.A.	19.80	19.80	20.00	-
Manufacturers Hanover, N.A.	-	-	-	-
Marine Midland Bank, N.A.	19.80	19.80	15.00	-

NOTE: Some banks charge higher rates to persons who have no deposit or other relationships with that bank. In the cases where this occurs, those higher rates are indicated in parentheses.

TABLE 10

ANNUAL PERCENTAGE RATES AND CHARGES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN THE UTICA METROPOLITAN AREA
November 1982

	Conventional Home Improvement Loans	New Car Loans	Used Car Loans
Oneida National Bank	17.00 %	15.00 %	16.50-16.75 %
Bankers Trust of Albany, N.A.	17.00	16.00	17.00
Chemical Bank	17.50 (18.50)	17.00 (18.00)	17.00-17.50 (18.00-18.50)
Citibank (New York State), N.A.	19.00	18.00	19.00
Key Bank of Central N.Y.	15.75 (16.25)	15.50 (16.00)	17.50 (18.00)
Lincoln First Bank, N.A. (Central)	14.40 (15.40)	13.40 (14.40)	14.40 (15.40)
Marine Midland Bank, N.A.	16.00 (18.00)	16.00 (18.00)	18.00 (19.80)

	Second Mortgage Loans	Loans Secured by Savings Accts.	Overdraft Checking Loans	Unsecured Personal Loans
Oneida National Bank	17.75 %	13.00 %	19.80 %	17.75 %
Bankers Trust of Albany, N.A.	17.00	16.00	18.00	17.00
Chemical Bank	16.50 * (17.50) *	15.50	19.50	18.00 (19.00)
Citibank (New York State), N.A.	16.75	-	20.00	19.00
Key Bank of Central N.Y.	16.00 (16.50)	18.00	18.00	18.00 (18.50)
Lincoln First Bank, N.A. (Central)	-	-	1[illegible]00	14.90 (15.90)
Marine Midland Bank, N.A.	16.50	18.00	19.80	18.00 (19.80)

* Plus 2 points.

TABLE 10 (concluded)

ANNUAL PERCENTAGE RATES AND CHARGES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN THE UTICA METROPOLITAN AREA
November 1982

	Credit Card			
	Purchases	Cash Advances	Annual Fees	Other Charges
Oneida National Bank	19.80 %	19.80 %	$15.00	-
Bankers Trust of Albany, N.A.	18.00	18.00	15.00	-
Chemical Bank	19.50	19.50	20.00	75 cents per cash advance
Citibank (New York State), N.A.	19.80	19.80	20.00	-
Key Bank of Central N.Y.	19.80	19.80	15.00	-
Lincoln First Bank, N.A. (Central)	19.50	19.50	15.00	-
Marine Midland Bank, N.A.	19.80	19.80	15.00	-

NOTE: Some banks charge higher rates to persons who have no deposit or other relationships with that bank. In the cases where this occurs, those higher rates are indicated in parentheses.

TABLE 11

ANNUAL PERCENTAGE RATES AND CHARGES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN THE SYRACUSE METROPOLITAN AREA
November 1982

	Conventional Home Improvement Loans	New Car Loans	Used Car Loans
Key Bank of Central New York	15.75 % (16.25)	15.50 % (16.00)	17.50 % (18.00)
Merchants National Bank	17.00	15.50	17.00
Bank of New York	18.25 (19.75)	14.50	19.00 (20.50)
Bankers Trust of Albany, N.A.	17.00	16.00	17.00
Chemical Bank	17.50 (18.50)	17.00 (18.00)	17.00-17.50 (18.00-18.50)
Citibank (New York State), N.A.	19.00	18.00	19.00
Lincoln First Bank, N.A. (Central)	14.40 (15.40)	13.40 (14.40)	14.40 (15.40)
Manufacturers Hanover, N.A.	17.50	15.50	17.50
Marine Midland Bank, N.A.	16.00 (18.00)	16.00 (18.00)	18.00 (19.80)
Oneida National Bank	17.00	15.00	16.50-16.75

TABLE 11 (continued)

ANNUAL PERCENTAGE RATES AND CHARGES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN THE SYRACUSE METROPOLITAN AREA
November 1982

	Second Mortgage Loans	Loans Secured by Savings Accts.	Overdraft Checking Loans	Unsecured Personal Loans
Key Bank of Central New York	16.00 % (16.50)	18.00 %	18.00 %	18.00 % (18.50)
Merchants National Bank	-	16.00	17.50	17.00
Bank of New York	15.50 * (17.00)*	17.50	19.80	19.00 (20.50)
Bankers Trust of Albany, N.A.	17.00	16.00	18.00	17.00
Chemical Bank	16.50 ** (17.50)**	15.50	19.50	18.00 (19.00)
Citibank (New York State), N.A.	16.75	-	20.00	19.00
Lincoln First Bank, N.A. (Central)	-	-	18.00	14.90 (15.90)
Manufacturers Hanover, N.A.	-	17.50	18.00	17.50
Marine Midland Bank, N.A.	16.50	18.00	19.80	18.00 (19.80)
Oneida National Bank	17.75	18.00	19.80	17.75

* Plus 3 points.

** Plus 2 points.

TABLE 11 (concluded)

ANNUAL PERCENTAGE RATES AND CHARGES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN THE SYRACUSE METROPOLITAN AREA
November 1982

	Credit Card			
	Purchases	Cash Advances	Annual Fees	Other Charges
Key Bank of Central New York	19.80 %	19.80 %	$15.00	-
Merchants National Bank	-	-	-	-
Bank of New York	19.80	19.80	12.00	-
Bankers Trust of Albany, N.A.	18.00	18.00	15.00	-
Chemical Bank	19.50	19.50	20.00	75 cents per cash advance
Citibank (New York State), N.A.	19.80	19.80	20.00	-
Lincoln First Bank, N.A. (Central)	19.50	19.50	15.00	-
Manufacturers Hanover, N.A.	-	-	-	-
Marine Midland Bank, N.A.	19.80	19.80	15.00	-
Oneida National Bank	19.80	19.80	15.00	-

NOTE: Some banks charge higher rates to persons who have no deposit or other relationships with that bank. In the cases where this occurs, those higher rates are indicated in parentheses.

TABLE 12

ANNUAL PERCENTAGE RATES AND CHARGES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN ROCHESTER METROPOLITAN AREA
November 1982

	Conventional Home Improvement Loans	New Car Loans	Used Car Loans
Central Trust Co.	18.00 %	16.00 %	18.00 %
	(20.00)	(18.00)	(20.00)
Lincoln First Bank, N.A.	18.00	16.50	17.50
	(19.00)	(17.50)	(18.50)
Manufacturers Hanover, N.A.	17.50	15.50	17.50
Security Trust Co.	15.75	14.75	16.75-17.75
	(16.25)	(15.25)	(17.25-18.25)
Chemical Bank	17.50	17.00	17.00-17.50
	(18.50)	(18.00)	(18.00-18.50)
Citibank (New York State), N.A.	19.00	18.00	19.00
Key Bank of Central N.Y.	15.75	15.50	17.50
	(16.25)	(16.00)	(18.00)
Liberty National Bank	17.00	16.50	17.00
Marine Midland Bank, N.A.	16.00	16.00	18.00
	(18.00)	(18.00)	(19.80)
Oneida National Bank	17.00	15.00	16.50-16.75

TABLE 12 (continued)

ANNUAL PERCENTAGE RATES AND CHARGES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN ROCHESTER METROPOLITAN AREA
November 1982

	Second Mortgage Loans	Loans Secured by Savings Accts.	Overdraft Checking Loans	Unsecured Personal Loans
Central Trust Co.	-	-	18.00 %	18.00 % (20.00)
Lincoln First Bank, N.A.	-	16.50 %	18.00	16.50 (17.50)
Manufacturers Hanover, N.A.	-	17.50	18.00	17.50
Security Trust Co.	13.75 %	-	18.00	18.25
Chemical Bank	16.50 * (17.50)*	15.50	19.50	18.00 (19.00)
Citibank (New York State), N.A.	16.75	-	20.00	19.00
Key Bank of Central N.Y.	16.00 (16.50)	18.00	18.00	18.00 (18.50)
Liberty National Bank	16.50	16.00	18.00	17.00
Marine Midland Bank, N.A.	16.50	18.00	19.80	18.00 (19.80)
Oneida National Bank	17.75	13.00	19.80	17.75

* Plus 2 points.

TABLE 12 (concluded)

ANNUAL PERCENTAGE RATES AND CHARGES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN ROCHESTER METROPOLITAN AREA
November 1982

	Credit Card			
	Purchases	Cash Advances	Annual Fees	Other Charges
Central Trust Co.	18.00 %	18.00 %	-	-
Lincoln First Bank, N.A.	19.50	19.50	$15.00	-
Manufacturers Hanover, N.A.	-	-	-	-
Security Trust Co.	16.00-18.00 *	16.00	15.00	-
Chemical Bank	19.50	19.50	20.00	75 cents per cash advance
Citibank (New York State), N.A.	19.80	19.80	20.00	-
Key Bank of Central N. Y.	19.80	19.80	15.00	-
Liberty National Bank	18.00	18.00	15.00	-
Marine Midland Bank, N.A.	19.80	19.80	15.00	-
Oneida National Bank	19.80	19.80	15.00	-

* 18% on first $500; 16% over $500.

NOTE: Some banks charge higher rates to persons who have no deposit or other relationships with that bank. In the cases where this occurs, those higher rates are indicated in parentheses.

TABLE 13

ANNUAL PERCENTAGE RATES AND CHARGES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN THE BUFFALO METROPOLITAN AREA
November 1982

	Conventional Home Improvement Loans	New Car Loans	Used Car Loans
Citibank (New York State), N.A.	19.00 %	18.00 %	19.00 %
Liberty National Bank	17.00	16.50	17.00
Manufacturers & Traders Trust Co.	17.00	17.00	17.00
Marine Midland Bank, N.A.	16.00 (18.00)	16.00 (18.00)	18.00 (19.80)
Bank of New York	18.25 (19.75)	14.50	19.00 (20.50)
Chemical Bank	17.50 (18.50)	17.00 (18.00)	17.00-17.50 (13.00-18.50)
Manufacturers Hanover, N.A.	17.50	15.50	17.50

	Second Mortgage Loans	Loans Secured by Savings Accts.	Overdraft Checking Loans	Unsecured Personal Loans
Citibank (New York State), N.A.	16.75 %	-	20.00 %	19.00 %
Liberty National Bank	16.50	16.00 %	18.00	17.00
Manufacturers & Traders Trust Co.	16.25	17.00	19.80	17.00
Marine Midland Bank, N.A.	16.50	18.00	19.80	18.00 (19.80)
Bank of New York	15.50 * (17.00)*	17.50	19.80	19.00 (20.50)
Chemical Bank	16.50 ** (17.50)**	15.50	19.50	18.00 (19.00)
Manufacturers Hanover, N.A.	-	17.50	18.00	17.50

* Plus 3 points.

** Plus 2 points.

TABLE 13 (concluded)

ANNUAL PERCENTAGE RATES AND CHARGES ON CONSUMER CREDIT
LARGE COMMERCIAL BANKS
WITH OFFICES IN THE BUFFALO METROPOLITAN AREA
November 1982

	Credit Card			
	Purchases	Cash Advances	Annual Fees	Other Charges
Citibank (New York State), N.A.	19.80 %	19.80 %	$20.00	-
Liberty National Bank	18.00	18.00	15.00	-
Manufacturers & Traders Trust Co.	19.80	19.80	15.00	-
Marine Midland Bank, N.A.	19.80	19.80	15.00	-
Bank of New York	19.80	19.80	12.00	-
Chemical Bank	19.50	19.50	20.00	75 cents per cash advance
Manufacturers Hanover, N.A.	-	-	-	-

* Plus 3 points.

** Plus 2 points.

NOTE: Some banks charge higher rates to persons who have no deposit or other relationships with that bank. In the cases where this occurs, those higher rates are indicated in parentheses.

B. Savings Banks

Responses were received from 92 savings banks, of which 63 were headquartered outside New York City and 29 were headquartered in the City. Some of the banks did not report interest rates on all types of loans for all the dates specified in the questionnaire either because they were not legally empowered to make such loans or did not offer certain types of loans.

The survey revealed that interest rates on home improvement, automobile, second mortgage and unsecured personal loans declined somewhat on average during 1982, while rates trended upward during the period covered by the survey in the case of loans secured by savings accounts and overdraft checking loans (Tables 14 to 16). For most types of loans, rates in New York City usually averaged higher than those upstate and there were substantial variations in rates charged by different institutions.

On conventional home improvement loans, the average interest rate statewide rose from 15.6% on January 2, 1981 to 18.6% by January 2, 1982. However, many banks reduced their rates during 1982 so that the average declined to 17.8% by September 15, 1982.

A similar pattern was evident in 1982 for rates on automobile loans, both for new and used cars, which declined on average during 1982. As a result of the Omnibus Banking Bill granting savings banks the authority to make automobile loans, 67 savings banks statewide were offering new car loans by September 1982, and 66 were making used car loans.

There was also a substantial number of institutions statewide offering second mortgage loans (61 banks) and unsecured personal instalment loans (60 banks) by September 1982. The average rate on these loans declined during 1982 as many banks reduced their rates.

In the case of instalment loans secured by regular savings or DOD/DOW accounts, as well as overdraft checking, average rates trended upward during the period covered by the survey. The number of savings banks offering overdraft checking services increased from 37 to 46 between January 1981 and September 1982. Almost none of the banks offer credit card plans.

The rates charged on educational loans to students, or to parents of students, guaranteed by the New York State Higher Education Services Corporation, were all at the legal maximum during the period covered by the survey. Educational loans to parents of students, guaranteed by the NYSHESC starting in October 1981, were being offered by 46 savings banks by September 1982. Ninety-two banks were making guaranteed loans to students.

All respondents indicated that their loan rates were uniform at all offices and most indicated that their rates on any given type of loan were the same for all customers. Those that reported differences indicated that non-depositors paid a higher rate than depositors.

Most savings banks reported that they had not altered their credit standards or increased their maximum credit lines since February 1981. However, three-quarters of the banks indicated that they had increased their participation in consumer lending. This largely reflected the fact that, as indicated previously, the number

of savings banks making car loans, second mortgage loans, overdraft loans, unsecured personal loans and educational loans to parents of students increased during the period covered by the survey.

The telephone survey made in November 1982 of a sample of New York City and upstate savings banks indicated that five of the six banks contacted had cut certain of their consumer loan rates since September 15, 1982. These rate cuts were mainly on home improvement loans, automobile loans, second mortgage loans and unsecured personal loans (Table 17). A wide range of rates was also evident (Table 18).

TABLE 14

ANNUAL PERCENTAGE RATES
ON HOME IMPROVEMENT LOANS AND CAR LOANS
SAVINGS BANKS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 1982
Conventional Home Improvement Loans						
Average Rate	15.22 %	19.33 %	18.41 %	15.68 %	18.35 %	17.60 %
Range of Rates	12.00-19.00	17.00-21.00	17.50-20.00	11.90-19.00	16.00-22.00	14.00-20.00
New Car Loans						
Average Rate	-	18.25	17.90	-	17.63	17.00
Range of Rates	-	17.00-19.50	16.75-19.00	-	16.00-20.00	14.00-19.00
Loans on Cars Less Than 2 Years Old						
Average Rate	-	18.95	18.41	-	18.27	17.67
Range of Rates	-	17.50-20.00	17.00-20.00	-	17.00-20.00	14.00-19.50
Loans on Cars 2 Years Old or More						
Average Rate	-	19.00	18.50	-	18.44	17.38
Range of Rates	-	17.50-20.00	17.50-20.00	-	17.00-22.00	14.00-21.00

TABLE 15

ANNUAL PERCENTAGE RATES
ON EDUCATION LOANS
SAVINGS BANKS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 1982
Loans to Students Guaranteed by NYSHESC						
Average Rate	9.00 %	9.00 %	9.00 %	9.00 %	9.00 %	9.00
Range of Rates	9.00- 9.00	9.00- 9.00	9.00- 9.00	9.00- 9.00	9.00- 9.00	9.00- 9.00
Loans to Parents Guaranteed by NYSHESC						
Average Rate	-	14.00	14.00	-	14.00	14.0
Range of Rates	-	14.00- 14.00	14.00- 14.00	-	14.00- 14.00	14.0 14.

TABLE 16

ANNUAL PERCENTAGE RATES ON OTHER TYPES OF CONSUMER LOANS SAVINGS BANKS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982
Second Mortgage Loans						
Average Rate	-	18.69 %	17.98 %	-	18.20 %	17.54 %
Range of Rates	-	17.00-20.25	15.75-20.25	-	16.00-19.50	15.00-20.67
Loans Secured by Regular or DOD/DOW Accounts						
Average Rate	9.27 %	11.27	11.45	10.46 %	12.38	12.40
Range of Rates	7.50-16.00	7.50-19.00	7.50-19.00	6.50-16.00	6.50-19.00	6.50-19.00
Overdraft Checking Loans						
Average Rate	12.50	16.13	17.67	12.41	16.50	17.[illegible]
Range of Rates	12.00-18.00	12.00-18.00	12.00-19.00	12.00-18.00	12.00-20.00	12.00-20.00
Unsecured Personal Loans						
Average Rate	-	19.45	19.21	-	18.70	18.13
Range of Rates	-	18.50-20.50	18.00-20.50	-	17.00-22.00	14.00-21.00

TABLE 17

CHANGES IN RATES CHARGED BY SAVINGS BANKS ON CONSUMER LOANS SINCE SEPTEMBER 15, 1982

	Rates Charged	
	Sept. 15, 1982	November 1982
Dime Savings Bank of N. Y.		
Home Improvement Loans	17.5 %	17.0 %
New Car Loans	19.0	17.0
Unsecured Personal Loans	19.5	18.0
Dry Dock Savings Bank		
Home Improvement Loans	18.5(20.5)	17.0(19.0)
New Car Loans	18.0(20.0)	15.5(17.5)
Used (under 2 yrs.) Car Loans	18.5(20.5)	16.5(18.5)
Used (over 2 yrs.) Car Loans	18.5(20.5)	17.0(19.0)
Loans Secured by Savings Accounts	16.0	14.5
Unsecured Personal Loans	18.5(20.5)	17.0(19[illegible]
Seamen's Bank for Savings		
No changes in rates.		
Empire of America, F.S.A.		
Home Improvement Loans	18.5	16.5
New Car Loans	17.0	15.5
Used Car Loans	18.5	17.5
Second Mortgage Loans	15.4	13.5
Rochester Savings Bank		
Home Improvement Loans	17.5	15.5
New Car Loans	18.0	16.5
Used Car Loans	18.0	16.5
Second Mortgage Loans	16.0	14.0
Syracuse Savings Bank		
New Car Loans	18.0	16.0
Used Car Loans	18.0	16.0
Second Mortgage Loans	18.0	16.0
Unsecured Personal Loans	18.0	16.0

NOTE: Dry Dock Savings Bank charges higher rates on certain loans to persons who have no deposit relationship with the bank. In the cases where this occurs, those higher rates are indicated in parentheses.

TABLE 18

ANNUAL PERCENTAGE RATES
ON CONSUMER LOANS
SELECTED SAVINGS BANKS
IN NEW YORK STATE
November 1982

	Conventional Home Improvement Loans	New Car Loans	Used Car Loans
New York City Banks			
Dime Savings Bank of N.Y.	17.00 %	17.00 %	-
Dry Dock Savings Bank	17.00 (19.00)	15.50 (17.50)	16.50-17.00 % (18.50-19.00)
Seamen's Bank for Savings	-	18.00	18.00
Upstate Banks			
Rochester Savings Bank	15.50	16.50	16.50
Syracuse Savings Bank	-	16.00	16.00
Empire Savings, F.S.A. (Buffalo)	16.50	15.50	17.50

	Second Mortgage Loans	Overdraft Checking Loans	Loans Secured by Savings Accts.	Unsecured Personal Loans
New York City Banks				
Dime Savings Bank of N.Y.	-	18.00 %	10.75 %	18.00 %
Dry Dock Savings Bank	15.75 %	-	14.50	17.00 (19.00)
Seamen's Bank for Savings	18.00	18.00	9.00	19.00
Upstate Banks				
Rochester Savings Bank	14.00	18.00	13.00	18.00
Syracuse Savings Bank	16.00	18.00	12.00	16.00
Empire Savings, F.S.A. (Buffalo)	13.50	-	12.00	19.50

TABLE 18 (concluded)

ANNUAL PERCENTAGE RATES
ON CONSUMER LOANS
SELECTED SAVINGS BANKS
IN NEW YORK STATE
November 1982

Guaranteed Education Loans

New York City Banks	To Students	To Parents of Students
Dime Savings Bank of N.Y.	9.00 %	12.00 %
Dry Dock Savings Bank	9.00	-
Seamen's Bank for Savings	9.00	-
Upstate Banks		
Rochester Savings Bank	9.00	12.00
Syracuse Savings Bank	9.00	-
Empire Savings, F.S.A. (Buffalo)	9.00	12.00

NOTES: Only one of these banks (Empire Savings) offered a credit card plan. One bank (Dry Dock Savings Bank) charges higher rates on certain loans to persons who have no deposit relationship. In the cases where this occurs, those higher rates are indicated in parentheses.

C. Savings and Loan Associations

Responses were received from 65 savings and loan associations, of which 45 were headquartered outside New York City and 20 were in the City. Virtually none of the respondents offered credit cards and some associations did not offer other types of loans specified on the questionnaire form.

Generally, average interest rates on home improvement loans increased during 1981 but declined somewhat during 1982; rates on new car loans fell during 1982; and there were steady upward movements in average rates throughout the period covered by the survey for loans secured by savings accounts and overdraft checking loans (Tables 19 to 21). For most types of loans, rates in New York City usually averaged higher than those upstate and there were substantial variations in rates charged by different institutions.

On conventional home improvement loans, the average interest rate statewide rose from 15.6% on January 2, 1981 to 18.1% by January 2, 1982. However, many associations reduced their rates during 1982 so that the average declined to 17.6% by September 15, 1982.

A similar pattern was evident in 1982 for new car loans, which declined on average during 1982. By September 1982, 15 associations statewide were offering new car loans and 13 were making used car loans.

There was an even more substantial involvement in second mortgage loans, with 36 institutions offering them by September 1982. The average rate declined during 1982 as many associations cut their rates.

In the case of instalment loans secured by regular savings or DOD/DOW accounts, as well as overdraft checking, average rates trended upward during the period covered by the survey. Nine associations were offering overdraft checking services by September 1982 and 16 institutions were making unsecured personal instalment loans. Almost none of the associations offered credit card plans.

The rate charged on educational loans to students, or to parents of students, guaranteed by the New York State Higher Education Services Corporation were all at the legal maximum throughout the period covered by the survey. Guaranteed educational loans to students were being offered by 43 associations in September 1982 and 21 associations were making guaranteed loans to parents of students.

All respondents indicated that their loan rates were uniform at all offices and almost all indicated that their rates for any specific type of loan were the same for all customers.

Only a few institutions indicated they had liberalized their credit standards or increased their maximum credit lines since February 1981 although 29% reported they had increased their participation in consumer lending. As noted above, a number of associations were making car loans, second mortgage loans, unsecured personal loans and guaranteed educational loans by September 1982.

The telephone survey made in November 1982 of a sample of New York City and upstate savings and loan associations indicated that five of the six associations reduced certain of their rates. These included rates on home improvement loans, automobile loans, second mortgage loans and unsecured personal loans (Table 22). Some rate variations were also evident (Table 23).

TABLE 19

ANNUAL PERCENTAGE RATES
ON HOME IMPROVEMENT LOANS AND CAR LOANS
SAVINGS AND LOAN ASSOCIATIONS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 1982
Conventional Home Improvement Loans						
Average Rate	16.00 %	18.75 %	18.29 %	15.54 %	17.96 %	17.51 %
Range of Rates	15.00-17.00	18.00-20.00	17.50-20.00	12.00-19.00	15.00-20.00	15.50-20.00
New Car Loans						
Average Rate	17.00*	18.67	18.50	-	17.79	17.23
Range of Rates	17.00-17.00	18.00-20.00	16.50-20.00	-	16.50-19.50	15.00-19.50
Loans on Cars Less Than 2 Years Old						
Average Rate	17.00*	18.67	18.88	-	18.10	17.94
Range of Rates	17.00-17.00	18.00-20.00	18.00-20.00	-	17.00-19.00	16.50-20.00
Loans on Cars 2 Years Old or More						
Average Rate	17.00*	18.00	18.67	-	18.42	18.15
Range of Rates	17.00-17.00	18.00-18.00	18.00-20.00	-	17.00-20.00	16.50-20.00

* Only one respondent offered car loans on January 2, 1981.

TABLE 20

ANNUAL PERCENTAGE RATES
ON EDUCATION LOANS
SAVINGS AND LOAN ASSOCIATIONS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. [illegible] 1982
Loans to Students Guaranteed by NYSHESC						
Average Rate	9.00 %	9.00 %	9.00 %	9.00 %	9.00 %	9.00 %
Range of Rates	9.00-9.00	9.00-9.00	9.00-9.00	9.00-9.00	9.00-9.00	9.00-9.00
Loans to Parents Guaranteed by NYSHESC						
Average Rate	-	14.00	14.00	-	14.00	14.0[illegible]
Range of Rates	-	14.00-14.00	14.00-14.00	-	14.00-14.00	14.00-14.[illegible]

TABLE 21

ANNUAL PERCENTAGE RATES
ON OTHER TYPES OF CONSUMER LOANS
SAVINGS AND LOAN ASSOCIATIONS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 1[illegible] 1982
Second Mortgage Loans						
Average Rate	-	18.19 %	17.58 %	15.68 %	18.31 %	17.48 %
Range of Rates	-	17.50- 18.95	15.00- 18.95	15.00- 16.00	16.00- 20.03	15.50- 20.00
Loans Secured by Regular or DOD/DOW Accounts						
Average Rate	8.91 %	9.38	9.79	8.95	9.24	9.29
Range of Rates	7.50- 12.00	7.50- 12.00	7.50- 15.00	6.50- 16.00	6.50- 19.00	6.50- 18.50
Overdraft Checking Loans						
Average Rate	-	19.50*	19.50*	15.72	17.80	18.25
Range of Rates	-	19.50- 19.50	19.50- 19.50	12.16- 18.00	17.00- 18.00	18.00- 20.00
Unsecured Personal Loans						
Average Rate	18.00	19.38	19.14	-	19.08	18.33
Range of Rates	17.00- 19.00	18.00- 21.00	17.50- 21.00	-	18.00- 20.50	17.00- 20.50

* Only one respondent offered overdraft checking loans.

TABLE 22

CHANGES IN RATES CHARGED
BY SAVINGS AND LOAN ASSOCIATIONS
ON CONSUMER LOANS
SINCE SEPTEMBER 15, 1982

	Rates Charged	
	Sept. 15, 1982	November 1982
Edison Federal SLA		
New Car Loans	20.0 %	19.0 %
Used Car Loans	20.0	19.0
Second Mortgage Loans	18.0	17.0
Unsecured Personal Loans	21.0	20.0
Financial Federal SLA		
Second Mortgage Loans	15.0	14.0
Washington Federal SLA		
Unsecured Personal Loans	17.5	16.0
Eastman SLA		
Home Improvement Loans	17.0	16.0
Second Mortgage Loans	16.25	15.75
Homestead SLA		
No changes in rates.		
Schenectady Federal SLA		
Home Improvement Loans	17.5	16.0

TABLE 23

ANNUAL PERCENTAGE RATES
ON CONSUMER LOANS
SELECTED SAVINGS AND LOAN ASSOCIATIONS
IN NEW YORK STATE
November 1982

	Conventional Home Improvement Loans	New Car Loans	Used Car Loans
New York City Associations			
Edison Federal SLA	-	19.00 %	19.00 %
Financial Federal SLA	-	-	-
Washington Federal SLA	-	-	-
Upstate Associations			
Eastman SLA (Rochester)	16.00 %	-	-
Homestead SLA (Utica)	18.00	-	-
Schenectady Federal SLA	16.00	-	-

	Second Mortgage Loans	Overdraft Checking Loans	Loans Secured by Savings Accts.	Unsecured Personal Loans
New York City Associations				
Edison Federal SLA	17.00 %	-	11.00 %	20.00 %
Financial Federal SLA	14.00	-	12.00	-
Washington Federal SLA	-	-	10.00	16.00
Upstate Associations				
Eastman SLA (Rochester)	15.75	18.00 %	-	-
Homestead SLA (Utica)	18.00	-	8.50	-
Schenectady Federal SLA	-	-	8.50	-

TABLE 23 (concluded)

ANNUAL PERCENTAGE RATES
ON CONSUMER LOANS
SELECTED SAVINGS AND LOAN ASSOCIATIONS
IN NEW YORK STATE
November 1982

Guaranteed Education Loans

New York City Associations	To Students	To Parents of Students
Edison Federal SLA	-	-
Financial Federal SLA	-	-
Washington Federal SLA	9.00 %	-
Upstate Associations		
Eastman SLA (Rochester)	9.00	12.00 %
Homestead SLA (Utica)	9.00	12.00
Schenectady Federal SLA	9.00	12.00

NOTE: Only one of these associations offered credit card plans.

D. Credit Unions

Responses were received from 54 credit unions, of which 36 were headquartered outside New York City and 18 were in the City. Some of the institutions did not report interest rates on all types of loans for all the dates specified in the questionnaire.

Generally, interest rates on the various types of consumer loans offered by the reporting credit unions trended upward during the period covered by the survey (Tables 24 to 26). Rates in New York City usually averaged higher than those upstate and there were substantial variations in rates charged by different institutions.

On conventional home improvement loans, the average interest rate statewide rose from 14.0% on January 2, 1981 to 15.3% by January 2, 1982 to 15.4% by September 15, 1982.

Similar patterns were evident for automobile loans, second mortgage loans, loans secured by savings accounts and unsecured personal instalment loans. Almost none of the credit unions offered credit card plans.

In the case of overdraft checking, the average rate statewide rose from 16.0% to 17.6% by January 2, 1982 but declined to 17.3% by September 15, 1982.

The rates charged on educational loans to students or to parents of students, guaranteed by the New York State Higher Education Services Corporation, were at the maximum permitted.

All respondents indicated that their loan rates were uniform at all offices and almost all indicated that their rates were the same for all customers.

Most credit unions reported that they had not altered their credit standards or increased their maximum credit lines since February 1981. However, 30% of the respondents indicated that they had increased their participation in consumer lending.

On most types of loans, credit unions charged lower interest rates, on average, than did commercial banks, savings banks, savings and loan associations, licensed lenders, retailers or car dealers.

The telephone survey made in November 1982 of a sample of credit unions indicated that four of the six credit unions contacted had reduced certain of their loan rates since September 15, 1982 (Table 27). Substantial rate variations were also indicated (Table 28).

TABLE 24

ANNUAL PERCENTAGE RATES
ON HOME IMPROVEMENT LOANS AND CAR LOANS
CREDIT UNIONS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 1[illegible] 1982
Conventional Home Improvement Loans						
Average Rate	15.39 %	16.89 %	16.89 %	12.92 %	14.44 %	14.66 %
Range of Rates	12.00-24.00	12.00-24.00	12.00-24.00	10.08-16.00	10.52-19.00	11.00-18.00
New Car Loans						
Average Rate	15.65	16.94	16.94	12.89	14.00	14.18
Range of Rates	12.00-18.00	13.00-20.37	13.00-20.37	9.96-21.00	9.96-19.00	11.00-19.00
Loans on Cars Less than 2 Years Old						
Average Rate	16.01	17.08	17.08	12.99	14.15	14.45
Range of Rates	12.00-20.00	14.00-20.00	14.00-20.00	9.72-21.00	9.72-19.00	11.00-19.00
Loans on Cars 2 Years Old or More						
Average Rate	16.01	17.08	17.08	13.07	14.16	14.48
Range of Rates	12.00-20.00	14.00-20.00	14.00-20.00	9.72-21.00	9.72-19.00	11.00-19.00

TABLE 25

ANNUAL PERCENTAGE RATES
ON EDUCATION LOANS
CREDIT UNIONS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 15 1982
Loans to Students Guaranteed by NYSHESC						
Average Rate	9.00 %*	9.00 %*	9.00 %*	9.00 %	9.00 %	9.00 %
Range of Rates	9.00-9.00	9.00-9.00	9.00-9.00	9.00-9.00	9.00-9.00	9.00-9.00
Loans to Parents Guaranteed by NYSHESC						
Average Rate	-	-	-	-	14.00	14.00
Range of Rates	-	-	-	-	14.00-14.00	14.00-14.00

* Only one respondent offered student loans.

TABLE 26

ANNUAL PERCENTAGE RATES
ON OTHER TYPES OF CONSUMER LOANS
CREDIT UNIONS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 15 1982
Second Mortgage Loans						
Average Rate	16.69 %	17.44 %	17.44 %	14.25 %	15.00 %	15.80 %
Range of Rates	16.00-18.00	16.00-20.00	16.00-20.00	12.00-17.00	12.00-17.00	15.00-18.00
Loans Secured by Regular or DOD/DOW Accounts						
Average Rate	13.44	13.99	13.99	11.50	11.87	12.07
Range of Rates	9.60-24.00	10.80-24.00	10.80-24.00	6.00-21.00	6.00-18.00	6.00-18.00
Overdraft Checking Loans						
Average Rate	-	-	-	16.00	17.63	17.30
Range of Rates	-	-	-	12.00-21.00	16.00-19.75	16.00-19.00
Unsecured Personal Loans						
Average Rate	14.12	15.50	15.57	12.78	14.11	14.73
Range of Rates	7.00-18.00	9.00-20.00	11.50-18.00	9.00-18.00	9.00-19.00	9.00-19.00

TABLE 27

CHANGES IN RATES CHARGED BY CREDIT UNIONS
ON CONSUMER LOANS
SINCE SEPTEMBER 15, 1982

	Rates Charged	
	Sept. 15, 1982	November 1982
American Airlines Credit Union		
New Car Loans	14.0 %	12.0 %
Used Car Loans	14.0	12.0
Hyfin Credit Union		
No changes in rates.		
Self Reliance Federal Credit Union		
Home Improvement Loans	15.0	14.4
New Car Loans	16.2	15.0
Used Car Loans	16.8	16.2
Second Mortgage Loans	16.8	16.2
Unsecured Personal Loans	16.8	16.2
IBM Kingston Federal Credit Union		
Home Improvement Loans	14.0	12.0
New Car Loans	14.0	11.75
Used (under 2 yrs.) Car Loans	15.0	12.75
Used (over 2 yrs.) Car Loans	16.0	13.75
Overdraft Checking Loans	16.0	14.0
Unsecured Personal Loans	17.0	16.0
IBM Poughkeepsie Federal Credit Union		
Home Improvement Loans	17.0	13.5 (variabl
Second Mortgage Loans	18.0	13.5 (variabl
State Employees Federal Credit Union		
No changes in rates.		

TABLE 28

ANNUAL PERCENTAGE RATES
ON CONSUMER LOANS
SELECTED CREDIT UNIONS
IN NEW YORK STATE
November 1982

	Conventional Home Improvement Loans	New Car Loans	Used Car Loans
In New York City			
American Airlines C.U.	14.00 %	12.00 %	12.00 %
Hyfin C.U.	17.00	17.00	18.00
Municipal C.U.	17.00	15.00	15.00
Self Reliance Fed. C.U.	14.40	15.00	16.20
Outside New York City			
IBM Kingston Employees Fed. C.U.	12.00	11.75	12.75-13.75
IBM Poughkeepsie Employees Fed. C.U.	13.50*	14.00	18.00
State Employees Fed. C.U.	17.50	16.50	17.50

	Second Mortgage Loans	Overdraft Checking Loans	Loans Secured by Savings Accts.	Unsecured Personal Loans
In New York City				
American Airlines C.U.	-	-	12.00 %	14.00 %
Hyfin C.U.	18.00 %	-	14.00	18.00
Municipal C.U.	-	-	11.00	17.00
Self Reliance Fed. C.U.	16.20	-	10.80	16.20
Outside New York City				
IBM Kingston Employees Fed. C.U.	13.00	14.00 %	9.25	16.00
IBM Poughkeepsie Employees Fed. C.U.	13.50*	18.00	10.00	18.00
State Employees Fed. C.U.	-	17.50	10.00	17.50

* Variable rate loans.

NOTE: Three of these credit unions (Self Reliance and the two IBM credit unions) make guaranteed education loans, all at the maximum rates permitted.

E. Licensed Lenders

A total of 31 licensed lenders responded to the questionnaire survey, most of which had offices only outside New York City. Not all lenders made all the types of loans indicated on the questionnaire forms.

In general, the survey indicated that most of the respondents were at the 25% legal maximum by January 1981 for car loans and for personal loans, both secured and unsecured, and have remained at that level up to September 15, 1982. There were wide variations, however, in interest rates charged on second mortgage loans (Table 29).

During 1982, the average interest rates on second mortgage loans declined statewide from 21.3% to 20.5%. By September 1982, 16 lenders were making these loans.

All but one of the respondents indicated that their rates on all types of loans were uniform at all offices for all customers.

Most lenders reported that, since February 1981, they have not liberalized credit standards or raised credit lines although 40% stated they had increased their participation in consumer lending.

The telephone survey made in November 1982 of a sample of licensed lenders indicated that three of the four lenders had reduced certain of their rates since September 15 (Table 30). Some rate variations were evident, particularly for second mortgage loans (Table 31).

TABLE 29

ANNUAL PERCENTAGE RATES ON LOANS
LICENSED LENDERS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982
Car Loans						
Average Rate	23.00 %	25.00 %	25.00 %	24.33 %	24.67 %	24.17 %
Range of Rates*	-	-	-	18.00-25.00	24.00-25.00	18.00-25.00
Other Secured Loans						
Average Rate	24.33	25.00	25.00	24.11	24.63	24.74
Range of Rates	23.00-25.00	25.00-25.00	25.00-25.00	18.00-25.00	24.00-25.00	24.00-25.00
Unsecured Personal Loans						
Average Rate	24.50	25.00	25.00	23.62	24.40	24.34
Range of Rates	23.00-25.00	25.00-25.00	25.00-25.00	18.00-25.00	19.80-25.00	19.80-25.00
Second Mortgage Loans						
Average Rate	-	22.22	20.54	-	21.03	20.47
Range of Rates	-	21.00-23.43	18.50-22.00	-	17.54-23.00	17.54-23.00

* Only one respondent in New York City made car loans.

NOTE: Four of the five respondents with offices in New York City also have offices outside New York City. Those lenders tabulated as being outside New York City have no offices in the City.

TABLE 30

CHANGES IN RATES CHARGED
BY LICENSED LENDERS
ON CONSUMER LOANS
SINCE SEPTEMBER 15, 1982

	Rates Charged	
	Sept. 15, 1982	November 1982
AVCO Financial Services		
No changes in rates.		
Barclays American Financial Inc.		
Second Mortgage Loans	19.5 %	18.0 %
Beneficial Finance Co.		
Unsecured Personal Loans	25.0	23.0
Household Finance Corp.		
Second Mortgage Loans	21.2	20.2

TABLE 31

ANNUAL PERCENTAGE RATES ON CONSUMER LOANS
SELECTED MAJOR LICENSED LENDERS
IN NEW YORK STATE
November 1982

	Car Loans	Other Secured Loans	Unsecured Personal Loans	Second Mortgage Loans
Avco Financial Services	-	25.00 %	25.00 %	22.00 %
Barclays American Financial Inc.	18.00 %	25.00	25.00	18.00
Beneficial Finance Co.	25.00	25.00	23.00	20.45
Household Finance Corp.	-	-	25.00	20.22

F. Retailers

Responses were received from 15 retailers who had their own credit or charge plans. Of these, 12 were located outside New York City.

The rates charged by these retailers on their revolving credit accounts generally trended upward during the period covered by the survey (Table 32). On indebtedness of $500 or less, the average rate statewide was almost 18% in January 1981, rose to 20.1% in January 1982 and to 20.6% in September 1982. On balances over $500, the average rates were 12.9%, 17.9% and 19.1% on the three dates covered in the survey.

The respondents reported that their rates were uniform at all their places of business in New York State.

Most of the respondent retailers did not offer close-end credit. Of the few that did, all indicated their rates were the same as for their revolving credit accounts.

In addition, all but one respondent said either that there were no monthly charges levied on 30-day accounts (where the total outstanding balance is due and payable by the next payment date) or that they did not offer such accounts.

Virtually all the retailers indicated that they did not change their credit standards or credit lines since February 1981 nor did they increase their participation in consumer lending.

None of the six retailers contacted by phone in November 1982 reported any changes in their rates since September 15, 1982. The November 1982 rates for these retailers are listed in Table 33.

TABLE 32

ANNUAL PERCENTAGE RATES
ON CONSUMER CREDIT
AT RETAILERS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 15 1982
Indebtedness of $500 or Less						
Average Rate	18.00 %	19.60 %	19.60 %	18.00 %	20.28 %	20.32 %
Range of Rates	18.00-18.00	18.00-21.00	18.00-21.00	17.96-18.00	17.96-24.00	17.96-24.00
Indebtedness of Over $500						
Average Rate	12.00	19.60	19.60	13.09	17.39	19.02
Range of Rates	12.00-12.00	18.00-21.00	18.00-21.00	12.00-18.00	12.00-24.00	12.00-24.00

TABLE 33

ANNUAL PERCENTAGE RATES
ON CONSUMER CREDIT
SELECTED RETAILERS
IN NEW YORK STATE
November 1982

	Instalment Credit or Store Charge Cards		Annual Fees Or Other Charges
	Credit of $500 or Less	Credit over $500	
New York City Retailers			
B. Altman & Co.	18.00 %	18.00 %	-
Ohrbach's, Inc.	19.80	19.80	-
J. C. Penney Co., Inc.	21.00	21.00	-
Upstate Retailers			
Bruce Hall Corp. (Cooperstown)	24.00	24.00	-
Harry T. Mangurian, Inc. (Rochester)	21.50	21.50	-
Carl Co. (Schenectady)	19.80	19.80	-

NOTE: All of these retailers either did not offer 30-day accounts or levied no charges for such accounts.

G. Automobile Dealers

Responses were obtained from 58 automobile dealers, almost all of whom were outside New York City. Not all the dealers reported information on all the types of automobile financing covered in the questionnaire.

Overall, the survey revealed that average rates on automobile loans, both for new and used cars, increased during 1981 but declined during 1982. There were also substantial variations in rates among dealers (Table 34).

On new car loans, the average interest rate statewide was slightly over 17% in January 1981. A majority of the respondents increased their rates during 1981 so that the average in Ja[illegible]ry 1982 stood at 17.9%. During 1982, however, a number of dealers cut their rates so that the average declined to 17.5% by September 1982. Similar patterns were evident for used car loans.

Virtually all the respondents indicated that their rates were uniform at all their places of business for all their customers.

The preponderance of the dealers reported no liberalization of credit standards since February 1981 although 26% of them reported increased participation in consumer lending activities since that date.

During the course of 1982, the financing arms of the major automobile manufacturers cut their rates for various periods of time for certain of their cars. For example, at the end of March, General Motors announced a 12.8% rate to buyers of its new cars for the next two months. In early November, it cut its rate to

10.9%, from 18%, on 1982 models in order to help reduce dealers' inventories. Ford Motor Credit Company announced a rate cut to 10.75% early in November to finance purchases of its 1982 Ford, Lincoln and Mercury models which will continue through December 31. Earlier in the year, Ford had offered an 11.9% rate for specific models for a period of time. Chrysler cut its rates to 10.9% on certain 1982 and 1983 models in November and this rate will apply until the end of 1982.

Six of the seven car dealers included in the sample telephone survey in November 1982 reported that they had reduced their rates on automobile loans since September 15, 1982. For five of the six dealers, the rate reductions applied to both new cars and some older cars (Table 35). Some rate variations was also indicated (Table 36).

TABLE 34

ANNUAL PERCENTAGE RATES
AUTOMOBILE DEALERS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 1 1982
New Car Loans						
Average Rate	16.50 %	18.63 %	18.25 %	17.22 %	17.81 %	17.43 %
Range of Rates	12.68-18.48	18.00-19.00	17.50-19.00	12.90-19.34	15.00-19.25	13.00-19.00
Loans on Cars Less Than 2 Years Old						
Average Rate	19.38	20.67	20.17	19.93	20.31	19.91
Range of Rates	17.68-21.00	20.50-21.00	19.00-21.00	16.00-23.44	15.00-24.50	13.00-22.65
Loans on Cars 2 Years Old or More						
Average Rate	20.91	22.67	22.17	21.65	21.93	21.73
Range of Rates	17.68-24.00	21.50-24.00	20.00-24.00	17.00-24.50	18.00-25.00	13.00-25.00

TABLE 35

CHANGES IN RATES CHARGED BY CAR DEALERS
SINCE SEPTEMBER 15, 1982

	Rates Charged	
	Sept. 15, 1982	November 1982
Avcxe Corporation		
No changes in rates.		
Crystal Oldsmobile, Inc.		
New Car Loans	18.0 %	16.5 %
Universal Ford, Inc.		
New Car Loans	18.5	17.75
Used (over 2 yrs.) Car Loans	24.0	23.0
Miller Motor Car Corporation		
New Car Loans	19.0	17.0
Used (under 2 yrs.) Car Loans	21.0	19.0
Used (over 2 yrs.) Car Loans	21.0	19.0
George Smith Motors, Inc.		
New Car Loans	18.0	16.0
Used (under 2 yrs.) Car Loans	21.0	20.0
Used (over 2 yrs.) Car Loans	23.0	22.0
Sherwood Smith Motors, Inc.		
New Car Loans	17.6	15.5
Used (under 2 yrs.) Car Loans	22.0	19.0
Used (over 2 yrs) Car Loans	25.0	21.0
Joseph Spector Cadillac		
New Car Loans	16.75	15.75
Used (over 2 yrs.) Car Loans	21.0	20.0

TABLE 36

ANNUAL PERCENTAGE RATES
ON CAR LOANS
SELECTED AUTOMOBILE DEALERS
IN NEW YORK STATE
November 1982

	New Car Loans	Used Car Loans	
		Cars Under 2 yrs. old	Cars 2 yrs. old or more
New York City Dealers			
Avoxe Corporation	19.00 %	20.50 %	22.50 %
Crystal Oldsmobile, Inc.	16.50	-	-
Universal Ford, Inc.	17.75	21.00	23.00
Upstate Dealers			
Miller Motor Car Corp. (Binghamton)	17.00	19.00	19.00
George E. Smith Motors, Inc. (Batavia)	16.00	20.00	22.00
Sherwood Smith Motors, Inc. (Johnstown)	15.50	19.00	21.00
Joseph Spector Cadillac (Syracuse)	15.75	17.50	20.00

IV. BANKING DEPARTMENT'S CONSUMER EDUCATION PROGRAM

In light of the findings of this survey indicating that banks are continuing to offer a wide range of rates and fees, thereby providing consumers with alternative choices, it is particularly significant that the Banking Department embarked on a broad campaign immediately after passage of the Omnibus Banking Bill in November 1980 to educate the public about the new law and urge that consumers shop for credit.

As part of this campaign, the Department developed a brochure entitled "Shopping for Credit - A Consumer Guide for Credit in New York State" and distributed almost 5 million copies. The brochure, structured in question and answer form, addressed many of the questions consumers have had about the law and urged them to shop for the best credit deal available. The New York Telephone Company notified all of their New York State customers of the availability of this "Shopping for Credit" brochure and all TV, radio and news publications located in New York State were sent a copy of the brochure with a personal request from the Superintendent that they inform their audiences of the brochure's availability.

In conjunction with the distribution of the brochure, the Department received generous assistance from the Outdoor Advertising Association of New York State which arranged for free billboard space throughout the State urging the public to shop for credit and indicating the availability of the Department's brochure.

The Department also received from the New York City Transit Authority a public service donation of advertising space on subway cars for 6,000 advertising posters whose content was the same as the billboard posters.

In addition, as part of our ongoing program of educating the consumer to the rapidly changing world of banking, the Department instituted an "outreach" program which included a free seminar designed to help the public better understand banking. Five such seminars have been held around the State during 1982. The seminars were designed to explain some of the new types of deposit accounts and loans, including second mortgage loans, that are being offered by banking institutions and to attempt to resolve any personal problems that any member of the public may have had with financial institutions in New York State.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT

JCPenney

October 11, 1983

Senator Joe P. Josephson
921 West 6th Avenue, Suite 230
Anchorage, Alaska 99501

Re: Senate Bil No. 276

Dear Senator Josephson:

Thank you for the courtesy of your recent meeting with Larry Snider, president of the Alaska Retail Association, and me.

Thank you also for lending me your copy of the Senate Advisory Council's report on S.B. 276. I have copied it and am returning the original copy with this letter.

As I mentioned, I have accumulated quite a bit of material on credit deregulation and I am enclosing copies a number of items for your use. For your convenience, and to compensate for the bulk, I have marked pertinent passages in some of this material. The enclosures include:

- Lists of states which do not regulate retail revolving credit service charge rates or permit rates higher than Alaska's current 18% ceiling, a related map, and a USA Today article on legislative trends.

- A statement of the Federal Reserve Board's position on state usury ceilings.

- A December 1981 report of a task force convened at the request of Governor Harry Hughes of Maryland to study financial deregulation. Maryland subsequently raised its rate ceiling for retail revolving credit to 24% - in essence removing it since competitive forces have kept rates well below that ceiling. (JCPenney, for instances, charges 1.75% per month, or 21% APR, in deregulated states).

- 1981 and 1982 reports of the New Jersey Commissioner of Banking to that state's Legislature on the effects of deregulation.

- An excellent February 1982 study by the Federal Reserve Bank of Chicago on "The Effects of Usury Ceilings: The Economic Evidence."

- The Final Report to the California Legislature of the Retail Credit Advisory Committee appointed by Governor Brown.

- A statement submitted to that committee by F.W. Rhodes concerning the current state (or more correctly, lack)of usury laws in other countries, including Canada.

- A study on the effects of rate deregulation in South Carolina.

- A research report by Dr. Ray McAlister and Dr. William C. Dunkelberg on the effects of deregulation in New York. Both authors are nationally recognized experts on the economics of consumer credit. (Dr. Dunkelberg testified before an Alaska legislative committee several years ago).

- A summary of a similar study by the New York State Banking Department.

- A recent study by the Credit Research Center at Purdue University on the costs of consumer credit in Illinois and Arizona since the removal of rate ceilings in those states.

I am sure that both Larry Snider and Doug Heiken, the manager of our Anchorage store, would be happy to provide you with any information concerning local retail credit practices which might be of use to you.

Please let me know if I can be of further assistance.

Sincerely yours,

John H. Andrew
Western Regional Counsel

JHA/mmj

cc: Douglass G. Heiken (w/o encl.)
Larry Snider (w/encl.)
Connie J. Sipe "
Donald R. Magnusson (w/o encl.)
Richard T. Hall "

RETAIL REVOLVING CREDIT

FINANCE CHARGE RATES

1983 LEGISLATIVE ACTIVITY

DEREGULATION ADOPTED:

Idaho

DEREGULATED STATES - SUNSET REMOVED:

Montana

New Mexico

24% CEILING STATE -SUNSET REMOVED:

Maryland

21% CEILING STATE - SUNSET REMOVED:

Tennessee

DEREGULATED STATE - SUNSET EXTENDED:

New York (Four Years)

21% CEILING STATE - SUNSET EXTENDED:

Kansas (Two Years)

19.2% CEILING STATE - SUNSET EXTENDED:

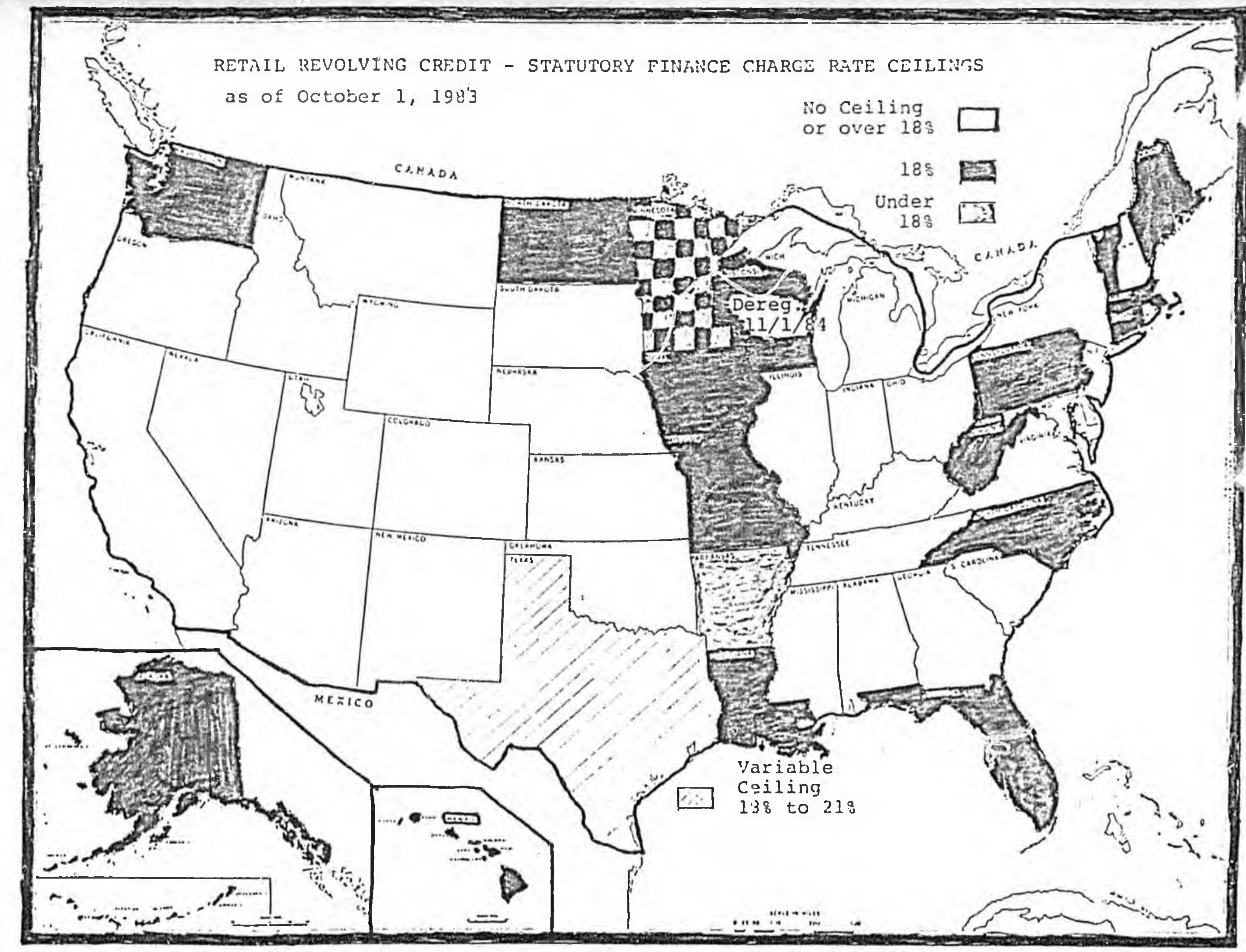
California (Two Years)

18% CEILING STATE - SUNSET EXTENDED:

Connecticut

MAXIMUM FLOATING CEILING LOWERED FROM 24% to 21%:

Texas



RETAIL REVOLVING CREDIT - STATUTORY FINANCE CHARGE RATE CEILINGS
as of October 1, 1983
No Ceiling
or over 18%
18%
Under
18%
Variable
Ceiling
18% to 21%
Dereg.
11/1/84
CANADA
MEXICO

RETAIL REVOLVING CREDIT

States which do not regulate finance charge rates or which have ceilings higher than Alaska's.

1. Alabama
2. Arizona
3. California
4. Colorado
5. Delaware
6. Georgia
7. Idaho
8. Illinois
9. Indiana
10. Kansas
11. Kentucky
12. Maryland
13. Michigan
14. Mississippi
15. Montana
16. Nebraska
17. Nevada
18. New Hampshire
19. New Jersey
20. New Mexico
21. New York
22. Ohio
23. Oklahoma
24. Oregon
25. Rhode Island
26. South Carolina
27. South Dakota
28. Tennessee
29. Texas
30. Utah
31. Wisconsin (effective 11/1/83)
32. Wyoming
33. Virginia

October 1, 1983

SB 276

DEREGULATION OF INTEREST RATES

SENATE ADVISORY COUNCIL
ALASKA STATE LEGISLATURE
POUCH V
JUNEAU, ALASKA 99811

Alaska State Legislature

ivisory Council Members
nator Kerttula, Chairman
nator Bennett
nator Vic Fischer
nator Fahrenkamp

Pouch V
State Capital
Juneau, Alaska 99811
Phone: (907)465-3114

SENATE ADVISORY COUNCIL

MEMORANDUM

TO: Senator Josephson

FROM: Pete Jeans

DATE: June 8, 1983

RE: SB276, Deregulation of Interest Rates

SB276 deregulates interest rates on various types of consumer loans that are now regulated by statutes.

Sect. 1. Deregulates the interest rate charged by a licensed "Lender of money" for any sum of money not exceeding $25,000. Any person engaged in the business of making loans of money, credit, etc., must be licensed under the Alaska Small Loans Act. The interest rate must be agreed on by contract.

Sect. 2. Deregulates the interest rate charged by a licensed premium finance company. Any person engaged in this business must be licensed under the Premium Financing Act. The interest rate must be agreed on by contract.

Sect. 3. Deregulates the interest rate charged on funds exceeding

those deposited with the court in a civil procedures at the time of the judgment. The judgment shall include lawful interest?

Sect. 4. Deregulates the interest rate charged on retail installment contracts to a rate agreed on by contract.

Sect. 5. Deregulates the interest rate charged on a retail charge agreement, revolving charge agreement or other retail charge agreement to a rate agreed on by contract.

Sect. 6. For interest rates in the state to exceed 10.5 percent a year it must be by express agreement of the parties in a contract or loan commitment.

Sect. 7. Repeals specific interest rates an open-end loans and rates charged by credit unions. Repeals specific interest rates on a contract or loan commitment on which the principal amount is less than $25,000.

Under existing statutes, interest rates on all of the above are regulated.

Usury is lending money at excessively high interest rates. Usury laws place a maximum limit, or ceiling, on interest charges. Proponents argue that these laws are necessary to protect borrowers from paying excessive interest rates since borrowers are often inexperienced with the credit

market, unaware of alternatives, or not in a bargaining position because borrowing is unavoidable. They also contend that usury laws are necessary to provide balance, since lenders have relatively more market power than individual borrowers and may even control certain markets because of a lack of competition.

Opponents contend that usury laws do not protect borrowers as intended and make credit allocation less efficient. When average mortgage interest rates rise above state usury ceilings, mortgage funds disappear as lenders invest in more profitable government securities or finance mortgages in other states with less restrictive usury ceilings. And lenders take measures to lower their costs, reduce risks, and otherwise increase profitability on loans that they do make by eliminating smaller-sized loans, shortening loan maturities, requiring higher downpayments, charging higher loan fees, and denying credit to potential borrowers considered relatively high-risk. Rather than protect borrowers from excessively high interest charges, opponents contend that usury laws often prevent persons who need credit from borrowing at all.

State usury laws establish limits, or ceilings, on interest rates lenders may charge borrowers on various types of loans.

States can be divided into three general categories regarding usury ceilings on interest rates on mortgage loans. These are: (1) states with no ceilings, (2) states with statutory fixed-rate ceilings, and (3) states with floating-rate ceilings. Some state usury ceilings are temporary, and recently enacted Federal legislation preempts all state-imposed mortgage

interest rate ceilings.[1] Table I shows what type of usury ceiling was in effect as of prior to Federal legislation for each of the 50 states. There are floating usury ceilings in 18 states, fixed ceilings in 20 states,[2] and no ceilings on mortgage interest rates in 12 states.

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[1] HR 4998 - PL 96-161.

[2] Fixed-rate ceilings range from 10 percent (Arkansas, Mississippi, and New Mexico) to 21 percent (Rhode Island). Oregon's ceiling on interest rates on residential mortgage loans of $50,000 or less is fixed at 12 percent (ORS 82.010). There is no ceiling on loans over $50,000.

TABLE I

STATE USURY CEILINGS ON MORTGAGE INTEREST RATES
(As of November 1979)

(1) No Usury Ceiling (12)

Connecticut(a)	Maine(a)	New Hampshire
Florida	Maryland	North Carolina(a)
Illinois	Massachusetts	South Carolina
Kentucky	Michigan(a)	Virginia

(2) Fixed-rate Usury Ceiling (20)

Alabama	Kansas	Rhode Island
Arizona	Louisiana	South Dakota
Arkansas	Mississippi	Utah
Colorado	Nebraska	Washington
Hawaii	New Mexico	Wisconsin
Idaho	Oklahoma	Wyoming

(3) Floating-rate Usury Ceiling (18)

(a) Tied to Long-term U.S. Government Bond Rates

Georgia	New York
Iowa	Pennsylvania(b)
Missouri(d)	Texas(d)
New Jersey(c)	West Virginia

(b) Tied to Federal Reserve Discount Rates

Alaska	Montana(d)
California(d)	Ohio
Delaware	

(c) Other Indexes:

(1) Federal National Mortgage Association (FNMA) auction rate -- Minnesota, Tennessee(c)

(2) Daily prime rate by banks -- Nevada(d)

(3) Rate on 30-month Certificates of Deposit -- N. Dakota(d)

(4) Rate on 3-5 year U.S. Treasury securities and seasoned corporate bonds -- Vermont

(a) Fixed ceilings apply to smaller loans ($15,000 or less) or loans by non-regulated lenders.

(b) Ceiling applies to loans of $50,000 or less.

(c) Ceiling may float to maximum fixed rate.

(d) Fixed or floating ceiling, whichever is greater/lesser.

SOURCES: American Bankers Association, "Analysis of State Usury Statutes," November 29, 1979; Mortgage Bankers Association of America, "State Floating Usury Ceilings," November 30, 1979; Tom Parliament, U.S. League of Savings Associations, memo to League staff, November 14, 1979.

As indicated in Table I, Alaska has a floating-rate usury ceiling tied to Federal Reserve discount rates.

Floating usury ceilings are intended to protect borrowers from excessive interest charges, while lessening the disruptive effects usury ceilings may have on credit markets. Traditional fixed-rate ceilings require periodic adjustment as economic conditions change. Floating ceilings, which are tied to some economic index, fluctuate according to changing conditions. A statutory formula identifies the index and specifies how the ceiling will "float" in relation to the index. Percentage points may be added to the index rate to compensate for the varying characteristics of borrowers. This permits the ceiling to function without excluding certain higher risk borrowers who might otherwise be prevented from borrowing if the ceiling were set at the same level as the index. Among the attractions of the system is that state legislatures are not faced with the recurring problem of adjusting usury ceilings.

Economists have noted that problems associated with fixed-rate ceilings can be avoided by floating-rate ceilings only if the floating ceiling remains above market interest rates.[3] The effectiveness of floating ceilings depends on two factors: (1) responsiveness of the chosen index to market conditions and (2) the margin between the ceiling and the index. Some indexes are more sensitive to market conditions than others. A recently updated survey of state usury statutes by the American Bankers

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[3] For example, see: Jean M. Lovati, and R. Alton Gilbert, "Do Floating Ceilings Solve the Usury Rate Problem?" Review, Federal Reserve Bank of St. Louis, 61 (April 1979): 15.

Association (ABA) shows that states with usury ceilings use a variety of indexes.

Some usury law opponents acknowledge that floating ceilings are an improvement over fixed-rate ceilings, but they note several problems. Among these are that floating ceilings often suffer lag periods as indexes adjust to sudden market changes, and that certain classes of borrowers are still prevented from borrowing when administrative costs of lending and risk exceed the legal rate of return. Also, floating ceilings still may require legislative review and adjustment.

Federal Reserve discount rate. According to the ABA survey, 10 states have floating ceilings tied to the discount rate that the Federal Reserve Board charges its member commercial banks for advances. The states are Alaska, California, Delaware, Kentucky, Mississippi, Montana, New Mexico, Pennsylvania, South Carolina, and Tennessee. In general, these ceilings apply to both individual and commercial loans with the following exceptions. In California, the ceiling applies only to loans by nonregulated lenders; in Pennsylvania, only direct consumer and business loans; and in South Carolina, only commercial agricultural loans. Most of the states add four or five percentage points to the discount rate. And in two states, Kentucky and Tennessee, floating ceilings may not exceed a specified maximum rate. At least two states have had to adjust formulas for setting floating ceilings.[4]

Two observations have been made regarding use of the discount rate. First, the discount rate is set by administrative action, not market

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[4] Alaska and Delaware

forces. Since the Federal Reserve Board uses the discount rate to control what member banks charge their customers, the index may be allowed to remain out of line with other interest rates and may not always reflect current market conditions. Second, the rate is adjusted according to short-term money market rates. As a result, in about half of the states with floating ceilings tied to the discount rate another type of floating ceiling applies to long-term loans, such as mortgage loans.

Many states are looking at the usury question. In 1980, as the prime rate moved past 20 percent, 42 states lifted or eliminated their usury ceilings. Other states took action in 1981 for the first time. Ten states now permit banks that issue credit cards to charge any interest rate. Thirteen states, for all intent, no longer limit the interest rates the banks charge on consumer loans. Several states including Delaware, Nevada and New Mexico have completely wiped out all interest-rate restrictions for all classes of lenders. According to the Division of Banking and Securities, none of the states that have eliminated usury statutes have reenacted them. We have been unable to find specific cases where consumers have been harmed as a result of deregulation.

There are no statistics available on the number of consumers that have been forced to illegal loan markets as a result of existing laws.

If you need additional information, please do not hesitate to contact me.

ALASKA STATE SENATE

JOE P. JOSEPHSON

COMMITTEES
HEALTH EDUCATION & SOCIAL SERVICES (CHAIR)
JUDICIARY (VICE CHAIR)
FINANCE
MAJORITY CAUCUS (CHAIR)

WHILE IN JUNEAU
POUCH V
JUNEAU ALASKA 99811
(907) 465 4907
(907) 465 4525

MAY 31 1983

May 24, 1983

Pete Jeans
Senior Advisor
Senate Advisory Council
Pouch "V"
Juneau, Alaska 99811

Dear Pete:

I request that the Senate Advisory Council research and report on the effects of passage of SB 276.

Please specifically address the impact of this legislation on individual consumers. In addition, an analysis of the current law's role in driving borrowers into the illegal loan market would be desirable.

Sincerely,

Joe P. Josephson

APPENDIX V.

LENDING STATUTES IN THE UNITED STATES (April, 1981)

ALABAMA

Legal:	*Ala. Code* tit. 8, § 8-1 $6 upon $100
Contract:	*Ala. Code* tit. 8, § 8-1 $8 upon $100
Judgment:	*Ala. Code* tit. 8 § 8-10 $6 upon $100
Small Loans:	*Ala. Code* tit. 5, § 18-1 Small Loan Act
Instalment Loans:	*Ala. Code* tit. 9, § 61
Instalment Loans & Credit:	Ala. Code tit. 5, § 19-1 (§ 19-3) Consumer Finance
Insurance Premium Finance:	*Ala. Code* tit. 27, § 40-1
Revolving Charge:	*Ala. Code* tit. 8, § 8-14 (surcharge) Effective until 7-1-81 *Ala. Code* tit. 5, § 19-3C Consumer Finance
Revolving Loan:	*Ala. Code* tit. 8, § 8-14 (surcharge) Effective until 7-1-81 *Ala. Code* tit. 5, § 19-3C

ALASKA

Legal:	*Alaska Stat.* § 45.45.010 10.5%
Contract:	*Alaska Stat.* § 45.45.010 For quarter beginning 4/1/81, 18%; any rate if over $100,000
Judgment:	*Alaska Stat.* § 09.30.070 10.5%, or as set out in instrument but not over 10%
Small Loans:	*Alaska Stat.* § 06.20.010 Small Loans Act
Instalment Loan Law:	*Alaska Stat.* § 45.45.080
Sales Finance Act:	*Alaska Stat.* § 45.10.010, (§ 45.10.120) Retail Instalment Sales
Insurance Premium Finance:	*Alaska Stat.* § 06.40.101 Premium Financing Act
Revolving Credit Act:	*Alaska Stat.* § 45.10.120, (§ 45.10.120) Retail Instalment Sales Act
Bank Credit Cards:	*Alaska Stat.* § 45.10.010, (§ 45.10.120) Retail Instalment Sales Act *Alaska Stat.* § 06.05.208 Revolving Credit
Open End Loans:	*Alaska Stat.* § 06.20.285 Open End Loans *Alaska Stat.* § 06.20.230 Small Loans Act

ARIZONA

Legal:	*Ariz. Rev. Stat.* 10%
Contract:	*Ariz. Rev. Stat.* Rate agreed to in writing
Judgment:	*Ariz. Rev. Stat.* 10% or as set out in instrument
Legal Interest Rate:	*Ariz. Rev. Stat.* § 44-1201
Contract Rate:	*Ariz. Rev. Stat.* § 44-1201
Judgment Rate:	*Ariz. Rev. Stat.* § 44-1201
Small Loans:	*Ariz. Rev. Stat.* § 6-601 Consumer Loans Law
Industrial Bank Act:	*Ariz. Rev. Stat.* § 6-335A
Instalment Loan Act:	*Ariz. Rev. Stat.* § 44-1205
Auto Finance:	*Ariz. Rev. Stat.* § 44-281 Motor Vehicle Time Sales Disclosure Act
Other Goods Finance:	*Ariz. Rev. Stat.* § 44-6001, (§ 44-6002) Retail Instalment Sales Transactions
Revolving Loan Credit:	*Ariz. Rev. Stat.* § 44-1205 Interest Usury
Revolving Credit:	*Ariz. Rev. Stat.* § 44-6001, (§ 44-6002) Retail Instalment Sales Transactions

ARKANSAS

Legal Interest Rate:	*Ark. Const.* Art. 19, § 13
Contract:	*Ark. Stat. Ann.* § 29-125
Judgment:	Ark. Stat. Ann. § 29-125
Legal:	*Ark. Stat.* 6%
Contract:	*Ark. Stat.* 10%
Judgment:	*Ark. Stat.* [illegible]% unless otherwise specified in instrument up to contract rate.

CALIFORNIA

Legal Interest Rate:	*Cal. Const.* art. XV, § 1 7%
Contract:	*Cal. Const.* art. XV, § 1 Loan for personal, family or household uses (real property excluded), 10%; for other uses, 17% if loan or loan commitment made before 1-1-81, 18% if made on or after 1-1-81.
Usury Law of 1919:	*Cal. Gen. Laws Ann.* act 3757, § 2 (Deering)
Judgment:	*Cal. Const.* art. XV, § 1 7%
Small Loans:	*Cal. Financial Code* § 24000 Small Loan Law

Personal Property Brokers:	*Cal. Financial Code* § 22000 Personal Property Brokers Law
Industrial Loans:	*Cal. Financial Code* § 18212 Industrial Loan Law
Insurance Premium Finance:	*Cal. Financial Code* § 18560 Insurance Premium Financing
Auto Finance:	*Cal. Civil Code* § 2981 Automobile Sales Finance Act
Other Goods Finance:	*Cal. Civil Code* § 1801, (1805.1) Retail Instalment Sales
Revolving Credit:	*Cal. Civil Code* § 1801, (1810.2) Retail Instalment Sales

COLORADO

Legal Interest Rate:	*Colo. Rev. Stat.* § 5-12-101 8%, compounded annually
Contract:	*Colo. Rev. Stat.* § 5-12-103 As set out in instrument, except as limited by UCCC provisions.
Judgment:	*Colo. Rev. Stat.* § 5-12-102 8%, compounded annually
Consumer Supervised Loans — Licensed Lenders: Also includes revolving loan provision	*Colo. Rev. Stat.* § 5-3-508 Colo. UCCC
Consumer Loans in General: Also includes revolving loan provision	*Colo. Rev. Stat.* § 5-3-201 Colo. UCCC
Non Consumer Loans:	*Colo. Rev. Stat.* § 5-3-605 Colo. UCCC
Consumer Sales Credit:	*Colo. Rev. Stat.* § 5-2-201 Colo. UCCC
Insurance Premium Finance:	*Colo. Rev. Stat.* § 5-7-101 Colo. UCCC
Consumer Related Sales Credit:	*Colo. Rev. Stat.* § 5-2-602
Revolving Charge Accounts	*Colo. Rev. Stat.* § 5-2-207 Colo. UCCC

CONNECTICUT

Legal Interest Rate:	*Conn. Gen. Stat.* § 37-1 8%
Contract:	*Conn. Gen. Stat.* § 37-4 12%
Judgment:	*Conn. Gen. Stat.* § 37-3a 8%; on out-of-state executed or secured contracts, as agreed up to legal rate in that state.
Small Loans:	*Conn. Gen. Stat.* § 36-225 Small Loan Law
Industrial Banks:	*Conn. Gen. Stat.* § 36-148
Savings Banks Personal Loans:	*Conn. Gen. Stat.* § 36-97a
Auto Finance:	*Conn. Gen. Stat.* § 42-83, (42-85a) Retail Instalment Sales Financing
Retail Instalment Sales: (Other Goods)	*Conn. Gen. Stat.* § 42-83, (42-85b) Retail Instalment Sales Financing
Insurance Premium Finance:	*Conn. Gen. Stat.* § 38-290, (38-298) Insurance Premium Financing Companies
Non-Bank Revolving Credit:	*Conn. Gen. Stat.* § 42-133c Open End Credit
Bank Revolving Credit:	*Conn. Gen. Stat.* § 42-133c Open End Credit

DELAWARE

Legal Interest Rate:	*Del. Code* tit. 6, § 2301 Variable
Contract:	*Del. Code* tit. 6, § 2301 Variable; any rate if over $100,000 and not secured by principal residence mortgage. Demand notes of $5,000 or over, with collateral security, no limit.
Judgment:	*Del. Code* tit. 6, § 2301 variable, unless otherwise specified in contract sued upon.
Small Loans:	*Del. Code* tit. 5, § 201 Small Loans Act
Second Mortgages:	*Del. Code* tit. 5, § 2901 Motor Vehicle Sales
Auto Finance: [§ 2901 — Effective until 6-1-81]	Motor Vehicle Sales Finance Act
Other Goods:	*Del. Code* tit. 6, § 4301, (§ 4315) Retail Instalment Sales Law
Insurance Premium Financing:	*Del. Code* tit. 18, § 4801, (§ 4807)
Revolving Credit:	*Del. Code* tit. 6, § 4337 Retail Instalment Sales Law

DISTRICT OF COLUMBIA

Legal Interest Rate:	*D.C. Code* § 28-3302 6%
Contract:	*D.C. Code* § 28-3301 15%; secured mortgage loans 15%.
Judgment:	*D.C. Code* § 28-3302 6%. Unless otherwise specified in instrument up to contract rate.
Small Loans:	*D.C. Code* § 26-601 Small Loan Law

Auto Finance:	*D.C. Code* § 40-901 Instalment Sales of Motor Vehicles *D.C. Code* § 28-3601 Direct Motor Vehicle Instalment Loans
Instalment Loans:	*D.C. Code* § 28-3308 Direct Instalment Loans
Revolving Charge:	*D.C. Code* § 28-3701, (§ 28-3702) Revolving Credit Accounts
Insurance Premium Finance:	*D.C. Code* § 35-1361 Insurance Premium Finance Companies

FLORIDA

Legal Interest Rate:	*Fla. Stat.* § 687.01 6%
Contract:	*Fla. Stat.* § 687.02 18%; over $500,000, 25%.
Judgment:	*Fla. Stat.* § 55.03 10% or rate contracted, if less.
Consumer Finance Act:	*Fla. Stat.* § 516.01
Industrial Savings Banks:	*Fla. Stat.* § 656.17
Bank Instalment Loans:	*Fla. Stat.* § 659.18
Savings Associations' Property Improvement & Mobile Home Loans:	
Insurance Premium Finance Companies:	*Fla. Stat.* § 627.826
Auto Finance:	*Fla. Stat.* § 520.01, [520.08] Motor Vehicle Sales Finance Act
Other Goods Finance:	*Fla. Stat.* § 520.30, [520.34] Retail Instalment Sales Act
Home Improvement Sales & Finance Act:	*Fla. Stat.* § 520.60, [520.78]
Revolving Credit:	*Fla. Stat.* § 520.30, [520.35] Retail Instalment Sales Act
Bank Loan-Credit Cards:	*Fla. Stat.* § 663.510 Banking Code

GEORGIA

Legal Interest Rate:	*Ga. Code* § 57-101 7%
Contract:	*Ga. Code* § 57-101 10.5%; real estate, 15.50% for May, 1981; any rate if credit $100,000 or more; commercial accounts, 1 1/2% per month.
Judgment:	*Ga. Code* § 57-108 10%
Small Loans:	*Ga. Code* § 25-315 Industrial Loan Act
Industrial Loans:	*Ga. Code* § 25-315 Industrial Loan Act
Instalment Loan Law:	*Ga. Code* § 57-116
Auto Finance:	*Ga. Code* § 96-1004 Motor Vehicle Sales Finance Act
Other Goods Finance:	*Ga. Code* § 96-901, [§ 96-903] The Retail Instalment & Home Solicitation Sales Act
Second Mortgages:	
Insurance Premium Finance Companies:	*Ga. Code* § 84-5301, [§ 84-5310]

HAWAII

Legal:	*Haw. Rev. Stat.* § 478-1 6%
Contract:	*Haw. Rev. Stat.* § 478-3 1% per month.
Judgment:	*Haw. Rev. Stat.* § 478-2 8%
Small Loans:	*Haw. Rev. Stat.* § 409-1 Small Loan Act
Industrial Loans:	*Haw. Rev. Stat.* § 408-15 Industrial Loan Act
Bank Instalment Loans:	*Haw. Rev. Stat.* § 408-15 Industrial Loan Act
Sales Finance:	*Haw. Rev. Stat.* § 476-1, (§ 476-33) Retail Instalment Sales
Revolving Loans:	*Haw. Rev. Stat.* § 408-2, (§ 408-15]) Industrial Loan Act

IDAHO

Legal:	*Idaho Code* § 28-22-104 (effective 7/1/81) 12¢ on the hundred
Contract:	*Idaho Code* § 28-22-105 13%; any rate where not subject to UCCC and amount over $25,000, except where secured by real property; see rates specified in consumer sections of UCCC.
Judgment:	*Idaho Code* § 28-22-104 (effective 7/1/81) 18¢ on the hundred
Consumer Supervised Loans - Licensed Lenders:	*Idaho Code* § 28-33-508 Idaho UCCC
Consumer Regulated Loans:	*Idaho Code* § 28-33-201 Idaho UCCC
Consumer Loans in General:	*Idaho Code* § 28-33-201 Idaho UCCC
Non-Consumer or Non-Consumer Related Loans:	*Idaho Code* § 28-33-602 Idaho UCCC
Consumer Sales Credit:	*Idaho Code* § 28-32-201 Idaho UCCC

ILLINOIS

Legal:	*Ill. Rev. Stat.* ch. 74, § 1. Act of May 24, 1879. $5 upon $100.
Contract:	*Ill. Rev. Stat.* ch. 74, § 4. Act of May 24, 1879. 9%; residential no limit through 12-31-81; 14% maximum for state banks (variable rate).
Judgment:	*Ill. Rev. Stat.* ch. 74, § 3. Act of May 24, 1879. 8%. 6% on judgments against governmental entities.
Consumer Finance Act:	*Ill. Rev. Stat.* ch. 74, § 19.
Consumer Instalment Loan Act:	*Ill. Rev. Stat.* ch. 74, § 51.
Instalment Loan Law:	*Ill. Rev. Stat.* ch. 74, § 4a. Act of May 24, 1879.
Revolving Credit:	*Ill. Rev. Stat.* ch. 121 1/2 § 501 (§ 528) Retail Instalment Sales Act
Auto Finance:	*Ill. Rev. Stat.* ch. 121 1/2, § 561 Motor Vehicle Retail Instalment Sales Act
Other Goods:	*Ill. Rev. Stat.* ch. 121 1/2 § 501. (§ 527) Retail Instalment Sales Act
Insurance Premium Finance:	*Ill. Rev. Stat.* ch. 73, § 1065.60 Insurance Code, Art. 32

INDIANA

Legal:	*Ind. Code,* § 24-4.6-1-102 8%
Contract:	*Ind. Code, See* rates specified in consumer sections of UCCC.
Judgment:	*Ind. Code,* § 24-4.6-1-101 8%
Consumer Supervised Loans - Licensed Lenders:	*Ind. Code* § 24-4.5-3-508 Ind. UCCC
Consumer Regulated Loans:	*Ind. Code* § 24-4.5-3-201 Ind. UCCC
Consumer Loans In General:	*Ind. Code* § 24-4.5-3-201 Ind. UCCC
Revolving Loan Accounts:	*Ind. Code* § 24-4.5-3-201(4) Ind. UCCC
Non-Consumer or Non-Consumer Related Loans:	*Ind. Code* § 24-4.5-3-601 Ind. UCCC
Consumer Sales Credit:	*Ind. Code* § 24-4.5-2-201 Ind. UCCC

IOWA

Legal:	*Iowa Code* § 535.2 5¢ on the 100.
Contract:	*Iowa Code* § 535.2 Variable; any rate for real estate investment trusts, business loans of $100,000 or more and agricultural loans of $500,000 or more.
Judgment:	*Iowa Code* § 535.3 10% per year. Unless otherwise specified in instrument up to contract rate.
Small Loans:	*Iowa Code* § 536.1 Small Loan Law
Industrial Loans:	*Iowa Code* § 536A.23 Iowa Consumer Credit Code
Bank Instalment Loans:	*Iowa Code* § 524.906 Banking Act of 1969
Consumer Credit Sales:	*Iowa Code* § 537.2101, (§ 537.2201) ICCC
Revolving Charge Accounts:	*Iowa Code* § 537.2101 (§537.2202) ICCC
Consumer Loans In General:	*Iowa Code* § 537.2101 (§ 537.2401) ICCC
Consumer Revolving Loans:	*Iowa Code* § 537.2101 (§ 537.2402) ICCC
Auto Finance:	*Iowa Code* § 322.1 Motor Vehicle Dealer's Licensing Act

KANSAS

Legal:	*Kan. Stat.* § 16-201 10%
Contract:	*Kan. Stat.* § 16-207 10%, unless otherwise specified by consumer sections of UCCC, 11% on residential mortgage loans.
Judgment:	*Kan. Stat.* § 16-204 12%. This rate applies to judgments rendered on or after 7/1/80. Judgments rendered before that date bear interest of 8% through 6/30/80 and 12% on and after 7/1/80.
Consumer Supervised Loans - Licensed Lenders:	*Kan. Stat.* § 16a-2-101 (§ 16a-2-401) amended by Rules & Regulations of the Consumer Credit Commissioner § 75-6-24.
Consumer Loans:	*Kan. Stat.* § 16a-2-101 (§ 16a-2-401) UCCC
Consumer Credit Sales:	*Kan. Stat.* § 16a-2-201 UCCC
Revolving Credit:	*Kan. Stat.* § 16a-2-201 (§ 16a-2-202) UCCC
Consumer Loans in General:	*Kan. Stat.* § 16a-1-301
Insurance Premium Finance:	*Kan. Stat* § 16a-4-101 UCCC

Appendix V: Lending Statutes in the United States (April, 1981)

KENTUCKY

Legal:	*Ky. Rev. Stat.* § 360.010 8%
Contract:	*Ky. Rev. Stat.* § 360.010 17% on $15,000 and less, and 14% on bans by banks and trust companies on contracts $15,000 or less (variable rate); $10 minimum on bank loan permitted; others, any rate.
Judgment:	*Ky. Rev. Stat.* § 360.040 8%
Small Loans:	*Ky. Rev. Stat.* § 288.410 Small Loan Law
Industrial Loans:	*Ky. Rev. Stat.* § 291.460 Industrial Loan Law
Bank Instalment Loans:	*Ky. Rev. Stat.* § 287.215
Auto Finance:	*Ky. Rev. Stat.* § 190.090 Motor Vehicle Retail Instalment Sales Act
Insurance Finance:	*Ky. Rev. Stat.* § 304.30.010 Insurance Premium Financing Law
Bank Revolving Credit:	*Ky. Rev. Stat.* § 287.710

LOUISIANA

Legal:	*La. Civ. Code Ann.* art. 2924 (West) 10%
Contract:	*La. Civ. Code Ann.* art. 2924 (West) 8%; 12% on conventional obligation secured by immovable property.
Judgment:	*La. Civ. Code Ann.* art. 2924 (West) 10%
Consumer Loans:	*La. Rev. Stat. Ann.* § 9:3510, (§ 9:3519) Louisiana Consumer Credit Act
Consumer Credit Sales:	*La. Rev. Stat. Ann.* § 9:3510, (§ 9:3520) LCCA
Auto Finance:	*La. Rev. Stat. Ann.* § 6.951 Motor Vehicle Sales Finance Act
Revolving Charge:	*La. Rev. Stat. Ann.* § 9:3510, (§ 9:3523) LCCA
Revolving Loan Account:	*La. Rev. Stat. Ann.* § 9:3510, (§ 9:3519) LCCA
Lender Credit Card:	*La. Rev. Stat. Ann.* § 9:3510, (§ 9:3524) LCCA
Insurance Premium Finance:	*La. Rev. Stat. Ann.* § 9:3510, (§ 9:3519) LCCA

MAINE

Legal:	*Me. Rev. Stat.* tit. 9-B, § 432 6%
Contract:	*Me. Rev. Stat.* tit. 9-B, § 432 No maximum if in writing
Judgment:	*Me. Rev. Stat.* tit. 14, § 1602 8% unless otherwise specified in instrument up to contract rate; 12% from and after judgment.
Consumer Supervised Loans - Licensed Lenders:	*Me. Rev. Stat.* tit. 9-A § 2.101. (§ 2.401) Maine Consumer Credit Code
Consumer Credit Sales:	*Me. Rev. Stat.* tit. 9-A, § 2.102. (§ 2.202), Maine Consumer Credit Code
Revolving Charge Accounts:	*Me. Rev. Stat.* tit. 9-A, § 2.101, (§ 2.202) Maine Consumer Credit Code
Consumer Loans In General:	*Me. Rev. Stat.* tit. 9-A, § 2.101, (Unsupervised) (§ 2.401) Maine Consumer Credit Code
Revolving Loan:	Same provisions as above. Main Consumer Credit Code
Insurance Premium Finance:	*Me. Rev. Stat.* tit. 9, § 4061 The Insurance Premium Finance Company Act
Auto Finance:	*Me. Rev. Stat.* tit. 9, § 2.201 Maine Consumer Credit Code
Industrial Banks:	*Me. Rev. Stat.* tit. 9-B, § 918
Home Repair Finance:	*Me. Rev. Stat.* tit. 9, § 3721. Home Repair Financing Act
Savings Banks:	No specific provision

MARYLAND

Legal:	*Md. Ann. Code* art. 12, § 102 6%
Contract:	*Md. Ann. Code* art. 12, § 103 8%. Business loans over $5,000, any rate; residential mortgages, any rate.
Judgment:	*Md. Ann. Code* art. 11, § 107
Consumer Loans:	*Md. Ann. Code* art. 58A, 1
Auto Finance:	*Md. Ann. Code* art. 12, § 601 (§ 609). Retail Instalment Sales
Other Goods:	*Md. Ann. Code* art. 12, § 601 (§ 610). Retail Instalment Sales
Insurance Premium:	*Md. Ann. Code* art. 48A, § 486A Premium Finance Agreements
Second Mortgage:	*Md. Ann. Code* art. 12,
Revolving Credit:	§ 501 (§ 506). Retail Credit Accounts

MASSACHUSETTS

Legal:	*Mass. Gen. Laws Ann.* ch. 107 § 3. $6 on each $100 for year.
Contract:	*Mass. Gen. Laws Ann.* ch. 107, § 3 No limit
Judgment:	No statutory provisions.
Small Loans:	*Mass. Gen. Laws Ann.* ch. 140 § 96 Rate set by administrative Small Loan Law Rate Order
Industrial Banks:	*Mass. Gen. Laws. Ann.* ch. 172A, § 9 Banking Company Act.
Savings Banks Instalment Loans	*Mass. Gen. Laws. Ann.* ch. 168, § 37 Rate determined by Small Loan Law, above
Insurance Premium Finance:	*Mass. Gen. Laws. Ann.* ch. 256C § 1 Rate set by Administrative Rate Order
Second Mortgages:	*Mass. Gen. Laws. Ann.* ch. 140 § 90
Auto Finance:	*Mass. Gen. Laws. Ann.* ch. 255B, § 1. Motor Vehicle Retail Instalment Sales
Other Goods Finance:	*Mass. Gen. Laws. Ann.* ch. 255D, § 1 (§ 11) Retail Instalment Sales and Services
Revolving Credit:	*Mass. Gen. Laws. Ann.* ch. 255D, § 1 (§ 27) Retail Instalment Sales & Services

MICHIGAN

Legal:	*Mich. Comp. Laws* § 438.31 $5 upon $100 for year
Contract:	*Mich. Comp. Laws* § 438.31 7%; any rate for certain business loans; special provisions for mortgage loans and land contracts
Judgment:	*Mich. Comp. Laws* § 600.6013 12% (unless otherwise specified in instrument up to contract rate) from date of compalint to satisfaction of judgment; 13% after judgment date.
Small Loans:	*Mich. Comp. Laws* § 493.1
Bank Instalment Loans:	*Mich. Comp. Laws* § 487.305
Autos:	*Mich. Comp. Laws* § 492.101 Motor Vehicle Sales Finance Act
Other Goods:	*Mich. Comp. Laws* § 445.851, (§ 445.857) Retail Instalment Sales Act
Improvement Loans:	*Mich. Comp. Laws* § 445.865 Home Improvement Finance Act
Insurance Premium Finance:	*Mich. Comp. Laws* § 500.1501 Insurance Premium Finance Companies
Revolving Credit:	*Mich. Comp. Laws* § 445.851, (§ 445.862) Retail Instalment Sales Act

MINNESOTA

Legal:	*Minn. Stat.* § 334.01 $6 upon $100 for year
Contract:	*Minn. Stat.* § 334.01 $8 on $100 for year; no limit on loans of $100,000 or more; home mortgages, variable; rate; business and agricultural loans, 17.5%; loan by bank or savings bank, 14%
Judgment:	*Minn. Stat.* § 549.09 Variable rate; rate may not be less than 8% for year.
Small Loans:	*Minn. Stat.* § 56.01 Small Loan Law
Industrial Loans:	*Minn. Stat.* § 53.04 Industrial Loan & Thrift Company Law
Bank and Savings Bank Loans:	*Minn. Stat.* § 48.153
Auto Finance:	*Minn. Stat.* § 168.66 Motor Vehicle Retail Instalment Sales Act
Insurance Premium Finance:	*Minn. Stat.* § 59A.01 Insurance Premium Finance Companies
Revolving Credit:	*Minn. Stat.* § 334.16 Open End Credit
Revolving Loan:	*Minn. Stat.* § 48.185 Open End Loan Account Arrangements

MISSISSIPPI

Legal:	*Miss. Code Ann.* § 75-17-1 8% until 7-1-82.
Contract:	*Miss Code. Ann.* § 75-17-1 18% until 7-1-82.
Judgment:	*Miss. Code Ann.* § 75-17-7 8% unless otherwise specified in instrument up to contract rate.
Small Loans:	*Miss. Code Ann.* § 75-17-1 Finance Charge Law
Bank and Trust Company Loans:	
Instalment Loans:	*Miss. Code Ann.* § 81-5-79
Mobile Home Loans:	*Miss. Code Ann.* § 75-17-1
Auto Finance:	*Miss. Code Ann.* § 63-19-43
Other Goods:	
Revolving Credit:	*Miss. Code Ann.* § 75-17-1
Revolving Loans:	*Miss. Code Ann.* § 75-17-1

MISSOURI

Legal:	*Mo. Rev. Stat.* § 408.020 9%
Contract:	*Mo. Rev. Stat.* § 408.030 15.2% for quarter beginning 4-1-81, any rate for securities pledged as collateral, business loan of $5000 or more, loan of $5000 or more secured by negotiable instrument.
Judgment:	*Mo. Rev. Stat.* § 408.040 9% unless otherwise specified in interest up to contract rate.
Small Loans:	*Mo. Rev. Stat.* § 408.100 Small Loan Law
Auto Finance:	*Mo. Rev. Stat.* § 365.010 Motor Vehicle Time Sales
Loan and Investment Companies:	*Mo. Rev. Stat.* § 368.040
Other Goods Finance:	*Mo. Rev. Stat.* § 408.250 Retail Credit Sales
Revolving Credit:	*Mo. Rev. Stat.* § 408.300
Revolving Loan:	*Mo. Rev. Stat.* § 408.200
Second Mortgages:	

MONTANA

Legal:	*Mont. Rev. Codes Ann.* § 31-1-106 6%
Contract:	*Mont. Rev. Codes Ann.* § 31-1-106 Up to $150,000, 17%; over $150,000 to $300.00, 18%; over $300,000, any rate.
Judgment:	*Mont. Rev. Codes Ann.* § 25-9-205 10% where judgment involves contract, at rate specified in contract.
Small Loans:	*Mont. Rev. Codes Ann.* § 32-5-101 Consumer Loan Act
Industrial (Morris Plan):	Case law may allow discount basis using §-31-1-106 rate?
Auto Finance:	*Mont. Rev. Codes Ann.* § 31-1-201, (§ 31-1-241) Retail Instalment Sales Act
Other Goods Finance:	*Mont. Rev. Codes Ann.* § 31-1-201, (§ 31-1-241) Retail Instalment Sales Act
Revolving Credit:	*Mont. Rev. Codes Ann.* § 31-1-201, (§ 31-1-241) Retail Instalment Sales Act
Instalment Loans:	*Mont. Rev. Codes Ann.* § 31-1-436 (suspended until 7/1/83)

NEBRASKA

Legal:	*Neb. Rev. Stat.* § 45-102 12% per annum
Contract:	*Neb. Rev. Stat.* § 45-101-03 16% per annum; any rate, corporate loans, guarantors or sureties of corporate loans, loans with aggregate principal amounts over $25,000, federally insured loans, loans made upon securities pledged as collateral.
Judgment:	*Neb. Rev. Stat.* § 45-103 12% per year upon $100. Unless otherwise specified in instrument up to contract rate.
Small Loans:	*Neb. Rev. Stat.* § 45-114 Small Loan Law
Industrial Loan and Investment Companies:	*Neb. Rev. Stat.* § 8-435 Loan and Investment Companies
Bank Instalment Loans:	*Neb. Rev. Stat.* § 8-820
Instalment Sales, All Goods:	*Neb. Rev. Stat.* § 45-334 Instalment Sales Act
Revolving Credit:	*Neb. Rev. Stat.* § 45-204 Revolving Charge Agreements

NEVADA

Legal:	*Nev. Rev. Stat.* § 99.040 8%
Contract:	*Nev. Rev. Stat.* § 99.050 18%; variable rate for secured mortgages
Judgment:	*Nev. Rev. Stat.* Appears to be controlled by Legal Rate
Instalment Loan and Finance Act:	*Nev. Rev. Stat.* § 675.010
Bank Loans:	*Nev. Rev. Stat.* § 662.165
Thrift Company Loans:	*Nev. Rev. Stat.* § 677.730 Nevada Thrift Companies Act
Sales Finance, All Goods:	*Nev. Rev. Stat.* § 97.015, (§ 97.195) Retail Instalment Sales of Goods and Services.
Revolving Credit:	*Nev. Rev. Stat.* § 97.015, (§ 97.245) Retail Instalment Sales of Goods and Services

NEW HAMPSHIRE

Legal:	*N.H. Rev. Stat. Ann.* § 336:1 $6 on $100 a year.
Contract:	*N.H. Rev. Stat. Ann.* § 336:1 No limit

Judgment:	*N.H. Rev. Stat. Ann.* § 336:1 6% unless otherwise specified in instrument up to contract rate.
Small Loans:	*N.H. Rev. Stat. Ann.* § 399-A:1 Small Loan Law
Savings & Loans and Cooperative Banks: Second Mortgages:	
Auto Finance:	*N.H. Rev. Stat. Ann.* § 361-A:1 Retail Instalment Sales of Motor Vehicles

NEW JERSEY

Legal:	*N.J. Rev. Stat.* No statutory provision
Contract:	*N.J. Rev. Stat.* 14%; 14.5% on loans secured by realty with 1 to 6 dwelling units; no limit for loans purchased by governmental organizations.
Judgment:	*N.J. Rev. Stat.* No statutory provision
Small Loans:	*N.J. Rev. Stat.* § 17:10-1 Small Loan Law
Bank Instalment Loans:	*N.J. Rev. Stat.* § 17:3B-1
Sales Finance Direct:	*N.J. Rev. Stat.* § 17:16C-1, (§ 17:16C-1) Retail Instalment Sales Act of 1960
Auto Finance:	*N.J. Rev. Stat.* § 17:16C-1, (§ 17:16C-41) Retail Instalment Sales of 1960
Other Goods:	*N.J. Rev. Stat.* § 17:16C-1, (§ 17:16C-41) Retail Instalment Sales Act of 1960
Home Repair:	*N.J. Rev. Stat.* § 17:16C-62 Home Repair Financing Act
Second Mortgage Loans: Improvement Loans by Savings and Loans Ass'ns:	
Insurance Premium Finance:	*N.J. Rev. Stat.* § 17:16D-1. Insurance Premium Financing Company Act
Bank Revolving Loan Credit:	*N.J. Rev. Stat.* § 17:9A-59.6
Revolving Charge:	*N.J. Rev. Stat.* § 17 Retail Charge Accounts Laws 1971, ch.§ 409

NEW MEXICO

Legal:	*N.M. Stat. Ann.* § 56-8-3 10%
Contract:	*N.M. Stat. Ann.* § 56-8-11 Variable; home loan rate higher
Judgment:	*N.M. Stat. Ann.* § 56-8-4 10%
Small Loans:	*N.M. Stat. Ann.* § 58-15-1 Small Loan Business *N.M. Stat. Ann.* § 58-15-31 Small Loan Act of 1955
Bank Instalment Loans:	*N.M. Stat. Ann.* § 58-7-1
Auto Finance:	*N.M. Stat. Ann.* § 58-19-1 Motor Vehicle Sales Finance Act
Other Goods:	*N.M. Stat. Ann.* § 56-1-1, (§ 56.1-2.1 effective until 7-1-81) Retail Instalment Sales
Insurance Premium Finance:	*N.M. Stat. Ann.* § 59-8-1, (§ 59.8-7.1 effective until 7-1-81) Insurance Premium Financing Act
Revolving Credit:	*N.M. Stat. Ann.* § 56-1-1, (§ 56-1-3.1 effective until 7-1-81): Retail Instalment Sales
Bank Credit Card:	*N.M. Stat. Ann.* § 58-7-4.

NEW YORK

Legal:	*N.Y. Gen. Oblig.* Law § 501 (consol.) *N.Y. Banking Law* § 14-a (consol.) Banking Board Regulations § 304.1 - Interest rates. 16% absolute limit
Contract:	18% on business and agricultural loans over $25,000 by banks or trust companies; no limit, loans over $2.5 million.
Judgment:	*N.Y. Civ. Prac. Law* § 5004 (consol.) 6%
Small Loans:	*N.Y. Banking Law* § 44,340 (consol.) Small Loan Law
Bank Personal & Improvement Loans: Improvement Loans by Savings Banks & Savings & Loan Associations:	
Auto Finance:	*N.Y. Pers. Prop. Law* § 301 (consol.) Motor Vehicle Retail Instalment Sales Act
Other Goods Finance:	
Insurance Premium Finance:	*N.Y. Banking Law* § 554 (consol.) Insurance Premium Finance Agencies
Revolving Credit:	*N.Y. Pers. Prop. Law* § 401, (§ 413) (consol.) Retail Instalment Sales Act
Education Loans:	
Bank Loan Revolving Credit:	

NORTH CAROLINA

Legal: *N.C. Gen. Stat.* § 24-1
8%.

Contract: *N.C. Gen. Stat.* § 24-1.1
12%, $25,000 or less; any rate, over $25,000.

Judgment: *N.C. Gen. Stat.* § 24-1,
§ 24-5
8%. 6% for judgments entered prior to 7-1-80.

Small Loans: *N.C. Gen. Stat.* § 53-164
Consumer Finance Act

Industrial Bank Loans: *N.C. Gen. Stat.* § 53-141
Industrial Banks

Bank Instalment Loans: § N.C. Gen. Stat. 53-43(1)

Instalment Loans: *N.C. Gen. Stat.* § 24-1.2

Instalment Sales: *N.C. Gen. Stat.* § 25A-1
(§ 25A-15)
Retail Installment Sales Act

Second Mortgages on Dwellings:

Auto Loans By Licensed Lenders: *N.C. Gen. Stat.* § 53-176.1

Insurance Premium Finance: *N.C. Gen. Stat.* § 58-55
Insurance Premium Financing

Revolving Credit: *N.C. Gen. Stat.* § § 24-11

NORTH DAKOTA

Legal: *N.D. Cent. Code* § 47-14-05
6%.

Contract: *N.D. Cent. Code* § 47-14-09
12%, state banks, 14%; any rate on business loans over $35,000. [Variable rate effective 7-1-81]

Judgment: *N.D. Cent. Code* § 28-20-34
6%. Unless otherwise specified in instrument up to contract rate. [12% unless specified, effective 7-1-81]

Small Loans: *N.D. Cent. Code* § 13-03-01
Small Loan Law

Consumer Finance Act: *N.D. Cent. Code* § 13-03.1-1
Consumer Finance act

Bank Instalment Loans: *N.D. Cent. Code* § 13-04-01
(Repealed effective 7-1-81)

Auto Finance: *N.D. Cent. Code* § 51-13-01,
(§ 51-13-03.02)
Retail Instalment Sales Act

Other Goods: *N.D. Cent. Code* § 51-13-01,
(51-13-03.02)
Retail Instalment Sales Act

Revolving Credit: *N.D. Cent. Code* § 51-14-01
Revolving Charge Accounts

OHIO

Legal: *Ohio Rev. Code Ann.*
§ 1343.03
8%

Contract: *Ohio Rev. Code Ann.*
§ 1343.01
8%; any rate on loans over $100.00; any rate for securities pledges as collateral; real estate mortgages, 16%.

Judgment: *Ohio Rev. Code Ann.*
§ 1343.02
8%. Unless otherwise specified in instrument up to contract rate.

Small Loans: *Ohio Rev. Code Ann.*
§ 1321.01
Small Loan Law

Instalment Sales: *Ohio Rev. Code Ann.*
§ 1317.01
Retail Instalment Sales

Second Mortgage:

Bank Instalment Loans: *Ohio Rev. Code Ann.*
§ 1107.26

Insurance Premium *Finance:* *Ohio Rev. Code Ann.*
§ 1321.71
Insurance Premium Finance Companies

Revolving Credit: *Ohio Rev. Code Ann.*
§ 1317.01, (§ 1317.11)
Retail Instalment Sales

Bank Revolving Credit: *Ohio Rev. Code Ann.*
§ 1107.27

Open End Loans: *Ohio Rev. Code Ann.*
§ 1321.16
(effective 7-14-81)

OKLAHOMA

Legal: *Okla. Stat.* tit. 15, § 266
6%

Contract: *Okla. Stat.* tit. 15, § 266
See rates specified in consumer sections of UCCC.

Judgment: Okla. Stat. tit. 12, § 727
10% uness otherwise specified in interest up to contract rate; personal injury damages, 6% added for period of suit.

Supervised Loans: *Okla. Stat. tit.* § 14A,
§ 3-508
Oklahoma UCCC

Regulated Loans: No provision

Consumer Loans in General: *Okla. Stat.* tit. 14A, § 3-201
Oklahoma UCCC

Revolving Loans: *Okla. Stat.* tit. 14A, § 3-201
Oklahoma UCCC

Non-Consumer or Non-Consumer Related Loans: *Okla. Stat.* tit. 14A, § 3-605
Oklahoma UCCC

Consumer Sales Finance: *Okla. Stat.* tit. 14A, § 2-201
Oklahoma UCCC

Revolving Credit: *Okla. Stat.* tit. 14A, § 2-207
Oklahoma UCCC

OREGON

Legal:	*Or. Rev. Stat.* § 82-010 9%
Contract:	*Or. Rev. Stat.* § 82-010 10%; any rate, more than $50,000; no limit for loans purchased by government organizations from national or state banks; 12%, loans secured by real estate.
Judgment:	*Or. Rev. Stat.* § 82.010 9%
Consumer Finance Act:	*Or. Rev. Stat.* § 725.010
Bank Instalment Loans:	*Or. Rev. Stat.* § 708.480
Auto Finance:	*Or. Rev. Stat.* § 83.510 Motor Vehicle Retail Instalment Sales Act
Insurance Premium Finance:	*Or. Rev. Stat.* § 746.405 Premium Financing
Revolving Loan:	*Or. Rev. Stat.* § 2 Laws 1977 S.B. 1085 *Or. Rev. Stat.* § 725.340 Consumer Finance Act

PENNSYLVANIA

Legal:	*Pa. Stat. Ann.* tit. 41, § 101, (§ 201) (Purdon) Act of January 30, 1974 6% to $50,000
Contract:	*Pa. Stat. Ann.* tit. 41, § 101, (§ 301) (Purdon) As of January 30, 1974 Variable rate for residential mortgages; no rate, principal obligations over $50,000, secured principal amount of $50,000 or less other than residential, corporate loans, unsecured noncollateralized loans over $35,000 and business loans over $10,000; state banks 14% and institutions 18%.
Judgment:	*Pa. Stat. Ann.* tit. 12, § 782 (Purdon) Act of 1700 6%
Consumer Discount Loan Act:	*Pa. Stat. Ann.* tit. 7, § 6201, (§ 6213) (Purdon) Consumer Discount Company Act 6%
Bank Instalment Loans:	*Pa. Stat. Ann.* tit. 7, § 309 (Purdon) Banking Code of 1965
Auto Finance:	*Pa. Stat. Ann.* tit. 69, § 601 (Purdon) Motor Vehicle Sales Finance Act
Other Goods:	*Pa. Stat. Ann.* tit. 69, § 1101, (§ 1501) (Purdon) Goods and Services Instalment Sales Act
Improvement Loans:	*Pa. Stat. Ann.* tit. 73, § 500-101 (Purdon) Home Improvement Finance Act
Revolving Loan Credit:	*Pa. Stat. Ann.* tit. 7, § 6201, (§ 6217.1) (Purdon) Consumer Discount Company Act
Revolving Charge Credit:	*Pa. Stat. Ann.* tit. 69, § 1101, (§ 1904) (Purdon) Goods and Services Installment Sales Act
Bank Revolving Loan:	*Pa. Stat. Ann.* tit. 7, § 309 (Purdon) Banking Code of 1965

PUERTO RICO

Legal:	*P.R. Laws Ann.* tit. 31, § 4591 6$ each $100
Contract:	*P.R. Laws Ann.* tit. Personal loans 17%; instalment loans 9 1/2%; mortgage loans, variable rates; all other loans, 17%. Interest Rate and Financing Charges Regulatory Board, Regin No. 21-A, Art. 3.
Judgment:	*P.R. Laws Ann.* tit. 31, § 4591. $6 on $100
Small Loan:	*P.R. Laws Ann.* tit. 10, § 941 Small Personal Loan Act
Auto Finance:	Rules and Regulations of Puerto Rico, Title 10, Chapter 36 Maximum Credit Service Charges in Instalment Sales of Motor Vehicles, Part I, § 1-3.
Retail Instalment Sales:	Rules and Regulations of Puerto Rico, Title 10, Chapter 36. § 773-61: Household Furniture Part I, § 1-2 Industrial, Agric. & Construction Machinery § 773-61: Commercial Electric Fixtures
Personal Loans:	Usury Preemption Override - Laws 1980, Act 3, Eight Special Session, § 3.
Revolving Credit:	Rules and Regulations of Puerto Rico, Title 10, Chapter 36 Maximum Service Charges for Revolving Account Credit Plan, Part I, § 1-5.

Appendix V: Lending Statutes in the United States (April, 1981)

RHODE ISLAND

Legal:	*R.I. Gen. Laws* § 6-26-1 6$ on $100
Contract:	*R.I. Gen. Laws* § 6-26-2 21%
Judgment:	*R.I. Gen. Laws* § 6-26-1 $6 on $100 unless otherwise specified in instrument up to contract rate.
Small Loans:	*R.I. Gen. Laws* § 19-25-1 Small Loan Law
Loans and Investment: Companies	*R.I. Gen. Laws* § 19-20-9 Loan and Investment Company Instalment Loans
Savings Bank Instalment Loans:	*R.I. Gen. Laws* § 19-9-5(b)
Second Mortgages:	
Instalment Sales Finance:	*R.I. Gen. Laws* § 6-27-1, (§ 6-27-4) Truth-in-Lending and Retail Selling Act
Revolving Credit:	*R.I. Gen. Laws* § 6-27-1, (§ 6-27-4) Truth-in-Lending and Retail Selling Act

SOUTH CAROLINA

Legal:	*S.C. Code* § 34-31-30 6%
Contract:	*S.C. Code* § 34-31-30 8%; more over $50,000, no limit over $500,000; commercial banks, variable
Judgment:	*S.C. Code* § 34-31-20 8.75%
Restricted Loans:	*S.C. Code* § 34-29-140 Consumer Finance Law
Supervised Loans:	*S.C. Code* § 37-3-508 Consumer Protection Code
Consumer Credit Sales:	*S.C. Code* § 37-2-201 Consumer Protection Code
Consumer Loans in General:	*S.C. Code* § 37-3-201 Consumer Protection Code
Non Consumer Loans:	*S.C. Code* § 37-3-605 Consumer Protection Code
Bank and Other Instalment Loans:	*S.C. Code* § 37-8-233 Consumer Protection Code
Auto Finance:	*S.C. Code* § 37-2-211 Consumer Protection Code
Insurance Premium Finance:	*S.C. Code* § 38-27-10 Insurance Premium Service Companies
Revolving Charge:	*S.C. Code* § 37-2-207 Consumer Protection Code
Revolving Loan:	*S.C. Code* 37-3-201 Consumer Protection Code
Bank Revolving Loan:	*S.C. Code* § 34-13-120 Consumer Protection Code

SOUTH DAKOTA

Legal:	*S.D. Compiled Laws Ann.* § 54-3-5 Until 7-1-81 12%; after 7-1-81, 18%
Contract:	*S.D. Compiled Laws Ann.* § § 54-3-7; until 7-1-81 12%. S.D. Compiled Laws Ann. § 54-3-5; after 7-1-81 18%.
Judgment:	*S.D. Compiled Laws Ann.* § 54-3-5 until 7-1-81, 12%. *S.D. Compiled Laws Ann.* § 54-3-5; until 7-1-81, 12%. 7-1-81 7-1-82, 15% Laws 1981 § 1. After 7-1-82 10%, Laws 1981 § 3
Small Loans:	*S.D. Compiled Laws Ann.* § 54-4-1 Instalment Repayment Small Loan and Consumer Finance Act
Instalment Loan Act:	*S.D. Compiled Laws Ann.* § 54-5-2
Instalment Sales:	*S.D. Compiled Laws Ann.* § 54-3A-1 (§ 54-3A-3 effective until 6/30/83) Consumer Instalment Sales Contracts
Auto Finance:	*S.D. Compiled Laws Ann.* § 54-7-1 (§ 54-7-36 effective until 7-1-83) Motor Vehicle Instalment Sales Law
Bank Revolving Loan Credit:	*S.D. Compiled Laws Ann.* § 51-24-12 (§ 51-24-13 effective until 7-1-81) Bank Loans
Revolving Charge:	*S.C. Compiled Laws Ann.* § 54-11-5 (rate listed in § 54-11-6.3 charges on 7-1-83) Revolving Charge Accounts

TENNESSEE

Legal:	*Tenn. Const. Ann.* art XI, § 7 10%
Contract:	*Tenn. Const. Ann.* § 47-14-103 18%; state banks, 14%. Variable rate for home loans.
Judgment:	*Tenn. Const. Ann.* § 47-14-121 8%
Industrial Loans:	§ 8(2), Laws 1979, Ch. 204 Industrial Loan and Thrift Companies Act
Bank Instalment Loans:	*Tenn. Code Ann.* § 45-433
Revolving Credit:	*Tenn. Code Ann.* § 47-11-101, (§ 47-11-104C) Retail Instalment Sales Act

Savings & Loan Improvement: Loans	*Tenn. Code Ann.* § 47-14-202 Home Loan Interest Rates
Goods Finance:	*Tenn. Code Ann.* § 47-11-101, § 47-11-103d Retail Instalment Sales Act
Insurance Premium Finance Law:	*Tenn. Code Ann.* § 56-6-301

TEXAS

Legal:	*Tex. Rev. Civ. Stat. Ann.* tit. 79, art. 1.03; 6%.
Contract:	*Tex. Rev. Civ. Stat. Ann.* tit. 79, art 1.02. 10%; 18% for $250,000 or more; variable rate for home loans.
Judgment:	*Tex. Rev. Civ. Stat. Ann.* tit. 79, art. 1.04; 9%
Small Loans:	*Tex. Rev. Civ. Stat. Ann.* tit. 79, art 3.01.
Instalment Loans:	*Tex. Rev. Civ. Stat. Ann.* art 4.01(1) (Vernon).
Auto Finance:	*Tex. Rev. Civ. Stat. Ann.* tit. 79. art. 7.01 (Vernon)
Other Goods Finance:	*Tex. Rev. Civ. Stat. Ann.* tit. 79, art. 6.01 (art. 6.02) (Vernon) Consumer Credit - Retail Instalment Sales
Manufactured Homes:	*Tex. Rev. Civ. Stat. Ann.* tit. 79, art. 6A.01 (Vernon) Manufactured Home Credit Sales
Insurance Premium Finance:	*Tex. Rev. Civ. Stat. Ann.* art. 24.01 (Vernon) Insurance Code
Second Mortgages:	
Revolving Loans & Revolving Credit Cards (actuarial):	*Tex. Rev. Civ. Stat. Ann.* art. 15.01 Revolving Loan Accounts
Revolving Credit:	*Tex. Rev. Civ. Stat. Ann.* art 6.01 (art. 6.03) Consumer Credit - Retail Instalment Sales

UTAH

Legal:	*Utah Code Ann.* § 15-1-1 10%
Contract:	See rates specified in consumer sections of UCCC.
Judgment:	*Utah Code Ann.* § 15-1-4 12% unless otherwise specified in instrument up to contract rate.
Consumer "Supervised" Loans:	*Utah Code Ann.* ... § 70B-3-508 Utah Uniform Consumer Credit Code
Consumer "Regulated" Loans:	*Utah Code Ann.* § 70B-3-513 Utah Code Ann. § 70B-3-201 Utah UCCC
Consumer Loans in General:	*Utah Code Ann.* § 70B-3-201 Utah UCCC
Revolving Loans:	*Utah Code Ann.* § 70B-3-201 Utah UCCC
Consumer Sales Finance:	*Utah Code Ann* § 70-B-2-201 Utah UCCC
Revolving Charge:	*Utah Code Ann.* § 70B-2-207 Utah UCCC
Non-Consumer or Non-Consumer Related Loans:	*Utah Code Ann.* § 70B-3-605 Utah UCCC

VERMONT

Legal:	*Vt. Stat. Ann.* tit. 9 § 41a 12%
Contract:	See legal rate
Judgment:	No statutory provision
Small Loans:	*Vt. Stat. Ann.* tit. 8, § 2201 Licensed Lenders
Instalment Loans:	*Vt. Stat. Ann.* tit. 9, § 41a(b)(5)
Auto Finance:	*Vt. Stat. Ann.* tit. 9, § 2351, (§ 2556a) *Vt. Stat. Ann.* tit. 9, § 41a(b)(4) Motor Vehicle Retail Instalment Sales Financing
Other Goods Finance:	*Vt. Stat. Ann.* tit. 9, § 2401, (§ 2405) *Vt. Stat. Ann.* tit. 9, § 41a(b)(2) Retail Instalment Sales
Revolving Credit:	*Vt. Stat. Ann.* tit. 9, § 2401, (§ 2406) 2Vt. Stat. Ann. tit. 9, § 41a(b)(2) Retail Instalment Sales

VIRGINIA

Legal:	*Va. Code* § 61-330.9 6%
Contract:	*Va. Code* § 61-330.11 8%; state banks, 14%; any rate on non-agricultural loans secured by first mortgage on realty, including over 25 years.
Judgment:	*Va. Code* § 6.1-330.10 (effective 7/1/81) (6% until 7/1/81) 10% unless otherwise specified in instrument up to contract rate.
Small Loans:	*Va. Code* § 61-224 Consumer Finance
Industrial Loan Act:	*Va. Code* § 6.1-330.15 (rate changes effective 7/1/81) Industrial Loan Association Law ...

Bank Instalment Loans:	*Va. Code* § 6.1-330.13:1
Savings & Loan Home: Repair Loans	
Instalment Sales:	*Va. Code* § 6.1-330.21 Consumer Credit
Insurance Premium Financing:	*Va. Code* § 38.1-735 Insurance Premium Finance Companies
Second Mortgages:	
Bank Check Credit:	*Va. Code* § 6.1-330.19 Consumer Credit
Revolving Loan & Charge Credit:	*Va. Code* § 6.1-330.20 Consumer Credit

VIRGIN ISLANDS

Legal Rate:	*V.I. Code* tit. 11 § 951 et. seq.; Tit. 13 § 347

WASHINGTON

Legal:	*Wash. Rev. Code* § 19.52.010 6%
Contract:	*Wash. Rev. Code* § 19.52.020 12%
Judgment:	*Wash. Rev. Code* § 4.56.110 10% unless contract provides otherwise up to 12%.
Consumer Finance Act:	*Wash. Rev. Code* § 31.08.010 Consumer Finance Act
Industrial Loans:	*Wash. Rev. Code* § 31.04.100 Industrial Loan Company Law
Instalment Fiance - All Goods:	*Wash. Rev. Code* § 63.14.010, (§ 63.14.130) Credit Disclosure Act
Insurance Premium Finance:	*Wash. Rev. Code* § 48.56.010 Insurance Premium Finance Company Act
Revolving Credit:	*Wash. Rev. Code* § 63.14.010, (§ 63.14.130) Credit Disclosure Act

WEST VIRGINIA

Legal:	*W. Va. Code* § 47-6-5 $6 upon $100
Contract:	*W. Va. Code* § 47-6-5 $8 upon $100; variable rate for nonprecomputed secured loans; state banks, 14%.
Judgment:	No statutory provision
Small Loans:	*W. Va. Code* § 46A-1-101, (§ 46A-4-107) West Virginia Consumer Credit & Protection Act
Industrial Loans:	*W. Va. Code* § 31-7-11 West Virginia Industrial Bank and Industrial Loan Company Act
Bank and Other Instalment: Second Mortgages:	*W. Va. Code* § 47-6-5a.
Instalment Sales - Other, Goods:	*W. Va. Code* § 46A-1-101, (§ 46A-3-101) West Virginia Consumer Credit & Protection Act
Auto Finance:	*W. Va. Code* § 46A-1-101, (§ 46A-3-101(6))
Revolving Charge & Loans:	*W. Va. Code* § 46A-1-101, (§ 46A-3-103) West Virginia Consumer Credit & Protection Act
Revolving Loan:	*W. Va. Code* § 46A-1-101, (§ 46A-3-106) West Virginia Consumer Credit & Protection Act.

WISCONSIN

Legal:	*Wis. Stat.* § 138.04 $5 upon $100; state banks, federal loan rate.
Contract:	*Wis. Stat.* § 138.05 $12 upon $100; rate inapplicable to loans made on or after 4/6/80 and before 11/1/81, unless made by a savings and loan, or to loans over $150,000 except where secured by one-to-four family residence.
Judgment:	*Wisc. Stat.* § 814.04 12%
Discount Loan Act:	*Wisc. Stat.* § 138.09
Consumer Act:	*Wisc. Stat.* § 421.101, (§ 422.201) Wisconsin Consumer Act
Instalment Loans:	*Wisc. Stat.* § 138.05
Insurance Premium Finance:	*Wisc. Stat.* § 138.12(1) Insurance Premium Finance Companies
Auto Finance:	*Wisc. Stat.* § 218.01
Revolving Credit:	*Wisc. Stat.* § 421.101, § 422.201 Wisconsin Consumer Act

WYOMING

Legal:	*Wyo. Stat.* § 40-14-106 7%
Contract:	See rates specified in consumer sections of UCCC.
Judgment:	No statutory provision.
Consumer Supervised Loans; Licensed Lenders:	*Wyo. Stat.* § 40-14-348 Wyoming UCCC
Consumer Regulated Loans:	Concept not adopted by Wyoming
Consumer Loans in General:	*Wyo. Stat.* § 40-14-310. Revolving loan included.
Non-Consumer & Non-Consumer Related Loans:	*Wyo. Stat.* § 40-14-358
Consumer Sales Credit:	*Wyo. Stat.* § 40-14-212
Consumer Related Sales Credit:	*Wyo. Stat.* § 40-14-257

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CREDIT CARDS IN THE U.S. ECONOMY: Their Impact on Costs, Prices, and Retail Sales

A Study by the Board of Governors of the Federal Reserve System

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Submitted to the Committee of Banking, Housing, and Urban Affairs
of the United States Senate
and
the Committee on Banking, Finance and Urban Affairs
of the United States House of Representatives

Pursuant to Section 202 of the Cash Discount Act of 1981

July 27, 1983

CREDIT CARDS IN THE U.S. ECONOMY:
THEIR IMPACT ON COSTS, PRICES, AND RETAIL SALES

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CREDIT CARDS IN THE U.S. ECONOMY:
THEIR IMPACT ON COSTS, PRICES, AND RETAIL SALES

1. INTRODUCTION AND SUMMARY

By at least the beginning of the 1970s the personal credit card had become a fixture in the nation's economy. Card use had spread rapidly after World War II, and accelerated with the development of the bank credit card in the late 1950s. Today almost 600 million credit card accounts exist in the United States, and seven out of ten households possess at least one credit card. Outstanding balances on credit card accounts total more than $75 billion.

Despite the widespread use of credit cards, opinion has been divided on their economic significance. In response to a Congressional request for a report on the economic impact of credit cards--deemed necessary to evaluate a law that encouraged the offering of price discounts for payment by cash--this study examines the impact of credit cards on the costs that merchants and creditors incur, on the pricing of goods sold by retailers, and on the volume of retail sales. The Congress asked for information on these issues to help ascertain whether and to what extent credit card users are subsidized by cash customers when both pay the same prices for goods and services.

1.1. Scope of Study

While some background is provided (in Chapter 2) on the history, characteristics, and use of different types of credit cards, he primary focus of the study is on the costs to retailers associated with credit card transactions, compared with the costs of cash and check transactions, and on the question of how credit cards affect the sales of retailers--topics that

were of central concern in the discussions that led to the study request. The study also seeks to provide the Congress with up-to-date information on the prevalence of discount-for-cash programs, and current attitudes of both retailers and consumers toward such programs. The study provides no recommendations regarding legislation to promote discounts for cash or surcharges for credit, in view of the Congressional request for an informational rather than an advisory study.

The report draws upon existing studies, where applicable, and also presents findings of special surveys of households and retailers undertaken expressly for this report. The Federal Reserve Board sponsored questions about consumer response to discounts for cash on two regular household surveys conducted by the Survey Research Center at the University of Michigan. The Board also commissioned a survey of retail organizations about their perceptions of relative costs of cash, check, and credit card transactions, and on their practices and views concerning the offering of price discounts to customers who pay cash.

1.2. Origin of Study

In 1974, the Congress amended the Consumer Credit Protection Act (more commonly referred to as the Truth in Lending Act) to encourage merchants to offer discounts to customers who pay for purchases with cash instead of credit cards. The amendments, contained in the Fair Credit Billing Act of 1974, were based on a conviction that credit card transactions were more costly for merchants to handle than were cash transactions. Recognizing also that in the long run selling costs must be recovered in the prices that merchants charge, the Congress concluded that cash buyers were subsidizing credit buyers in the customary situation where both faced an identical retail

price for a given item at a given store. The amendments sought to encourage discounts by (1) prohibiting card issuers from contractually forbidding merchants to offer cash discounts and (2) exempting cash discounts of up to five percent from the requirement of disclosure as finance charges under federal law.[1] The Federal Reserve Board was to administer these provisions as part of its general responsibilities under the Truth in Lending Act.

In implementing the exemption of cash discounts from treatment as finance charges under the Truth in Lending Act, the Board encountered the question as to whether the Congress intended this special treatment to apply to both discount and surcharge pricing systems. The Board requested guidance from Congress on its legislative intent, and the Congress responded in 1976 by specifically defining the terms "discount" and "surcharge" as, respectively, a reduction from and an addition to the "regular price." "Regular price" was not defined, but the Congress clearly specified that a discount was not equivalent to a surcharge, and prohibited the imposition of surcharges until February 27, 1979. The particular mechanics of establishing a two-tier price system had to involve discounts from the credit price for cash customers rather than surcharges to the cash price for credit customers. In addition, the 1976 amendments provided that discounts offered in accordance with the act and regulation would not be considered credit charges under any state usury or disclosure laws. The surcharge prohibition was extended in 1978 for an additional two years, until February 27, 1981, without change.

1. The Truth in Lending Act requires extenders of credit to provide borrowers with information on the cost of credit expressed on a standardized basis to facilitate comparison shopping among creditors. This act and Federal Reserve regulations specify what should and should not be treated as a finance charge in calculating the annual percentage rate to be disclosed. In general, in credit sale transactions any difference between the cash price and the credit price is to be treated as a finance charge. Under these circumstances, especially in light of state laws setting maximum interest rates on consumer credit, merchants and card issuers were reluctant to price goods separately for sale by cash or by credit.

In 1981 Congress further amended the cash discount provisions in the Truth in Lending Act and once again extended the surcharge prohibition. The principal amendments (1) eliminated the 5 percent limit on discounts that were exempt from treatment as a finance charge, thus authorizing unlimited discounts, and (2) removed language that directed the Board to issue regulations concerning the offering of discounts. The surcharge prohibition was extended until Februry 27, 1984, but only after considerable debate and the addition to the Act of a requirement that a study be prepared by the Federal Reserve Board concerning credit cards.[1]

While the primary focus of decision in early 1984 apparently was to be whether to continue or to remove the surcharge prohibition, the Congress requested a study that would go beyond a comparison of surcharges and discounts to a fundamental examination of the economic merits of two-tier pricing--by whatever mechanism achieved. It was remarked several times in the Senate floor discussion that relatively little evidence had been put forth to substantiate the belief that credit transactions were more costly to retailers than cash transactions; that, in fact, the main study of credit cards familiar to the senators--a 1968 Federal Reserve study--had found that credit cards exerted little upward pressure on costs of retailers.[2]

1. For the currently effective amendments to the Truth in Lending Act regarding discounts for cash, see: 15 U.S.C. §1666f (1982) (Pub. L. No. 90-321, Title I, §167, as added Pub. L. No. 93-495, Title III, §306, October 28, 1974, and amended Pub. L. No. 94-222, §3(c)(1), February 27, 1976, 90 Stat. 197; Pub. L. No. 97-25, Title I, §101, July 27, 1981, 95 Stat. 144.) The text of the Cash Discount Act of 1981 is provided in Appendix A.

2. Board of Governors of the Federal Reserve System, Bank Credit Cards and Check Credit Plans (Board of Governors, 1968), pp. 58-59. This conclusion was based in considerable part on the costs to retailers stemming from bank credit cards compared with the operating costs of store-card plans. If bank-card transactions primarily substitute for store-card transactions, a retailer would likely experience no change (or some decline) in costs. The 1968 study noted that "upward pressure on prices would arise from any massive shift of cash customers to the use of credit cards if there were no offsetting increase in the volume of transactions," but found little evidence that such a shift from cash was likely.

Thus, under Title II of the Cash Discount Act of 1981, the present study was commissioned to provide the Congress with a report on what is known about the impact of credit cards on the economy, particularly with regard to the costs incurred by retailers and the pricing of goods and services. The specific instruction from Congress was as follows:

> "the Board of Governors of the Federal Reserve System shall prepare a study, on the basis of a review and analysis of such data and studies as it finds appropriate...on the effect of charge card transactions upon card issuers, merchants, and consumers, including to the extent possible--
>
> (1) the effects of charge card transactions on retail sales;
>
> (2) the effect of charge card usage on consumers and on merchants, including the effects on merchant cost; and
>
> (3) the effect of charge card usage on the pricing of goods and services, with a comparison of the costs resulting from payment by (A) currency and coin, (B) by personal check or similar instrument, (C) by in-house credit plans, and (D) by charge card."

1.3. Summary

As observed above, the fundamental thesis underlying the Cash Discount Act is that credit card transactions are more costly to retailers than cash or check transactions, and that the higher costs of credit cards are incorporated in the prices of goods and services paid by all customers, resulting in a subsidy of credit buyers by cash purchasers.

The most basic challenge to this view would be the assertion that, properly measured, transactions costs for credit cards do not differ from other means of payment, or that the magnitude of difference is negligible. Another counter-argument sometimes proposed to the subsidy thesis is that credit cards generate incremental sales for retailers, so that the additional profits thereby attributable to cards eliminate any need to recover the cost

of credit cards in prices of goods and services. The following chapters discuss these issues, and also examine the current practices and attitudes of retailers toward offering discounts for cash.

Following a brief overview in Chapter 2 describing the types of credit cards available and the incidence of their use among households, Chapter 3 examines the broad question of the impact of credit cards on sales of retailers. Many observers would argue that because consumers are enabled by credit cards to spend beyond the immediate limits of cash or checking account balances, they are more likely to make ill-considered purchases and, in general, to spend more and save less than they would in the absence of credit cards.

This idea was examined in two ways: first, through a survey of households on "impulse" purchases transacted by credit cards; and second, by a review of available research on the link between credit cards and aggregate spending, on the grounds that any broad increase in spending induced by credit cards would be expected to boost aggregate consumption and to reduce the aggregate saving rate. However, neither the household survey nor the macroeconomic studies suggest that any strong, consistent relationship exists between credit cards and incremental sales among retailers as a group.[1] The survey found that many unplanned purchases were transacted by cash, and that many of those transacted through credit cards would likely have been undertaken even without access to a credit card. The limited amount of macroeconomic research available has failed to establish any measurable impact of credit cards on the aggregate saving rate.

1. Whether card-honoring retailers attract sales from other retailers who don't accept credit cards is treated as a minor issue, in view of the wide-spread acceptance of credit cards. Unless industry-wide sales are increased, gains and losses from credit card sales will net out among retailers, yielding no net additional revenues to offset the higher costs of credit cards.

Chapter 4 examines the costs associated with credit cards and other means of payment, and summarizes a number of relevant studies. It also reports on the results of a survey of retailers conducted this year concerning their perceptions of the relative costs of credit cards, cash, and checks. The weight of the evidence from the survey and other studies is that total net costs to retailers associated with credit cards--including point-of-sale, security-related, and financial costs--are in fact higher than for other types of transactions, typically by about 2 to 3 percent of the transaction amount, a figure which roughly corresponds to the average factoring or servicing fee paid by merchants to issuers of third-party credit cards (or the net credit department deficits of retailers that issue their own credit cards). For most retailers, the costs of check transactions appear to be smaller than for credit cards, and either about the same or larger than for cash. Large retailers were more likely than small retailers to rate both checks and credit cards as more costly than cash.

In Chapter 5, the issue of whether the higher costs of credit cards are included in retail prices is discussed. From a microeconomic perspective, it is concluded that prices in the long run would reflect all such costs that were not recovered directly from credit card users, but that the size of the price effect would be small. In total, the need to cover credit-related costs would likely boost the price of a given item by less than 1 percent. This minimal impact owes in part to the relatively small share of sales transacted by credit cards (around 15 percent through third-party cards in the areas of general merchandising under study).

From a macroeconomic perspective, credit cards could potentially affect economic activity by altering the aggregate propensity to consume and/or the transactions demand for money. Some impact on the equilibrium

level of prices during a period of adjustment to the introduction of credit cards is held possible, but available evidence suggests that such an effect would be small and mostly irrelevant to the long-run processes of economic growth or inflation.

From Chapters 3 through 5, it can be concluded that credit card transactions cost most retailers more than cash (or check) transactions, and that this cost is not offset by higher retail sales volume, but is reflected in the level of prices. As a result it can be said that cash buyers, at least to some extent, subsidize credit card users by paying identical prices.

Chapter 6 examines two possible methods of minimizing the subsidy: (1) removal of government-imposed artificial barriers to coverage of credit card costs via finance charges and other user fees, and (2) establishment of a two-tier price structure involving discounts for cash or surcharges for credit.

Because of revisions in state usury laws and other statutes, card issuers have been in position to shift more of the cost of credit cards onto users recently. Adoption of two-tier pricing appears feasible for most retailers only if they simultaneously raise the base price from which discounts would be calculated, so that the "new" credit price is above--and the discounted cash price only somewhat below--the "old" single price.[1] This conclusion is based on results from surveys of consumer reaction to actual two-tier pricing of gasoline and to hypothetical discounts for cash on durable goods and clothing, as well as implications from the findings on costs in Chapter 4.

A polling of retailers on their current practices and attitudes toward discounts for cash, reported in Chapter 6, found that in the spring of

1. Two-tier pricing through surcharges for credit would ordinarily result in the same structure of credit and cash price as under a discount-for-cash approach.

1983 cash discounts were typically the exception rather than the rule for types of business likely to accept credit cards in addition to other means of payment. About 25 percent of gasoline stations and 5 percent of other retailers offered discounts, with around 40 percent of all retailers surveyed describing discounts for cash as "a good idea." About three out of every ten retailers thought that surcharges for credit constituted a better approach to two-tier pricing than discounts for cash; 70 percent thought surcharges an inferior approach.

2. ECONOMIC CHARACTERISTICS OF CREDIT CARD PLANS

Credit card plans in today's marketplace offer consumers a diverse menu of financial services. As background for the ensuing analysis, the present chapter compares the services currently offered by five major types of credit cards, the cost implications and pricing of these services, and trends in the holding and use of each type of card.[1]

2.1. Gasoline Company Credit Cards

Gasoline credit cards are "two-party" arrangements--credit cards that are issued by a vendor for customers to use in making credit purchases primarily or exclusively at the retail outlets of the issuing company.[2] Most gasoline company credit card programs provide credit for a one-month billing period with no provision for extending repayment over a longer period. Some gasoline companies offer optional extended periods to pay for purchases of more expensive items such as tires, batteries, or repairs.

As a result of the short repayment period, the gross expense to the gasoline companies of financing these receivables is lower, relative to the dollar volume of credit billings, than for credit card programs that offer extended repayment terms.[3] However, the rather low average amount of credit purchases at gasoline stations implies that costs of processing credit card transactions tend to be fairly high per dollar of credit sales. Although processing costs are subject to some degree of control, particularly through

1. For further discussion of holding and use of credit cards, see Thomas A. Durkin and Gregory E. Elliehausen, 1977 Consumer Credit Survey (Board of Governors of the Federal Reserve System, 1978).
2. Some gasoline company credit cards can be used to make purchases at stations operating under different brand names. Also, accommodations and meals at specified lodging establishments and restaurants can be charged on some gasoline company credit cards.
3. An offsetting factor is the relatively low amount of finance charge revenue generated by this type of credit card plan.

implementation of more efficient automated procedures that capture economies of scale, financial costs are mainly determined by market conditions and are largely beyond the control of credit card issuers.

Pricing of gasoline credit cards has consisted mainly of a finance charge applied to past-due balances. Thus, there has been no explicit charge for credit services used by credit customers that pay in full within the initial billing period. In the past few years, however, some gasoline companies have offered auto or travel clubs, for which membership fees are charged, consisting of credit card plans combined with travel-related services. Apart from this specialized development, no gasoline company has yet initiated a cardholder fee for its regular credit card program.

Since late 1981, some gasoline companies have begun programs that offer lower prices to customers who pay in cash rather than by credit card. Dealers who choose to participate in these programs generally charge customers about 3 to 5 cents per gallon less than the posted price if payment is made in cash; as a result, all credit card users help to defray at least part of the cost of providing credit card services. Several gasoline companies have also begun charging their dealers a handling fee--typically about 3 percent of amounts due from customers--for processing credit card billings.

The proportion of families that holds one or more gasoline company credit cards has remained stable, overall, in recent years at slightly above one-third (table 2.1). The dropoff in 1981 to 30 percent likely reflects short-term adjustments resulting from the 1979-80 gasoline shortage and associated price increases, as well as the temporary impact of the consumer credit restraint program that was in effect during the first half of 1980.

Use of gasoline credit cards has followed a generally similar pattern (table 2.2). About one-third of families has used gasoline company

TABLE 2.1

CREDIT CARD HOLDING
(Families Holding Cards as Percent of All Families)

Type of Credit Card	Year 1977	1978	1981	1982
Any	63	64	66	70
Gasoline	34	34	30	35
Bank	38	40	45	51
General purpose[1]	8	10	14	14
Retail store	53	50	57	63
Other[2]	6	5	7	n.a.

1. Travel and entertainment cards.
2. Includes airline cards, car-rental cards, and others not classified elsewhere.

n.a.--not available

Source: Data collected for the Federal Reserve Board by the Survey Research Center, University of Michigan.

TABLE 2.2

CREDIT CARD USE
(Families Using Cards as Percent of All Families)

Type of Credit Card	Year 1971	1977	1978	1981	1982
Any	50[3]	60	62	62	n.a.
Gasoline	33	31	32	27	31
Bank	19	35	37	39	47
General purpose[1]	5	7	9	12	13
Retail store	45	50	48	51	57
Other[2]	n.a.	4	3	5	n.a.

1. Travel and entertainment cards.
2. Includes airline cards and car-rental cards.
3. Data for 1970.

n.a.--not available

Source: 1970 Survey of Consumer Finances, 1971-72 Surveys of Consumers, and data collected for the Federal Reserve Board by the Survey Research Center, University of Michigan.

credit cards since the early seventies. Some indication of reduced usage in 1981 likely reflects the aftereffects of gasoline shortages and government policies to restrain certain types of credit use.

2.2. Bank Credit Cards[1]

By contrast, bank credit cards are "third-party" arrangements in which the company that provides the financial service has no affiliation with the buyer or the seller of the goods and services purchased with the credit card. Bank credit cards offer highly flexible credit terms. Customers who can qualify for a fairly large credit limit--those who have a good credit history and adequate income--can incur relatively large indebtedness on such an account. Also, by choosing to pay less than the entire balance, account holders can stretch out repayments over an extended period of time. Thus, the bank credit card can be used to satisfy fairly large needs for immediate credit, and--if desired--to scale repayments to available income. Furthermore, bank credit cards are widely accepted for purchases of a large variety of goods and services, and can also be used to obtain cash at many financial institutions.

The gross financing cost incurred by a typical bank credit card issuer per dollar of credit billings likely exceeds that of most gasoline credit card programs, since a lower proportion--slightly less than three-fifths--of bank card customers usually pays the entire balance when billed. Processing costs are lower relative to the volume of bank credit card billings, owing to the larger average dollar amount of bank credit card transactions.

1. Although the term "bank" credit card is commonly used, it obscures the growing diversity of institutions and organizations offering such services. "Bank" cards now are issued by finance companies (through commercial banks that may be subsidiaries), savings and loan associations, and credit unions. Some nonfinancial organizations such as the American Automobile Association have made arrangements with commercial banks to issue bank credit cards to members in the name of the organization.

Banks processing credit card receivables deduct a percentage of all credit card billings--called a "merchant discount" fee--for handling credit card slips submitted by the retailers. In turn, card-issuing banks charge other banks an "interchange" fee for clearing transactions billed to the accounts of customers of the card-issuing bank. Such fees help compensate card-issuing institutions for expenses of record keeping, billing customers, non-payment by customers, and fraudulent use of credit cards.

Customer pricing of bank credit cards has changed substantially in recent years. Before the mid-1970s, most banks relied entirely on a finance charge on customer credit card balances that remained unpaid after the initial billing period. Recent changes in financial and regulatory conditions have caused many banks to implement periodic fees for maintaining customer credit card accounts. As market interest rates increased during the late 1970s, the costs of funding credit card services rose significantly. Although faced with rising costs, banks in many states were unable to increase revenue derived from finance charges because of binding statutory rate ceilings.

A related factor was the gradual phaseout of regulatory limitations on deposit rates mandated by the Depository Institutions Deregulation and Monetary Control Act of 1980. The costs of funds acquired from bank customers increased as banks began to pay higher rates to attract and retain savings and time deposits, and as banks started to offer new transactions accounts that--unlike regular checking accounts--paid interest on deposits. Finally, from March 1980 through early July 1980, the credit restraint program administered by the Federal Reserve at the direction of President Carter imposed a special deposit requirement that caused some banks and other credit card issuers to experience additional costs of providing revolving credit.

To offset these cost pressures, many banks adopted periodic fees in an effort to boost current revenues and to re-price credit card services on a basis better suited to an environment in which customer deposit rates are unrestricted.[1] Some banks have pursued means of boosting revenues other than through imposing periodic fees, such as charging for each transaction billed to a credit card account and assessing penalties for late payments, for replacement of lost cards, or for balances that exceed credit limits. Other banks have increased merchant discount fees or customer finance charges, where competitive and regulatory conditions have permitted such action, or have started charging interest from the date that transactions are posted to an account rather than after an initial billing cycle.

A variant of the bank credit card offered by some institutions is the so-called "gold card." This specialized type of "premium" bank credit card combines the features of the regular bank credit card with a larger credit line and a package of additional services that may include accident insurance, lost credit card service, hotel and car rental discounts, and free travelers checks. Fees charged cardholders for gold card services typically exceed the range of fees on regular bank credit card accounts, but ordinarily are less than the fees charged for general purpose (travel and entertainment) cards.

One-half of all families in the United States now holds one or more bank credit cards, up from nearly two-fifths in 1977 (table 2.1). The proportion of families holding a bank credit card has expanded continually, as has the percentage of families that uses bank credit cards, which rose from one-fifth in 1971 to nearly one-half in 1982 (table 2.2).

1. As providers of "third-party" credit card services, issuers of bank credit cards cannot fall back on profits from the sale of goods and services financed with such credit cards to cover some costs of providing credit card services.

2.3 General Purpose Credit Cards[1]

This type of third-party credit card is oriented toward more affluent customers able to pay a larger annual membership fee for access to premium credit card services. Since higher income requirements must be met to qualify for general purpose credit cards, an element of prestige may be attached to carrying such cards as well as some presumption that cardholder creditworthiness is less subject to question than with other credit cards. Therefore, these programs appeal to customers who travel and/or entertain frequently, for whom an easily accepted credit card with a relatively high credit limit can be especially convenient.

A variety of ancillary services is typically offered as part of a general purpose credit card package. Travel accident insurance, discounts on travelers checks, on hotel accommodations, and on car rental, and access to check cashing or cash advances from company or affiliated offices or from card-activated cash dispensers are examples of these additional services.

In addition to membership fees, card issuers also derive revenues from merchant discount charges paid by retailers. Another important feature of general purpose credit cards is the requirement that balances be repaid within 30 days after billing. Thus, although the average balance for such accounts may be large, credit remains outstanding for only a relatively short period of time, so that gross financing costs incurred by the card issuers are kept fairly low in relation to the volume of billings.

"Gold cards" for a select clientele were first developed as variants of general purpose credit cards. As with bank credit card plans that later adopted this strategy, these gold card plans provide additional services and a larger credit limit at a higher fee and with a more stringent income requirement.

1. Also frequently referred to as "travel and entertainment cards." Major issuers of such credit cards include American Express, Carte Blanche, and Diner's Club.

Gold cards also permit repayment of balances over an extended period, in contrast to regular travel and entertainment cards that require payment within 30 days of billing.

General purpose credit cards are held by almost 15 percent of families, up sharply from only 8 percent in 1977 (table 2.1). The percentage of families that uses general purpose credit cards has almost doubled since 1977 (table 2.2).

2.4 Retail Store Credit Cards

Two-party credit cards issued by retail stores are the most widely held and used type of credit card. Over three-fifths of families in the United States held some kind of retail store credit card in late 1982 (table 2.1), and most of these families used such cards to some extent (table 2.2). Holding and use of retail store cards have continued to expand in recent years, even though retail credit cards have long been available and despite increasing competition from third-party credit cards, some of which now are accepted by many leading department stores and specialty shops.

Retail store cards typically offer lower credit limits and have less demanding credit qualification requirements in comparison with third-party credit cards. Of course, use of retail credit cards is limited to the variety of merchandise carried by the issuing merchant. Retail revolving credit plans usually provide customers the option of repaying over an extended period of time. Typically, three-fifths of retail credit card customers usually pay the entire balance billed to their accounts, about the same proportion of non-revolvers as is found with bank credit cards.

Retail credit card plans may be administered and financed either "in-house" by the retailer or by an outside firm that contracts with the retailer to furnish "private label" credit card services. All costs of

operating in-house credit card plans are borne directly by the retailer. In-house credit card plans derive revenues from finance charges on credit card balances that are not repaid before the end of a billing cycle. Retailers have not adopted the strategy followed by many commercial banks of charging periodic fees for access to credit card services. To some extent, retail establishments may have more leeway than financial institutions in pricing credit card services, since--except under conditions of intense price competition--some costs of providing credit cards may be recouped from profits on sales of merchandise.

Except for the fact that credit cards bearing the retailer's name are issued to its customers in both cases, private label and in-house credit card plans differ in most respects. Indeed, private label retailer credit card plans more closely resemble bank credit card programs. A bank or a finance company vendor agrees to conduct and finance a credit card program for the retailer, in return for a fee analogous to the merchant discount fee paid to banks by retailers who accept bank credit cards. Private label credit card plans are used mainly by small- and medium-sized retail firms that prefer to purchase the managerial experience and the legal and financial resources of a large financial organization instead of bearing the expense of developing such capabilities internally.

2.5 Other Credit Cards

The remaining category of credit cards used by consumers is highly specialized and appears to be growing slowly. Such credit cards mainly are issued by some airlines and car-rental firms. About 7 percent of families held this type of credit card in 1981 (table 2.1) and about 5 percent used it to some extent (table 2.2).

The larger car-rental firms offer credit card accounts that have no annual fees and require full payment by the end of each billing period. Some companies provide credit card accounts only for businesses. A number of major airlines provide credit card plans that are available to individuals, permit extended payments, and have no periodic fees. In addition, many carriers accept Universal Air Travel Plan credit cards, although this account is mainly available for business travel and requires full payment during each billing period.

The revenue, cost, and usage characteristics associated with the major types of credit card plans reviewed in this chapter reflect efforts by card issuers to provide financial services that appeal to customers with varied financial requirements. To simplify the discussion in the following chapters, the analysis distinguishes mainly between third-party credit cards and in-house credit cards, with some separate attention to gasoline company credit cards. In the next chapter, in addition, the contrast is sharpened between transactions use--a feature of all credit cards--and longer-term borrowing, which occurs only with credit cards that permit extended payment terms.

3. IMPACT OF CREDIT CARDS ON CONSUMER SPENDING

3.1. Patterns of Credit Card Usage

Approximately two-thirds of the households in the United States hold credit cards of some type, as noted in Chapter 2, but the use made of these credit cards varies substantially among households. Two basic contrasting patterns of usage may be described as "convenience use" for transactions purposes and "installment use" for borrowing activity.

Credit cards enable their holders to make purchases on a deferred payment basis. To some card holders, especially "convenience users," the significance of this payment deferral mechanism is that it permits them to carry smaller amounts of cash than might otherwise be necessary (or to obtain cash less frequently), sometimes provides an easier means of transacting a purchase than a personal check, and generates receipts that may facilitate merchandise returns or expense reimbursement. The use of a credit card also provides short-term "bridge" credit between paychecks or in advance of other receipts of funds.

Bridge credit in small amounts is essentially a convenience that helps a card user to adapt to nonsynchronous flows of income and expenditures. To the "installment user," the credit card offers an attractive means to obtain credit on a more extended basis. Payment for purchases may be stretched over several billing periods in accordance with account agreements which commonly require minimum periodic payments of 5 to 10 percent of the total amount owed. In this respect, credit cards are more an alternative to fixed-amount installment sales contracts or personal loans than to drawing down cash or checking account balances.

The advantages of borrowing by credit cards are several. For instance, card users may borrow in the exact amount they wish to spend (within their credit limit). In contrast, personal loans generally are available only for some minimum amount. Installment sales contracts are likewise usually limited by creditors to some minimum feasible size, such as for a major appliance or set of furniture. Also, credit card users make only one credit application, at the time they request a card, and thereafter can borrow with ease (as long as they meet a minimum payment schedule); installment sales contracts and personal loans, on the other hand, usually require a separate time-consuming process of application and approval for each extension of credit.

Of further benefit to installment users of credit cards is the payment flexibility of most credit card accounts. Card holders may routinely repay any portion of the balance owed, from the minimum amount required up to the entire balance, at any time. Other forms of installment credit generally specify a fixed monthly payment established at the signing of the contract. On such loans, a smaller than scheduled payment may place the loan in delinquent status and trigger penalty fees. Partial or full prepayments may result in rebates of prepaid interest on a basis not particularly advantageous to the borrower. Even for installment users, then, "convenience" is an important attribute of credit cards--convenience in borrowing, primarily, rather than convenience in transacting.

Not every card holder fits neatly into one usage category or the other. Convenience users who ordinarily pay credit card bills in full may sometimes repay by installments--for example, after making an especially large purchase. Installment users, in turn, may at times pay off credit card debts in full--for example, after receiving a large tax refund. Nevertheless,

card holders generally can be classified into one category or the other according to their customary payment habits. From responses to questions concerning repayment practices on credit card accounts contained in the Board's 1977 Consumer Credit Survey, it appeared that about half of U.S. card holders were convenience users and the other half installment users.

3.2. Impact of Credit Cards on Expenditures

Isolating the impact of credit cards on consumer spending is difficult. Credit cards are so widely held, and the volume of business transacted through cards is so large, that it seems only reasonable to suppose that credit cards affect the way people spend. Using a credit card to make some unplanned purchase, or a purchase larger than intended, is perhaps a widely shared experience. Yet the precise nature and magnitude of the credit card's impact on spending remain elusive. Do credit cards in fact cause overall spending to be larger than would otherwise be the case? Or do they primarily affect the timing of purchases? Or perhaps the composition, rather than the total amount, of consumer spending?

The relevance of these issues to the discount-for-cash debate stems most directly from the possible offset to credit card costs at card-honoring retailers that may arise from any increase in sales volume associated with acceptance of credit cards. Any effect of credit cards on individual spending behavior would seem to carry some implications for aggregate spending as well. Examining the relationship between credit cards and aggregate consumption, therefore, can help in assessing whether the relationship of credit card use and sales volume at retail stores is significant. If use of credit cards stimulates aggregate spending, retailers as a group should derive increased sales; but if card use has no appreciable impact on total spending, then retailers as a group would realize no net sales gain to offset the

industry-wide costs of honoring credit cards. Of course, merchants who honor credit cards might gain sales from those who do not accept them, but that situation becomes less likely as credit cards reach a mature stage of development and retailer acceptance of credit cards becomes widespread.

The macroeconomic impact of credit cards is an important issue in its own right. Any factor that may influence spending habits of consumers is relevant to public policy concerns focused on the general level of prices and the scale of economic activity. However, these issues--to be discussed briefly in Chapter 5--appear secondary to the fundamental concern with consumer equity embodied in the Cash Discount Act, which is to identify and to minimize any possible subsidy of credit card users by cash users.

Microeconomic evidence. One way to gain insights into how credit cards affect consumer spending is to question a representative sampling of persons about their spending and card use habits. Some information of this type was surveyed in Chapter 2, and more recent survey results concerning unplanned purchases are discussed below.

Credit cards are sometimes believed to induce people to spend more than they otherwise would by weakening the discipline on spending imposed by in-pocket cash or checking account balances. Accordingly, many retailers feel that they can boost their sales by accepting credit cards, and critics sometimes assail the card for promoting ill-considered outlays that could lead to financial problems for some households.

As suggested above, however, the common view that credit cards influence spending does not necesarily imply greater spending in total, for either a given household or in the aggregate. It may be that only the timing or the composition of spending is affected. The convenience user, for example, may buy on one day what he would otherwise wait a week or so to buy, with no

difference in his total spending during the period. The installment user, of course, would likely alter the timing of his purchases more substantially, since without a credit card he might have to save for a purchase for a considerably longer time than would a convenience user.

For any credit card purchase, a compositional effect may be linked with the timing effect. Insofar as the credit card purchase must ultimately be paid for by transferring funds, the card user may at some point cut back on other expenditures, with no direct long-term impact on his overall spending. An article of clothing purchased by credit card--perhaps on impulse--might be "paid for" later by forgoing an alternative clothing purchase, or by sacrificing some unrelated expenditure, such as an expensive dinner.

To obtain some notion of the possible link between credit cards, unplanned or impulsive purchases, and changes in a household's total spending, the Federal Reserve commissioned the Survey Research Center to include several special questions on this subject in its January 1983 monthly survey of households. The answers to these questions did not indicate an especially strong connection between credit card usage and household spending, a result consistent with the finding from other surveys that about one half of card-holding households typically use cards for convenience rather than to augment purchasing power on a longer-term basis through installment use.

In the January 1983 survey, respondents were first asked if in the past three months they had made any purchase larger than $20 that they "had not planned to shop for when [they] went into the store." Respondents were then asked, for each instance mentioned, what they had purchased, the price of the item, why they had made the purchase, and whether they had done so with cash, check, or credit card. Those who had used a credit card were

then asked if they would have purchased the item had they not had a credit card, and, if not, whether they would have purchased the item within the next few months.

Forty-one percent of the survey respondents indicated that they had made at least one unplanned purchase of $20 or larger in the preceding three months. About 40 percent of those respondents reported more than one unplanned purchase. The most common unplanned purchase fell in the broad category of clothing, jewelry, and personal items, followed by household items including major durables. Hobby, recreational, and educational items comprised the next largest category. The purchased items covered a broad price range. Twenty-five and thirty dollars were the most frequently mentioned amounts (for the first purchase discussed), but 35 percent mentioned purchase amounts of $100 or more, and almost 7 percent reported purchases of $500 or more.

For each unplanned purchase, respondents were asked "what was the main reason that you decided to purchase the item at that time?"[1] Not surprisingly, nearly half the respondents answered that they "needed/wanted/liked" the item purchased. After all, any purchase presumably is made in order to meet some perceived need or desire, even if the perception of that need develops only a few moments in advance of the purchase. Some of the other responses were also need-related--for example, some said the item was purchased to replace an older item that was "worn out" or "needed replacing anyway." The primary reason for purchase not directly related to need was attractive pricing of the item, variously described as being "on sale," a "bargain," or a "good deal." Thirty percent of the respondents cited this reason. Thirteen percent said they bought the item as a gift or "to surprise

1 Reasons given for purchase were unprompted; i.e., respondents answered in any manner they chose, and not, for instance, by selecting their answer from a list of possible reasons.

someone." Reasons mentioned by less than 2 percent of the respondents were that they "had extra money" or that the item "was hard to find" elsewhere or at other times.

TABLE 3.1

UNPLANNED PURCHASE ACTIVITY

	Number of Responses	As Percent of: Category Responses	Total Responses
Total Responses	644	100.0	100.0
No unplanned purchase	380	59.0	59.0
Made unplanned purchase	264	41.0	41.0
How Paid for Unplanned Purchase	259[1]	100.0	
"Other"	8	3.1	1.2
Cash	135	52.1	21.0
Check	46	17.8	7.1
Credit card	70	27.0	10.9
Behavior If Had No Credit Card	70	100.0	
Buy at same time	40	57.1	6.2
No purchase at time	30	42.9	4.7
Subsequent Behavior	30	100.0	
Purchase within few months	19	63.3	3.0
No purchase at all	11	36.7	1.7

1. Five respondents making unplanned purchases did not provide information about method of transaction.

Responses to household survey, 1983.

A particularly interesting result of the survey is that only slightly more than one-fourth of those making an unplanned purchase used a credit card to do so (see table 3.1). Unfortunately, no "control group" data exist on the proportion of planned purchases made by credit card in the relevant categories (clothing and personal, household goods, hobby and recreational). Still, a frequency of one card purchase in four would not seem to establish a particularly

strong relationship between unplanned purchases and credit card use.[1] A full 70 percent of the unplanned purchases were made either by cash (52 percent) or by check (18 percent). About 3 percent were made by other, unidentified, means. When purchases were classified by size, the incidence of card use appeared to increase as purchases became larger, but not to a striking extent. For unplanned purchases above $100, 31 percent were transacted by credit card compared with 25 percent for transactions of $100 or less.

In all (considering only the first item mentioned), 70 respondents made an unplanned purchase by credit card. Forty of these purchasers (57 percent) said they would have made the purchase at the time even if they had not carried a credit card--they were not asked how--and 30 respondents (43 percent) said they would not have made the purchase at that time without their credit card. Finally, the 30 respondents who would not have made the purchase were asked if they would have made it within the next few months--19 said yes, they would have, and 11 said no.

Responses to hypothetical questions, of course, have considerable limitations. Statements as to what one would do if circumstances were different entail varying degrees of reliability for different respondents. Still, in the absence of a compelling reason to suspect a large bias in the answers provided, the survey results suggest that in only a small number of cases might credit cards ultimately prove decisive in the completion of an unplanned purchase. Seventy-three percent of the unplanned purchases studied were transacted by means other than credit card; another 15 percent would

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1. In the Board's 1983 survey of retailers, among stores accepting credit cards, about 22 percent of total sales at clothing stores were transacted by card, and about 16 percent of furniture and appliance store sales were by card. This survey is discussed in Chapters 4 and 6.

have been made at the same time even without access to a card; another 7 percent would have been carried out at some later time. Only 4 percent of all the completed purchases (11 of 259), or 16 percent of credit card purchases (11 of 70), would never have been made without a credit card, in the judgment of the purchasers themselves.

Unplanned purchases, of course, represent only a fraction of total purchases. If the above proportions are reasonably accurate, it seems likely that far less than 4 percent of all purchases--planned and unplanned--could be described as sales that would never have taken place at all without credit cards. Moreover, even for those unanticipated purchases identified as entirely dependent on credit cards, it is still not possible to say that they represent a net addition to total spending. In the absence of the card-dependent purchases and subsequent payment for them, it may be that different purchases would have been made at some point, so that the total spending and total saving of the individuals would have been the same over time in either case.

Macroeconomic evidence. If individuals alter their spending behavior as a result of holding credit cards, summation of individual outlays should result in a corresponding alteration of aggregate consumption spending. If such a link could be detected, it would tend to substantiate the argument that incremental sales from credit cards offset the purportedly higher cost of credit card transactions (thereby making it less certain that credit card costs are imbedded in retail prices).

As discussed in the preceding subsection, credit cards could generate changes in the timing, the composition, or the amount of spending. Credit cards could cause incidental variations in the timing of purchases within a short period (e.g., between paydays) and have few significant macroeconomic

effects.[1] Or, through household exercise of the borrowing function, they could assist a more fundamental longer-term shift in the timing and/or the composition of purchases.

The most direct way in which credit cards might influence the total of consumption spending would be by increasing consumer propensities to spend (reducing consumer propensities to save). If consumers are considered to have some desired rate of saving in a cardless environment, then total spending could be enlarged by the existence of cards only if actual saving by consumers fell below the initial desired level. This outcome might seem to hinge upon a widespread lack of consumer self-discipline in saving, resulting in a condition of chronic overindebtedness. An alternative explanation, advanced by T. Russell and also tested by E. Montgomery, is that prior imperfections in credit markets may have created a situation in which consumer borrowing and total consumption were constrained to lower than desired levels.[2] To the extent that credit cards served to mitigate these imperfections, they would tend to reduce the saving rate and boost consumption.

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1. Changes in the timing of purchases due to card use could theoretically affect the cyclicality of aggregate consumption spending, and therefore economic activity in general. Since credit cards (like all consumer credit instruments) make possible a greater dichotomy between current spending and current income, they could tend to be cyclically destablizing by boosting spending even further during a boom period, or by retarding spending at other times as repayment obligations impose a competing claim to spending as an end use of current income. On the other hand, credit cards could just as well serve a stabilizing function, for instance, by enabling households to maintain a desired long-run spending path during periods of temporary unexpected shortfalls in income. There is little documentation to suggest that these possible cyclical effects are very important in actuality. It is also possible that individual cycles of credit card use and repayment are differently phased and largely cancel out, resulting in little overall impact on economic aggregates.

2. Thomas Russell, The Economics of Bank Credit Cards (New York, Praeger, 1975).

Edward B. Montgomery, "Tests of Alternative Explanations of the Decline in the Personal Saving Rate" (Ph.D. dissertation, Harvard University, 1982).

If credit cards stimulate total spending--whether by relaxing capital market constraints on consumption or by undermining the consumer's will power to save--the impact should be evident in a declining aggregate saving rate as credit cards become more prevalent. During the 1970s, third-party credit cards were gaining broad distribution and use and, by and large, the saving rate did drop somewhat from earlier levels. By itself, however, without regard to the myriad other factors that influence spending, this fact is of little analytical value.

Russell's discussion of the link between credit cards and the saving rate was largely theoretical, in the context of a model in which the consumer arrives at an optimal allocation of lifetime income over time. Credit cards are introduced into the model as one method of diminishing restraints on the ability of younger consumers to borrow in anticipation of future income. For the U.S. economy, however, with its already well-developed consumer credit markets providing other means of obtaining credit, it becomes a difficult empirical question as to what extent credit cards might introduce any further appreciable relaxation of capital market constraints. Also, it should be noted, the Russell model would result only in a redistribution of consumption spending over time, unless total desired lifetime consumption is altered by the existence of credit cards.

In one of the few explicit macroeconomic studies of this issue, Montgomery calculated a maximum possible reduction in the saving rate of 0.3 percentage points during 1978 that might be associated with credit cards.[1] He also concluded from cross-sectional data that credit cards appeared to exert more of a downward impact on the saving rate in 1977 than in 1970

1. Montgomery, "Alternative Explanations," p. 26.

but that the magnitude of the impact was probably very small.[1] G. Garcia, summarizing her investigation of the literature in this area, concluded in 1980 that "the issue of the effects of credit cards on consumption remains a subject for further research...The relationship of credit to the expansion of and inflation in the economy remains to be adequately explained both at the theoretical and empirical level."[2]

On the whole, the household survey on unplanned purchases discussed above as well as existing macroeconomic research provide little grounds for believing that credit cards generate incremental sales in sufficient volume to offset credit card costs to any measurable degree.

1. Ibid., p. 166.
2. Gillian Garcia, "Credit Cards: An Interdisciplinary Survey," Journal of Consumer Research, vol. 6 (March 1980), p. 333.

4. EFFECT OF CREDIT CARD TRANSACTIONS ON COSTS OF RETAILERS

In Section 202 of the Cash Discount Act, the Congress designated "the effect of charge card usage on merchants, including the effects on merchant costs," as a major topic to be examined in the Federal Reserve study. This part of the report primarily addresses the question of the costs incurred by retailers from credit card transactions, following some further discussion of the impact of credit cards on merchant revenues.

4.1. The Incentive to Engage in Credit Card Transactions

An individual merchant has two obvious possible motivations to sell goods and services on credit. One is to increase sales: without credit, a particular sale might not be completed at all; in addition, the provision of credit through the merchant's own credit plan might establish a bond with the customer, leading to additional future transactions. A second reason for a merchant to sell on his own credit plan might be to enhance revenues by earning finance charges on receivables. Most empirical studies, however, have concluded that the direct variable and overhead expenses of operating a credit program (including the cost of funds) have not been fully covered by finance charge revenues. In practice, the sales generation motive appears to have been the dominant consideration underlying selling on credit.

The provision of open-book credit to known and trusted customers is a practice perhaps as old as retail trade itself. The broadening and formalizing of charge account credit was pioneered by the large full-line department stores in the 1940s and 1950s with the issuing of credit cards to customers for use in the issuing store and its branches. Initially, convenience was the primary attraction to consumers of the store credit card account, since most stores required full payment within the billing period of 30 to sometimes 90 days. In time, major retailers adopted the practice of providing qualified

customers an extended payment option (with finance charges accruing on unpaid balances). As a result, open-ended "revolving credit" began to substitute for longer-term closed-end credit as well as for cash transactions. Third-party card issuers subsequently entered the field by offering cards that could be used at any business that contracted with the issuer for this purpose.

For both in-house and third-party credit card plans, generation of incremental sales above the cash-only volume was the dominant consideration underlying their adoption. In many instances, the strategy may have been defensive--to avoid losing sales to card-honoring competitors--but was nevertheless attuned to achieving higher sales than deemed otherwise possible. It was generally believed that a card-holding customer, unfettered by the limitation of pocket cash or current checking account balance, would spend larger amounts than otherwise likely.

To businesses issuing their own card, the building of customer loyalty was an important sales-stimulating aspect of credit cards. People in possession of a store's credit card might habitually gravitate to that store to shop, and the monthly billing statement served as a convenient vehicle for presenting information about new products and services, special sales, or anything else designed to spur additional purchases.

To smaller businesses, the honoring of credit cards issued by banks or other third parties expanded their sales potential without the necessity for merchants to manage their own credit card plans. Expenses of application review, billing, and collection would be handled for a fee by the third-party issuer operating with the advantage of cost-minimizing economies of scale. Today, any clothing boutique or similar occupant of the modern shopping mall would likely suffer a decided competitive disadvantage if it did not accept credit cards. Even so, it is questionable whether the existence of credit

cards generates any incremental revenues for the retailing industry as a whole.

As discussed in Chapter 3, little support has been found for the view that card-holding consumers over the longer run spend more (save less) of their income than they would without credit cards. But if they do not, then it would seem that card-honoring merchants can benefit only at the expense of nonhonoring merchants. On the other hand, if most merchants honor credit cards, as may be true today, then none enjoys an advantage over any other by doing so, and competition must focus upon other factors such as product differences, pricing, and merchandise return policies.[1] In this situation, any selling costs incurred from honoring cards, above the cost of selling for cash, could be regarded as a net additional cost, in view of the absence of any offsetting incremental sales revenue for the industry as a whole.[2]

A good analogy to the impact of credit cards on retailers might be found in the grocery store industry's issuance of trading stamps several years ago. The first stores to offer stamps apparently were able to attract customers from competing stores, and to more than cover the costs of stamps through incremental sales volume. However, when others followed suit in self-defense, it became questi nable whether any store--or the industry as a whole--benefitted from giving out stamps, since it is unlikely that people began to eat more in order to obtain stamps. In time, grocery stores grew dissatisfied

1. Given the present stage of widespread credit card possession, it is not even clear that card-honoring merchants as a group take net sales away from non-honoring merchants as a group. If non-honoring merchants are able to appeal to price-sensitive cash buyers by offering lower prices, then they may gain as much in sales to such customers as they lose from credit users forced to shop elsewhere.
2. The timing effects associated with card use could redistribute sales among retailers, but this result might be largely random, and likely to "even out" for given retailers over a period of time.

with the expense of administering stamp giveaways, and many customers became suspicious that the cost of the stamps might be imbedded in the prices they were paying. Customers who disliked the bother of collecting and redeeming stamps might legitimately have complained that they were subsidizing the avid stamp collectors by paying the same prices for their groceries. In response to all these negative aspects, some stores dropped their stamp programs and began to advertise heavily a policy of lower prices. Eventually, nearly all grocery stores abandoned trading stamp issuance.

This analogy by no means implies that retailers will some day abandon credit cards, or even that they would be wise to do so. It may well be that the consumer benefits of credit cards--the ability to alter the timing of their purchases, to carry minimal amounts of cash, to borrow for short periods, and so on--are of more substance than the perceived benefits of receiving trading stamps from grocery stores, which was, in essence, an inefficient means for consumers to obtain price discounts. The primary point of the analogy is to illustrate that the apparent gains to particular retailers from offering some service can evaporate if competitors offer an identical service, raising costs but leaving total industry-wide sales unaffected.

If, in fact, the benefit of added sales volume from credit cards is largely illusory on an industry-wide basis, the crucial consideration to the subsidy issue becomes whether credit card transactions are more costly to carry out than cash (or check) transactions. If they are more costly, and those costs are not covered by the finance charges and user fees paid by card holders, then it would appear that cash buyers may indeed subsidize card users by paying identical prices, or that retailers as a group may accept smaller profit margins than otherwise available, or some combination of these outcomes.

4.2. Costs to Retailers of Credit Card Transactions

Comparative costs to retailers of accepting different means of payment have been examined in a small number of earlier studies. Also, in connection with this report to Congress, the Federal Reserve Board conducted a survey of retail businesses on the costs of accepting cash, check, and credit cards. The results of this survey are discussed below.[1]

At first glance, it might appear a foregone conclusion that credit card transactions are more costly than other means of payment insofar as merchants pay some percentage of their third-party credit card sales to the card issuers, or incur various costs in operating their own credit card plans that have no corollary in cash transactions. Many retailers tend to view the costs of handling cash transactions as equivalent to the cost of doing business--a sales clerk, for instance, must be on hand to conduct transactions of whatever type. Thus there is a tendency to regard the marginal cost of selling for cash as zero, but this view should not be adopted without critical examination.

There are many elements of cost associated with the handling of a sales transaction. Some costs may be higher for check or credit card transactions, but others may be higher for cash. Included among the relevant cost concepts, for example, would be the time required to complete a transaction, which may in turn influence the number of check-out stations and sales clerks that a store needs. Credit card transactions absorb time because credit slips must be written and frequently some sort of authorization procedure undertaken. Personal checks usually trigger certain time-consuming precautionary steps, such as inspecting and copying down identification data

1. Appendix B provides some information on the specifications of this survey conducted in the spring of 1983.

or summoning a manager from elsewhere in the store to approve acceptance of the check. Cash transactions most likely consume less time than check or credit card transactions, but the counting of cash received, the making of change, and the stocking and replenishment of cash registers with currency and coin are cash-related activities that occupy an employee's time. Time consumed in reconciling sales records with cash, checks, and credit slips on hand may vary with the proportion of sales transacted by each means, and from one business to another.

Security-related expenses comprise a large family of costs in which further variation may be found among the different means of payment. Included in such a concept would be both direct expenses of security precautions plus an allowance for any uncovered risk associated with each transaction medium. An obvious risk, for example, is the possibility of theft. This particular risk is likely to be more pronounced for cash because the full negotiability of cash makes it an attractive target. Acceptance of personal checks entails the risk that the check may be uncollectable, because the writer may not have sufficient funds on deposit or for some other reason. Security risks borne by operators of in-house credit card plans include the costs associated with delinquent and uncollectable accounts.

For a fee, of course, merchants can generally protect themselves from many of these risks. Employment of in-store security personnel, rental of armored car service, use of more technologically sophisticated equipment, payment of bonding and insurance fees, and subscription to a check guarantee service all represent costs that retailers can incur to minimize losses from theft, fraud, and other causes. The costs arising from loss and protection against loss may well differ among the types of payment and among different businesses, and it is by no means obvious which means of transaction carries

the highest security-related costs, or how consistent the allocation of such costs by transaction type would be from firm to firm.

Still other costs to retailers can be associated with the method of transaction. Every method other than cash involves some delay in receipt of funds by the retailer, and therefore an implicit financing cost in forgone interest on the funds eventually to be transferred. And in-house credit card plans involve a broad spectrum of bookkeeping and collection costs. These expenses, of course, may be offset at least partially by finance charge revenues.

Perhaps the most visible transactions cost to retailers is a factoring fee called the "merchant discount"--the fee paid by retailers to third-party card issuers, figured as some percentage of the volume of credit card sales. This fee generally varies between 1 and 5 percent for different merchants, depending chiefly on total credit card sales volume and per unit transaction size. It can be thought of as partly covering various operating expenses that are shifted from the merchant to the card issuer, such as billing and collecting costs that might otherwise arise if in-house card plans were maintained, or the cost of loss and loss prevention associated with cash and check. However, since the card issuer obtains the revenues from finance charges and related fees as well as absorbing the costs of providing credit, the existence of the merchant discount may also reflect some deficiency in the card issuer's coverage of credit costs solely through financing income.

Empirical studies. A number of studies have examined the costs of credit card operations, or compared some aspects of credit costs with the cost of cash and checks. These include a study by Touche Ross & Co. of costs and revenues from revolving credit at department stores in New York, a

study by Payments Systems, Inc. of comparative costs for cash, check and credit transactions, and a study by R. Grant comparing the costs of these modes of transactions in Great Britain.[1]

The Touche Ross study collected detailed cost and revenue data for a 12-month period in 1972-73 from 17 retail firms in New York State operating in-house revolving credit plans (generally linked to a store-issued credit card). The analysis covered all costs relating to new accounts processing, account servicing, collection, space and equipment, payroll, and management. Touche Ross also calculated the cost of capital associated with each store's investment in receivables using two alternative methods--one based on each firm's own capital structure and one based on an assumed capital cost rate of 8 percent.

The principal finding of the study was that "retail stores in New York do not collect sufficient finance charge revenues on their revolving credit accounts to cover the costs of extending and servicing such accounts. For the 17 stores surveyed, the deficiency totalled...3.71 percent of credit sales. Each of the 17 stores incurred deficits on their revolving accounts."[2] Summary cost information from the Touche Ross study is presented in table 4.1. As the table indicates, the cost of capital was the largest component, accounting for about half of total credit costs (based on the

1. Payments Systems, Inc. Cost of Cash: A Strategic Analysis (Atlanta, 1981).

Touche Ross & Co. "Economics of New York State Retail Store Revolving Credit Operation for the Fiscal Year Ended January 31, 1973," in Robert P. Shay and William C. Dunkelberg, Retail Store Credit Card Use in New York. Studies in Consumer Credit, No. 4 (Graduate School of Business, Columbia University, 1975).

Robert M. Grant, "Transaction Costs to Retailers of Different Methods of Payment. Result of a Pilot Study" (Report prepared at The City University, London, 1982; processed).

2. Shay and Dunkelberg, Retail Store Credit Card Use in New York, p. 9.

individualized estimate of capital cost). Personnel costs and bad debt losses were the next largest elements of cost.

TABLE 4.1

REVOLVING CREDIT REVENUE AND COSTS
AT 17 NEW YORK RETAIL STORES
AS A PERCENT OF REVOLVING CREDIT SALES

	All Stores (17)	
	Amount $(000)	Percent of Sales
NET REVOLVING CREDIT SALES (excluding finance charge revenue)	$776,453.5	100.00%
FINANCE CHARGE REVENUE (net)	59,033.9	7.60%
CREDIT COSTS:		
Personnel costs:		
New accounts	3,914.3	.50%
Account servicing	8,060.9	1.04
Account collection	3,265.9	.42
Additional sales personnel	999.1	.13
Supporting services	866.8	.11
Management	376.7	.05
Data processing	1,941.2	.25
Total personnel costs	19,424.9	2.50%
Data processing equipment	1,261.0	.16
Credit investigation	1,075.8	.14
Bad debt losses	10,853.5	1.40
Collection agency fees	1,329.1	.17
Credit space and equipment	1,555.4	.20
Postage	3,078.0	.40
Communication	1,161.5	.15
Supplies and other	3,602.5	.46
Cost of capital	44,533.6	5.73
Total credit cards	87,875.3	11.31%
EXCESS/(DEFICIENCY) OF REVENUE OVER COSTS	$(28,814.4)	(3.71)%
EXCESS/(DEFICIENCY) OF REVENUE OVER COSTS (at 8 percent cost of capital)	$(16,835.9)	(2.17)%

Source: Touche Ross & Co., "Economics of Revolving Credit," from exhibit II, p. 76.

The Touche Ross study reflected considerable effort to determine relatively precise cost estimates from accounting records and from extensive on-site discussions with store personnel. Although much judgmental estimation was necessary to allocate certain types of costs between credit and non-credit sales, the study did a credible job of establishing that the costs to retailers of revolving credit operations exceeded financing revenues at the stores examined.[1] The study did not address the issue of incremental sales revenue that might be attributable to credit cards, nor did it evaluate the store-card as a marketing tool. The relationship of the deficits incurred on credit card operations to the overall profit margin on goods sold on credit was also outside the scope of the study.

In 1980, Payments Systems, Inc. (PSI) made an extensive study of the costs associated with cash transactions, measured on a per transaction basis. The study compared certain aspects of these costs, termed "handling costs," with corresponding costs for checks and credit cards, and concluded that "the per retail transaction cost of credit cards and cash is near the same--about $.45--and checks only carry a small margin of higher costs." PSI asserted that "the costs of handling cash are many times higher than previously believed...(thus) retailers should take a new look at operating efficiencies in payment acceptance and at the comparative acceptance of new payment methods."[2]

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1. In evaluating an earlier Touche Ross & Co. study using similar methodology, the National Commission on Consumer Finance found the allocation procedures used by Touche Ross to be reasonable, and accepted the Touche Ross finding that in-house revolving credit plans operate at a deficit. While the Touche Ross studies and National Commission commentary are at least 10 years old, subsequent increases in the cost of capital in excess of finance charges have likely preserved the validity of those earlier findings. See National Commission, Consumer Credit in the United States (Government Printing Office, 1972) p. 145.
2. Payment Systems, Inc., Cost of Cash: A Strategic Analysis, p. viii.

The PSI study also calculated a "total system" cost of cash transactions, which added security costs and theft losses to handling costs, raising the estimated cost of cash to about 55 cents per transaction. No estimate was presented for a total system cost for checks or credit cards, however. Thus the major costs of billing, collecting, bad debt expenses, and use of capital (for in-house card plans) were omitted from cost comparisons, as was the merchant discount fee for third-party cards, and losses on uncollectable checks for that type of transaction. The PSI estimates for total system costs of cash are reproduced in table 4.2, and the comparative handling costs for the three payment methods are provided in table 4.3.

On the whole, the PSI study likely succeeded in making its readers more conscious of the non-trivial costs associated with cash and therefore with the possibility of cost reduction through improved cash handling. But because the comparison with other means of transaction concentrated on handling costs to the exclusion of other major elements of cost, the study was not directly relevant to the issue of subsidization of credit buyers by cash buyers. Indirectly, by demonstrating a rough equivalence in point-of-sale and other "handling" costs among the three payment methods, the PSI study imparted credibility to the practical guideline of many retailers that the marginal cost of cash is in effect zero and the marginal cost of (third-party) credit cards approximates the merchant discount.

Aside from limitations that stem from the incomplete coverage of costs, several other limitations of the PSI study can be noted. Among problems pointed out by PSI are certain difficulties with some of the cost allocations, such as for security costs. PSI, in fact, considered the allocation problem to be the study's major limitation.[1]

1. Ibid., p. 199.

TABLE 4.2

TOTAL SYSTEM COSTS OF CASH

	Per Retail Transaction	
	Mean	Median
Handling costs of retailers	$.41	$ .30
Handling costs of banks	.04	.04
Armored car service	.02	.02
Retailer and Bank Security	.06	--
Retailer and Bank Theft and Loss	.02	.01
	$.55	$ .37

Source: Payments Systems, Inc., Cost of Cash: A Strategic Analysis, p. 267.

TABLE 4.3

HANDLING COSTS OF CASH BY MODE OF TRANSACTION

	Per Transaction (Means)		
	Cash	Checks	Credit Cards
Point-of-sale transaction	$ .24	$ .40	$ .36
Replenish registers	.05	--	--
Reconcile registers	.08	.05	.03
Reconcile in-store control	.02	.01	.01
Reconcile out-store control	.02	.01	.01
Prepare deposits	.03	.02	.02
Transport deposits by internal employee	.01	.01	.01
Total	$ .45	$ .50	$ .44

Source: Payments Systems, Inc., Cost of Cash: A Strategic Analysis, p. 268.

Some questionable decisions were made in the PSI study that served to narrow the gap between estimated cash costs and other costs. Most notably, PSI chose to use mean cost for the various functions examined rather than the median cost, even though at one point it described median costs as "representing the more stable and conservative data and analysis."[1] Use of median costs would have lowered the estimated handling cost of cash by about 10 cents,

1. Ibid., p. 228.

placing cash measurably below the other modes of transactions. Also, though cautioning the reader that not all stores experienced certain types of costs, PSI included each functional cost calculation in the all-retailer estimates of table 4.3 without any weighting to reflect its prevalence among retailers. These costs were only minor components of the total, however.

In a study of retailer experience in the United Kingdom, R. Grant concluded that the costs associated with credit cards exceeded the costs of cash or check transactions, by approximately the amount of merchant discount fees or in-house administration costs, but that per unit reductions in fixed costs resulting from net additional sales more than offset the higher direct costs of credit cards. The economization on fixed costs through incremental sales, however, was based entirely on assumption, rather than on empirical evidence.

Grant's cost calculations are shown in table 4.4. Categories listed in the table roughly coincide with those examined by PSI. Information on average merchant discounts and any other charges imposed by suppliers of payment services were obtained from the suppliers, cross-checked with interview information from retailers. The other operating costs were estimated on the basis of intensive interviews with five retail organizations and from more limited contacts with a number of other retailers. Grant noted considerable difficulty in identifying such costs accurately. "None of these costs," he stated, "were separately identified in retailers' accounting systems in part because of the difficulties of allocating joint labor, administrative and overhead costs, first to payment functions in general and, second, between individual types of payments."[1]

1. Grant, "Transaction Costs to Retailers," p. 4.

TABLE 4.4

AVERAGE COSTS OF CASH, CHECKS, CREDIT CARDS, AND IN-HOUSE CREDIT
AS A PERCENTAGE OF THE RETAILER'S REVENUE FROM EACH TYPE OF PAYMENT, 1981

	Cash %	Check %	Bank Credit Card %	T&E Cards %	In-house credit account %
Discount charge	-	-	2.55	3.80	-
Salesperson's time	0.17	0.27	0.19	0.80	0.28
Additional cost of administraton of cash and credit accounts	0.40	-	-	-	3.73
Cost of bank visit	0.35	0.17	0.66	-	-
Bank charges	0.28	0.40	0.37	0.04	0.15
Cost of credit	0.06	0.06	0.12	0.54	-
Losses from error, theft, fraud	0.25	0.15	0.01	0.01	0.12
Insurance	0.05	0.01	0.01	0.01	-
TOTAL OF POSITIVE COST ITEMS	1.56	1.06	3.91	4.48	4.28
Reduction in unit overhead costs arising from increased sales generated by credit cards and credit accounts	-	-	-5.57	-8.33	-8.25
NET COST	1.56	1.06	-1.66	-3.85	-3.97

Source: R. Grant, "Transaction Costs to Retailers," table 1, p. 5.

As shown in the table, Grant calculated that the cost of cash averaged 1.56 percent of the total volume of cash sales, that the cost of checks average 1.06 percent of check sales, and that the costs of credit card plans ranged from about 4 to 4-1/2 percent of sales. The major difference between cash and checks was attributable to "additional administrative cost," which for cash represented primarily the cost of security precautions. For bank credit cards, the 2.55 percent discount charge represented the main reason that credit card costs were higher than for other types of payment. Subtracting that fee from total direct costs of bank cards indicates that

retailer operating costs for these cards lay midway between the cost of cash and the cost of checks.

In discussing the possibility that acceptance of credit cards boosts sales, Grant cited testimony of retailers before a government commission that the principal effects of credit cards were "encouraging impulse purchase, increasing the average value of purchases by consumers, and facilitating purchases by overseas visitors."[1] The possible fallacy in this view as applicable on an industry-wide basis has already been addressed. In any case, Grant calculated the reduction in fixed cost by assuming that, for bank credit cards, 20 percent of revenues represented incremental sales; for T&E and in-house cards, incremental sales were assumed to be 30 percent of revenues. Thus the seemingly important finding that credit cards lower per unit costs when added sales are considered--and that T&E and in-house cards lower per unit costs by more than bank cards--flows almost entirely from the assumption that this is the case.

While Grant's study sheds no empirical light on whether or not credit cards affect sales, it demonstrates that the cost-reduction benefit of any sales boost would depend importantly on the ratio of fixed costs to total revenues, and that this ratio varies widely across industries. If fixed costs are very low relative to sales, then any incremental sales gain will result in only a very small reduction in per unit fixed costs. Grant identified "petrol dealers" (gasoline stations) as an extreme example of a business with a low fixed cost-to-revenue ratio, which, coupled with a relatively low profit margin, implied that "even very large increases in petrol sales (due to credit card acceptance) would fail to offset the higher costs of credit transactions."[2]

1. Ibid, p. 12.
2. Ibid, p. 15.

<u>1983 survey of retailers</u>. In order to obtain an assessment of the relative costs to retailers of cash, check, and credit card transactions from a broad spectrum of businesses in the United States, the Federal Reserve commissioned a survey of approximately 700 retail organizations. The survey was conducted by the Survey Research Center in April and May, 1983.

The survey focused on retail sellers of merchandise operating in lines of business in which honoring credit cards was believed to be common practice. Grocery stores, for instance, were excluded from consideration, whereas department stores and retailers of apparel, home furnishings, and several other product lines were included. In order to concentrate on sellers of merchandise, most types of service providers were excluded, even though credit card use may be common in some service trades. Airlines and hotels, for instance, were not studied. To assure adequate coverage of different sizes of business, the population was stratified into five size groups for sample selection purposes

Certain factual information was compiled about each respondent, including type of business, dollar volume of sales, and the proportion of business transacted by cash, check, and credit card. For respondents honoring third-party credit cards, the size of the factoring fee paid to the card processor on credit card sales was recorded.

Unweighted averages of the proportions of sales volume transacted by cash, check, credit card and "other" means reported by each respondent are shown in table 4.5. Retailers are grouped by the types of transactions they engage in, and results are shown separately for gasoline stations and all other respondents. A further breakdown by size category is provided in table 4.6 for acceptors of cash, checks, and third-party cards, for businesses other than gas stations.

A large majority of the businesses interviewed--nearly 80 percent--honored third-party credit cards. About one in six of these retailers also transacted business through its own proprietary card.[1] Most respondents--almost 95 percent--also reported accepting checks to transact sales, although many placed significant limitations on check acceptance. About 15 percent restricted acceptance of checks to those drawn on local banks, and nearly 10 percent took checks only from persons known to the retailer.

Reflecting these practices, about three quarters of the respondents were categorized as engaging in cash, check, and third-party credit card transactions. Among such retailers outside the gasoline category, non-credit sales were about equally apportioned between cash and check transactions. The average proportion of sales on third-party credit cards was 12.5 percent for non-gasoline merchants that also issue their own card, and 14.6 percent for those without proprietary cards, as shown in table 4.5. Proportions for both the smallest and largest businesses (table 4.6) were 2 to 3 percentage points below these overall averages. Non-gasoline retailers that issue their own credit cards typically transacted 37 percent of sales through the store card.

Besides sales transacted through cash, personal check, or credit card, retailers also transacted sales by travelers check, layaway plan, checks drawn on businesses, and credit transactions in which credit cards were not involved, all grouped in tables 4.5 and 4.6 under the heading "other means."

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1. Only a very few respondents that honored a proprietary card said that they did not also honor third-party cards, and all but one of these respondents were gasoline stations. However, some gas station operators apparently treated a gasoline company credit card as a third-party card whereas others treated it as proprietary, partly from failure of the question sequence to specify a particular treatment. Thus the distinctions in table 4.5 between third-party and store cards are not especially meaningful for gas stations.

TABLE 4.5

DISTRIBUTION OF SALES BY MODE OF TRANSACTION

Types of Transactions Accepted	Number of Respondents	Average Proportion of Business Transacted By[1]				
		Cash	Personal Checks	Store Card	3rd-Party Card	Other Means
				All Respondents		
Cash	9	99.8	0	0	0	0.2
Cash, checks	130	39.2	43.3	0	0	17.4
Cash, credit cards[2]	19	62.2	0	4.2	30.0	3.4
Cash, checks, store cards	12	42.7	21.9	28.7	0	6.7
Cash, checks, 3rd-party cards	458	37.8	34.1	0	15.0	13.1
Cash, checks, both cards	71	30.7	20.4	35.7	11.3	2.0
				All Respondents Except Gas Stations		
Cash	5	96.0	0	0	0	4.0
Cash, checks	123	37.9	43.9	0	0	18.1
Cash, credit cards[2]	11	60.6	0	3.6	31.6	4.1
Cash, checks, store cards	1	22.0	22.0	56.0	0	0
Cash, checks, 3rd-party cards	422	36.2	35.5	0	14.5	13.7
Cash, checks, both cards	46	25.6	23.0	37.0	12.5	1.9
				Gasoline Service Stations		
Cash	4	100.0	0	0	0	0
Cash, checks	7	62.6	32.6	0	0	4.9
Cash, credit cards[2]	8	64.6	0	5.0	27.9	2.5
Cash, checks, store cards	11	44.5	21.9	26.3	0	7.3
Cash, checks, 3d-party cards	36	56.1	17.4	0	20.4	6.1
Cash, checks, both cards	25	40.1	15.6	32.9	9.2	2.2

1. Each respondent was asked to provide its proportion of sales by each transaction method. Arithmetic averages of the responses appear in the table, with no attempt to weight responses by size of the business. Figures provide a typical response rather than an estimate of the true proportion of sales industry-wide made through each type of transaction.
2. Credit cards in this category may be store cards, third-party cards, or both.

Note: Rows may not add to 100.0 percent because of rounding and because of slight discrepancies from 100.0 percent in answers provided by some respondents. Individual cases in which the sum of the proportions deviated more than slightly from 100.0 percent were eliminated from the calculations.

Responses from survey of retailers, 1983.

TABLE 4.6

DISTRIBUTION OF SALES BY MODE OF TRANSACTION
FOR ALL RESPONDENTS EXCEPT GASOLINE STATIONS
BY SIZE OF BUSINESS

Annual Volume of Sales	Number of Respondents	Cash	Check	3rd-Party Card	Store Card	Other Means
Retailers Accepting Cash, Checks, and Third-Party Cards		Average Proportion of Business Transacted By:				
Less than $100 thousand	35	47.6	40.3	11.0	...	1.1
$100 - 999 thousand	198	36.9	35.4	14.6	...	13.1
$1 - 9.99 million	130	28.8	36.0	15.6	...	19.6
$10 - 99.9 million	37	37.4	35.2	15.2	...	12.3
$100 million and over	22	54.6	27.9	11.4	...	6.1
Retailers Accepting Cash, Checks, and Both Credit Cards		Average Proportion of Business Transacted By:				
Less than $100 thousand	0	--	--	--	--	--
$100 - 999 thousand	9	40.3	22.9	9.6	23.1	4.1
$1 - 9.99 million	10	25.6	19.3	15.6	38.2	1.5
$10 - 99.9 million	12	21.9	24.5	14.9	37.1	1.6
$100 million and over	14	19.6	22.0	9.7	47.5	1.2

Responses from survey of retailers, 1983.

In questioning merchants about their transactions costs, a principal objective was to direct the attention of respondents to all aspects of cost, not merely to such explicit or easily ascertainable costs as the merchant discount fee. To achieve this objective, inquiries were made regarding three separate categories of transaction costs, which were described to respondents at the beginning of each series of questions. These categories were called "point-of-sale and accounting costs," "loss and security costs," and "deposit and financial costs." Respondents were also asked to compare total transaction costs--combining these separate categories--among the types of transactions. Certain explicit fees--the merchant discount fee and check guarantee service costs--were excluded from the comparisons within each category of cost, but included in the comparison of total transactions costs.

At the same time, it was recognized that many--probably most--retailers would not maintain detailed accounting information suitable for quantitative cost comparisons among modes of transactions. But it was also anticipated that retailers nevertheless would be familiar with and could evaluate aspects of their business that might have important implications for their costs of operation. Therefore, respondents were asked to make qualitative cost comparisons rather than dollar-and-cents estimates for the different components of transactions cost.

Within each cost category, respondents were asked to make two-way comparisons for each possible pair of transaction modes involving cash, check, and third-party credit card (and store card, where applicable). Respondents were asked to designate whether costs in a particular category for one method of transaction were more than, about the same as, or less than the cost of a second method of transaction. A summary of the cost comparisons by category is presented in table 4.7, with a further breakdown of overall transactions costs by size of business presented in table 4.8.

"Point-of-sale" costs were described to the retailers interviewed as including "equipment and personnel costs for writing sales slips, making change, obtaining verification and approval for checks and credit cards, reconciling daily receipts, record keeping, and other point-of-sale costs you may have." In this category, a large number of merchants regarded cash as the least costly mode of transaction compared with either checks or credit cards. Nearly 80 percent said credit cards were more costly than cash. Somewhat more than one half of the respondents regarded credit cards as also more costly than checks in the point-of-sale category (table 4.7).

TABLE 4.7

QUALITATIVE COMPARISON OF TRANSACTION COSTS FOR CASH, CHECK, AND THIRD-PARTY CREDIT CARDS[1]

Cost Categ[illegible] Transactio[illegible]	Frequency of Citation As:			
	More Costly			About the Same
	Cash	Check	Card	
	(Frequency of response in percent)			
Point-of-sale costs				
Check vs. cash	2	42	...	56
Card vs. cash	1	...	79	20
Card vs. check	...	9	54	37
Security-related costs				
Check vs. cash	2	58	...	40
Card vs. cash	5	...	40	55
Card vs. check	...	34	19	47
Deposit and financial costs[2]				
Check vs. cash	1	35	...	64
Card vs. cash	2	...	43	55
Card vs. check	...	12	25	63
All costs combined[3]				
Check vs. cash	1	58	...	41
Card vs. cash	1	...	88	11
Card vs. check	...	13	61	26

1. For respondent engaging in all three modes of transaction.
2. Excludes merchant discount on credit cards and check guarantee fees.
3. Includes merchant discount and check guarantee fees.

Responses from survey of retailers, 1983.

"Loss and security" cost encompassed "loss or theft of cash, bad or returned checks, credit card fraud, bonding and insurance fees, safekeeping and other security costs." The category thus included losses suffered by retailers from theft or fraud as well as direct expenses to prevent or provide compensation against such occurrences. In this category, as in the others, cash was regarded as the more expensive means of payment by only a small proportion of retailers. Loss and security costs, however, was the one category in which credit cards were regarded by the retailers surveyed

as less costly than some other means of payment. In comparing third-party cards with checks, one-third of the retailers said checks were more costly and only one-fifth cited cards as more costly. About one-half said there was little or no difference in security-related costs.

"Deposit and financial" costs were described as including "bank service charges for deposits, costs to take deposits to a bank, and costs associated with the delayed receipt of funds." Check verification fees and credit card factoring fees belong in this category, but were excluded from the pair-wise comparisons so that attention could be focused on costs aside from these explicit fees. Within the category, more than half of the respondents saw little difference in cost for each of the paired comparisons. Again, very few respondents thought cash was a more costly method.

After comparing transactions methods by category of costs, respondents were asked to consider all elements of cost, including fees for check verification and credit card processing. The total cost comparison is shown in the bottom tier of table 4.7. In comparing checks with cash, nearly 60 percent of the retailers thought checks were more costly; virtually all the rest saw little difference in costs. Credit cards were viewed by 88 percent of the retailers as more costly than cash, when all aspects of cost were considered.[1] Credit cards were regarded as more costly than checks by 61 percent of the retailers. However, 13 percent thought checks, in total, were more expensive than credit cards.

Perceptions of relative transaction costs varied considerably among different size categories of retailers, as shown in table 4.8, particularly in

1 Tabulations not shown in the table indicate that only 2 percentage points of that figure were due strictly to merchant discount fees; 86 percent of the card-honoring retailers had ranked credit cards as more costly than cash in at least one separate category of cost (and not lower than cash in any other category).

TABLE 4.8

QUALITATIVE COMPARISONS OF TOTAL TRANSACTION COSTS
BETWEEN SELECTED MEANS OF PAYMENT
BY SIZE OF BUSINESS

Types of Transactions and Annual Volume of Sales	Frequency of Citation As: More Costly			About the Same
	Cash	Check	Card	
	(Frequency of response in percent)			
Check vs. Cash				
By size of business				
Less than $100 thousand	0	47	...	53
$100 - 999 thousand	1	50	...	49
$1 - 9.99 million	2	56	...	42
$10 - 99.9 million	0	81	...	19
$100 million and over	3	87	...	10
Card vs. Cash				
By size of business				
Less than $100 thousand	0	...	84	16
$100 - 999 thousand	1	...	87	12
$1 - 9.99 million	1	...	87	12
$10 - 99.9 million	0	...	88	12
$100 million and over	0	...	100	0
Card vs. Check				
By size of business				
Less than $100 thousand	...	16	70	14
$100 - 999 thousand	...	10	63	27
$1 - 9.99 million	...	12	61	27
$10 - 99.9 million	...	23	46	32
$100 million and over	...	28	48	24

Responses from survey of retailers, 1983.

the comparisons involving checks. In comparing checks with cash, for instance, smaller retailers were about evenly divided as to whether checks were more costly or about the same cost as cash. But in the two largest size groups, 80 percent or more of the retailers considered checks more costly. Similarly, a higher proportion of large retailers than of small retailers regarded checks as more costly than credit cards, and the proportion citing credit cards as more costly declined steadily as the sales volume category increased.

On the whole, then, retailers showed broad agreement in considering credit cards to be a more costly mode of transaction than cash, and a majority

believed cards to be more costly than checks as well. In general, checks were regarded as more costly than cash, particularly by larger retailers, although a large number of respondents saw little difference between them. Within categories of cost, retailers clearly felt that credit cards generated the highest point-of-sale costs, while checks were more likely to result in higher loss and security-related costs than the other methods. Cost differences were seen least frequently for deposit and financial costs.[1]

Table 4.9 provides statistics on average merchant discount and check verification fees paid. As shown on the top line of the table, retailers reported paying a 3.1 percent merchant discount fee, on average, and those who subscribed to a check verification system paid an average of 3.0 percent for that service. The table also provides average fees paid among various categories of retailers--by size, type of store, and proportion of sales by credit card or check.

The merchant discount fee appears to vary with the size of a business, measured by annual sales volume. Businesses of less than $100 thousand in sales reported an average factoring fee of 4.1 percent, while the largest businesses ($100 million and over) paid an average fee of 2.5 percent. Among types of businesses, those in the department store/general merchandise category paid an average fee somewhat below the norm, which may in part reflect a high proportion

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1. Comparative costs are subject to change, of course, particularly as changes occur in technology. For instance, card issuers are currently addressing considerable attention to reducing credit card costs by curtailing the unauthorized use of cards. Electronic terminals at the point of sale that can access up-to-date account information represent one avenue of possible reduction in credit card costs. Efforts to enhance the security of card systems include development of the "smart" credit card containing a small computer memory chip that can store information such as the credit limit for the account, amounts already charged, and a personal identification code that must be matched before the card can be used. New credit card designs containing holographic images that would be difficult and expensive to duplicate are being tested as a possible barrier to counterfeiting.

of large firms in that category. Groups composed of furniture/appliance stores, apparel stores, and gasoline stations each paid an average merchant discount fee that was very close to the overall average, while a large group of widely varied businesses paid a fee somewhat above average. However, the proportion of a business's sales transacted by credit card did not appear by itself to be closely related to the size of the merchant discount fee.

TABLE 4.9

MERCHANT DISCOUNTS ON CREDIT CARDS AND CHECK VERIFICATION FEES

Categories of Retailers	Merchant Discount		Check Verification	
	Number of Respondents	Average fee (percent)	Number of Respondents	Average fee (percent)
All Respondents	497	3.1	41	3.0
By Annual Sales				
Less than $100 thousand	35	4.1	0	...
$100 - 999 thousand	225	3.3	8	2.8
$1 - 9.99 million	153	3.1	18	3.2
$10 - 99.9 million	51	2.6	12	2.9
$100 million and over	33	2.5	3	2.5
By Type of Store				
Department/Gen'l Mdse.	37	2.6	5	2.8
Furniture/Appliance	102	2.9	5	2.6
Apparel	68	3.2	8	2.6
Gas Stations	62	3.2	3	4.2
All Other	228	3.4	20	3.1
Proportion of Sales by Card				
5 percent or less	168	3.4	...	...
5.1 - 10 percent	119	3.0	...	...
10.1 - 15 percent	44	2.8	...	...
15.1 - 25 percent	75	3.0	...	...
More than 25 percent	80	3.1	...	...
Proportion of Sales by Check				
10 percent or less	...	...	11	3.0
10.1 - 20 percent	...	...	10	2.8
20.1 - 35 percent	...	...	11	2.6
35.1 - 50 percent	...	...	6	3.5
More than 50 percent	...	...	0	...

Responses from survey of retailers, 1983.

Considerably fewer observations were available for check verification fees than for merchant discounts, which makes comparisons among size groups and types of business rather tenuous for check fees. It appears, for instance, that the largest stores may pay smaller check verification fees, but only three observations were available in that category.

In addition to the series of questions seeking qualitative cost comparisons, retailers were also asked about the typical size of transaction, and what they estimated the total transaction cost to be for each method of payment accepted. In essence, they were asked to make their best quantitative summary of the cost comparisons previously discussed. Responses were expressed as a percentage of the amount of the transaction. For analytical purposes, differences between cost estimates were computed for each pair of transaction methods; mean and median differences and some distributional data are presented in table 4.10.

On average, check transactions were estimated to be 1 percentage point more costly than cash transactions, although as many as 10 percent of the respondents thought the costs of checks exceeded the costs of cash by more than 3 percentage points. Compared with cash, third-party credit card transactions averaged 2-1/4 percentage points higher in cost, and nearly 20 percent of the respondents indicated that the cost of cards exceeded cash by more than 4 percentage points. Compared with checks, credit cards were about 1-1/2 percentage points more costly.

The quantitative estimates tend to substantiate the qualitative comparisons insofar as cash ranks as the least costly method of transaction and credit card as the most costly. Yet the average differences in costs appear rather small in light of other data collected in the survey. As

noted, about four-fifths of the qualitative responses indicated that credit cards were more costly than cash even before consideration of merchant discount fees, which makes it likely that overall credit card costs would exceed cash costs by at least somewhat more than the average size of the merchant discount. However, the average estimated difference between credit card and cash costs, at 2.19 percentage points, was nearly 1 percentage point less than the average merchant discount. While the quantitative cost estimates can hardly be regarded as precise, they nevertheless suggest that retailers regard the differences in in transaction costs among payment method as relatively small proportions of transaction amounts.

TABLE 4.10

QUANTITATIVE ESTIMATES OF COST DIFFERENCES

Type of Measure	Average Cost Difference in Percentage Points		
	Check Compared with Cash	Credit Card Compared with Cash	Credit Card Compared with Check
Mean	0.97	2.19	1.42
Median	0	2.00	1.50

Cost Difference Categories (in percentage points)	Percentage Distribution of Cost Differences		
	Check Compared with Cash	Credit Card Compared with Cash	Credit Card Compared with Check
Less than 0	6.4	9.5	13.9
0	44.6	14.4	21.1
0.1 to 1.0	21.1	12.9	13.4
1.1 to 2.0	11.3	16.4	21.1
2.1 to 3.0	6.4	18.4	12.9
3.1 to 4.0	3.4	9.0	6.2
Over 4.0	6.9	19.4	11.5

Responses from survey of retailers, 1983.

5. EFFECT OF CREDIT CARDS ON PRICES OF GOODS AND SERVICES

The Cash Discount Act specifies that the Federal Reserve study should address "the effect of charge card usage on the pricing of goods and services," and links this inquiry to a comparison of costs among methods of payment. This comparison was presented in Chapter 4. If, as indicated there, credit card costs are higher than for other types of payment, the primary issue becomes: do retailers incorporate the cost of credit into the prices they charge, so that everyone pays a higher price than would be paid in the absence of credit cards?

In addition to this essentially microeconomic question of price determination, the possible effects of credit card usage on movements in the general level of prices are sometimes discussed in legislative debate. The latter issue is really an aspect of a broader question about the macroeconomic impact of credit cards, and is best viewed in a comprehensive framework that considers jointly the impact of credit cards on the aggregate propensities to consume and on the demand for money balances, under various assumptions about resource utilization and policy actions.

5.1. Retailer Pricing Behavior: Microeconomic Perspective

A popular maxim is that "there's no such thing as a free lunch." According to this dictum, retailers unquestionably recoup their credit-related costs in the prices they charge for goods or services. The costs of doing business must be covered in the long run, since no firm can stay in business indefinitely if it is unprofitable. The coverage of credit card costs is not simply a matter of retailers calculating that cost and arbitrarily distributing it across the prices they charge, with no concern about any possible repercussions upon sales volume; rather, the cost of providing credit is one of many elements that determine the retail supply curves for particular

products. Prices in the marketplace are a result of both supply and demand forces, reflecting all costs, including credit costs, that shape the supply curve of retailers, and reflecting as well the incomes, tastes, and other factors that determine the demand schedules of consumers.

In the short run, whether a credit cost increase is included in a retailer's price becomes a question of that merchant's power to put the price of a product or a service at whatever level he chooses. The extent of this power is determined largely by the degree to which raising prices to cover the cost of credit will decrease the volume of sales. If a retailer's potential customers are not particularly sensitive to price changes, then any increase in costs to a retailer--such as in the cost of carrying receivables owing to rising interest rates--can be passed through more easily into the retail price. If buyers are resistant to price increases, then the retailer in the short run may have to accept a smaller profit margin when costs rise.

Magnitude of price effect. At the heart of the debate over the objectives of the Cash Discount Act is the issue of whether consumers who pay cash "subsidize" those who use credit cards, by virtue of the incorporation of credit costs (not offset by finance revenues) into retail prices of goods and services. While it seems evident that any added cost associated with credit cards would be incorporated in prices, the magnitude of the price impact would be a key determinant of the practical significance of the subsidy.

From the discussion in Chapter 4, it appears that there may be some costs linked to cash or check transactions that exceed corresponding costs for credit card use, but other costs associated with cards that are negligible in cash sales. From interviews with retailers and from independent studies, it would appear to be not far off the mark to view the purely transactional

of credit administration and financing of receivables as a rough approximation of credit card costs. These costs are partially offset by finance charge revenues and user fees, with the net difference showing up at the retail level as a credit department's operating deficit or as payment of the merchant discount fee to a third-party card issuer.

The merchant discount fee and the credit department deficit have been expressed in Chapter 4 as percentages of credit sales volume typically ranging from 1 to 5 percent, and averaging about 3 percent. From the survey of retailers, however, credit sales appear to represent only about 15 percent (third-party cards) to 30 percent (store cards) of total sales at stores that typically accept credit cards, so that the uncovered portion of credit card costs is spread over a total sales base considerably larger than the credit sales volume itself. Thus, total sales might be expected to incorporate a premium for credit costs (uncovered by credit revenues) ranging from less than 1/2 percent to perhaps 1-1/4 percent, some part of which would still be borne by credit card users in proportion to their 15 to 30 percent share of total sales. The implications for two-tier pricing that flow from the magnitude of the price effects attributable to credit cards are discussed in Chapter 6.

Price determination and credit surcharges. The extent of short-run pricing discretion of retailer is particularly relevant to one aspect of the debate over discounts for cash and surcharges for credit associated with the Cash Discount Act. A central question concerned whether retailers, if given the legislative license to add a surcharge for credit, would--or could--set the credit price substantially above the cash price without first lowering the cash price appreciably. A small surcharge reflective of actual credit costs would presumably conform with the intent of the Act; but a price hike

to credit card buyers far in excess of credit costs would thwart the Act's objectives. An expectation of the latter result would rest on either or both of two implicit assumptions: (1) that the retailer has the market power to raise prices without significant loss of sales, or (2) that demand for goods and services paid for by credit card is much less elastic than the demand of cash buyers.

As discussed above, in a highly competitive situation, any attempt by a seller to raise prices above a market-determined level would result in a pronounced shift of sales to competitors. Even in a less competitive situation, the seller still faces a demand schedule on which higher prices are associated with a smaller quantity demanded; if prices are raised, at least some sales are lost. Thus, to hike prices substantially and not suffer a decline in total sales revenues, a retailer must face demand that is relatively inelastic, i.e., insensitive to price changes. If this situation exists, though, the question arises why goods would not already be priced at a profit-maximizing level before enactment of any legislation to permit surcharges for credit. If demand at a given retailer can accommodate a large surcharge, it could have supported a boost in the nominal price in any case--unless the underlying demand schedules for card users and nonusers differ radically.

Only if credit card users are insensitive to price changes whereas cash buyers are responsive, would the conditions exist in which a price increase aimed at all customers might reduce sales revenue while a selective price increase for card users increased revenue. That is, even if markets are not competitive, the market power of retailers is not necessarily enhanced by the ability to charge different prices to credit card users, unless the demand of such customers is significantly less elastic than that of cash customers.

However, there appears to be no convincing theoretical argument or empirical evidence to suggest that such a dichotomous demand situation exists in fact.

Competition in retailing. From the above discussion, it is clear that the degree of competitiveness in retailing can be a key factor governing the adjustment of prices to changing credit costs in a one-tier pricing system, or the size of the premium that can be included in the credit price in a two-tier system. If markets are competitive, then changes in price by any seller are constrained by the presence of many other sellers to whom potential customers could turn. The textbook case of pure competition includes such primary characteristics as a large number of sellers (with small shares of the market) and ease of entry for new firms, undifferentiated products, and complete information available to buyers. In practice, few markets exhibit all of these characteristics, or any one of them in pure form, except perhaps markets for some agricultural commodities.

Retailing would appear to be characterized by a large number of sellers for any given product, though it is arguable that some sellers might be of sufficient dominance in some localities to exercise considerable control over price. In most markets, though, the number of retail outlets strongly suggests a reasonable approximation to the competitive model.

In addition to multiple sellers in retail markets, similarity of merchandise is also observable, even though many forms of product variation can be found that permit some degree of price differences. Much effort, in fact, goes into differentiating products by quality, styling, or special features. In many cases the ambiance, selling policies, or reputation of a a store becomes an element of differentiation for any item offered for sale. Nevertheless, for most products the exact same brand will be available in competing stores, closely comparable brands will be offered by other

competitors, and substitutes clearly distinct in some aspect will be available in still other stores.

In such a retailing environment, it becomes difficult to envision any merchant successfully tacking on a substantial surcharge above true credit costs to his usual price without a significant loss of customers over time. A customer taken by surprise might pay such a surcharge once rather than leave an intended purchase at the sales counter, but there would seem to be little reason for that customer to patronize the store in the future. Only stores where little repeat business is anticipated would appear potentially able to gain from excessive surcharges.

The above observations on the competitiveness of retailing are based for the most part on general impressions. Unfortunately, few rigorous studies exist that examine competition in markets that are relevant to this report. A rather extensive literature has developed regarding competition in the sale of groceries, but since groceries are seldom purchased by credit card, the findings of these studies are not directly useful for this report. Neither are there published studies available that estimate the elasticity of demand separately for credit card buyers as compared with cash buyers.

5.2. <u>Impact of Credit Card Use on Price Movements and Economic Activity</u>

Some observers have argued that credit cards, by enabling their holders to spend beyond the limits of their income, are a source of inflationary pressure in the economy.[1] The concern that credit expansion may exacerbate inflation is, of course, not confined to credit cards, although interest has often focused upon these instruments.

1. The Credit Control Act of 1969, for instance, which expired in 1981, had authorized the President to direct the Federal Reserve "to regulate and control any or all extensions of credit....whenever the President determines that such action is necessary or appropriate for the purpose of preventing or controlling inflation generated by the extension of credit in an excessive volume..." This law, as noted earlier, was invoked once during its statutory existence, by President Carter in March 1980.

The demand-side effects of credit cards on price movements are best understood as a special case of the broader relationship between credit cards and economic activity. In macroeconomic theory, two principal avenues exist by which credit card use might affect overall economic activity and the price level. If the introduction of credit cards into an economy reduces the desired saving rate, it would tend to increase output and aggregate income through the stimulative effect of increased consumption (assuming some initial slack in resource utilization that would permit expansion of output).[1]

A second route by which credit cards could affect economic activity is through their possible impact on the demand for money. As a convenient supplementary means of implementing purchases, credit cards might be expected to reduce the transactions demand for money for any given level of income and interest rates. With credit cards available, consumers could carry less currency and maintain smaller average checking account balances. The availability of a line of credit, moreover, might also reduce the precautionary demand for money. Thus, by enabling a given level of money supply to support a larger nominal volume of transactions, which would show up in an increased velocity of money, credit cards could contribute to expansion in real economic output (given less than full employment initially).

Some qualifications to the foregoing analysis are necessary, however. One qualification concerns the assumption of an initial condition of

1. Further secondary effects would be governed by various elasticities present in underlying relationships, and such factors as whether the money supply remained fixed as the effects of credit cards emerged. For instance, with the rise in consumption, the transactions demand for money balances would also tend to rise. Assuming a fixed supply of money, interest rates would have to rise in order to hold money demand constant. At higher interest rates, some investment spending would be discouraged, limiting the initial tendency towards economic expansion induced by credit cards. A full exploration of the many possible outcomes that could arise from a card-induced increase in consumption is beyond the scope of this report.

less than full employment. If the economy is operating at a level approaching full employment, then the output effects are by definition quite limited. Any tendency of credit cards to boost the propensity to consume or to induce the holding of smaller money balances would mainly result in a bidding up of prices.

Second, the foregoing analysis describes what is essentially a shift in equilibrium outcomes within an economy. It describes a tendency to shift to a higher output level or to a higher level of prices, given some change in underlying circumstances, but the analysis does not help to interpret ongoing economic processes such as the rates of change in output and prices over time. That is, nothing in the foregoing analysis implies any significant long-run impacts of credit cards on inflation or economic growth, except insofar as a change in the equilibrium saving rate may alter the long-run capital intensity of the economy.[1]

Third, the foregoing analysis assumed a given money supply, whereas in actuality some adjustments in the money supply might be expected if a measurable response by the economy to deployment of credit cards were detected. For credit cards to raise the general level of prices by reducing the need for transactions balances, the further condition must pertain that the monetary authorities would fail to recognize the shifting relationships between the money stock and aggregate spending, and would aim for monetary growth targets that were too high. If this were the case, the resulting inflation might be more properly seen as stemming as much from an error in

1. It is true, of course, that the utilizatio of credit cards has developed gradually rather than as a one-time change in economic structure. Thus, a series of continual shifts in equilibrium over a number of years could appear to be enhancing the process of economic growth or contributing to the process of price inflation. It would still need to be recognized that the inflationary or growth effects would dissipate as the utilization of credit cards reached a limit.

policy as from credit cards, per se, since the authorities could adjust monetary targets to a more appropriate growth path.

The impact of credit cards on the saving rate has already been discussed in Chapter 3. Several studies in recent years have examined the relationship between credit cards and the demand for money. E. Marcus,[1] in 1960, first examined the potential of credit cards to reduce the necessary average level of money balances by enabling a better synchronization of payments and receipts. M. Flannery and D. Jaffee, and T. Russell, developed models in which the transactions demand for money would be reduced as a result of credit card use.[2] K. White used cross-sectional data to conclude that average balances held per dollar of credit card transactions are considerably smaller than balances held for other types of transactions.[3] G. Garcia and S. Miller examined empirically the impact of credit cards on various components of alternative money concepts.[4] Both found that the demand for M1 is negatively related to a credit card variable, and that demand for time deposits and for M2 was also negatively associated with credit cards. In general, however, while some economists claim to have detected a statistically significant reduction of money demand associated with credit cards, the magnitude of the impact has usually been small.

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1. Edward Marcus, "The Impact of Credit Cards on Demand Deposit Utilization," Southern Economic Journal, vol. 26 (April 1960), pp. 314-16.
2. Mark J. Flannery and Dwight M. Jaffee, The Economic Implications of an Electronic Monetary Transfer System (Lexington, Mass.: Lexington Books, 1973).
3. Kenneth White, "Consumer Choice and Use of Bank Credit Cards: A Model and Cross-Section Results," Journal of Consumer Research, vol. 2 (January 1975), pp. 10-18.
4. Gillian Garcia, "A Note of Bank Credit Cards Impact on Household Money Holdings," Journal of Economics and Business, vol. 29 (Winter 1977), pp. 152-54.; and "Bank Credit Cards, Time Deposits, and M2," Journal of Economics and Business, vol. 30 (Spring/Summer 1978), pp. 230-35.

Stephen M. Miller, "The Money Supply Process and Credit Card Use: An Empirical Analysis," Eastern Economic Journal, vol. 8 (April 1982), pp. 89-99.

In summary, it seems clear that some small impact on the level of prices can be attributed to the positioning of retailer supply curves to reflect credit card costs not borne by card users, but no demand-related or other effects are discernible on the levels of output or of prices. All told, there is little persuasive evidence that credit card use has caused any appreciable alteration in the demand for money, and the impact of credit cards on the aggregate saving rate is also apparently quite small.

6. SEPARATE PRICING OF CREDIT CARD SERVICES AND RETAIL PRODUCTS

The Cash Discount Act of 1981 and its antecedents were designed to remove legal impediments to the charging of separate prices for goods sold for cash (or check) and for goods sold via credit cards. The fundamental objective of the Act was to foster a payments system in which the costs of open-end credit were borne by those who use such credit, and not in any way by those who do not use it.

Encouragement of a two-tier retail pricing structure was, of course, one way to approach the desired allocation of credit costs; an alternative way might have been to promote elimination of legal ceilings on consumer interest rates and removal of any other barriers that prevent creditors from charging the full cost of credit to its users. In this section, two alternative methods for achieving optimal allocation of credit card costs will be examined: (1) removing the barriers to recovery of credit costs through finance charges and user fees, and (2) establishing a two-tier retail pricing system through (a) discounts for the use of cash or (b) surcharges for the use of credit.

6.1. Cost Recovery Through Financing Revenues

Maximum interest rates that may be charged on consumer credit are regulated by individual states, generally through complex sets of laws that deal separately with different types of credit or different classes of creditors. Most laws governing consumer interest rates were enacted many years ago to create exceptions to statutory or constitutional provisions that had set a maximum "legal rate of interest," a rate generally recognized as much too low to make feasible the extension of relatively small consumer loans. With some notable exceptions, the special rate ceilings established

for consumer lending originally were set sufficiently high to avoid significant restraint on the volume of credit. Typically, 1-1/2 percent per month (18 percent annually) has been the maximum interest rate on credit card lending. In several states, that rate has applied on balances up to certain amounts, such as the first $500, with a lower rate applicable to amounts owed above the threshold level. A few states maintained maximums as low as 1 percent per month, and a few set ceilings as high as 1-3/4 percent.

Meanwhile, with the substantial rise in interest rates from the mid- to late-1970s, the cost of carrying credit card receivables increased considerably. Given the inflexible statutory ceilings on credit card interest rates, the rise in financing costs meant that earnings from such lending deteriorated. For bank issuers of credit cards, this declining profitability is evident in figures from annual Federal Reserve System surveys on costs associated with various banking functions, reported in the Functional Cost Analysis.[1] Table 6.1 reproduces from this report selected data on credit card costs for recent years, with banks grouped into three deposit-size classifications. While the actual cost of funds may differ from one institution to another, it is clear that on average the cost of funds was the major factor in the shift from positive to negative profitability on bank credit card operations between 1977 and 1981.[2]

The shrinking profitability of credit cards in the late 1970s provoked a number of responses among creditors and state legislatures. With rate increases impeded by state law and many card users escaping interest charges by paying monthly bills in full, the imposition by creditors of

1. Federal Reserve Bank of Boston, Functional Cost Analysis (Federal Reserve Bank of Boston, annual editions).
2. Comprehensive statistics for retail firms operating their own card plans are not available for a similar time period, but retailers are subject to the same general money and capital market forces as other suppliers of consumer credit.

"membership" fees unrelated to account activity was becoming increasingly common in 1979. It then spread rapidly in 1980 when federal credit controls created an additional incentive to raise the price of consumer credit.[1] Such user fees were illegal in certain states, but in some cases the legislatures revised their statutes to permit these non-interest assessments. By the late 1970s, lawmakers had also begun to raise or remove the restrictive interest rate ceilings as well.[2] In some cases, state legislatures were prodded into action by the fact or likelihood of banks moving their credit card operating arms to other states considered to have a more accommodating environment for such business.

In all, between the end of 1978 and the close of 1981, 32 states revised their laws governing interest rates on revolving credit accounts. At the end of 1978, five states had ceilings below 1-1/2 percent for the entire balance and 20 more states had ceilings below 1-1/2 percent applicable to a part of the balance. By the end of 1981, just one state constrained rates to below 1-1/2 percent on any amount owed, and only nine states maintained a limit below that level on some part of the balance.[3]

1. For certain types of credit, particularly "open-end" credit, creditors were required under the controls program to post a special non-interest-bearing deposit with the Federal Reserve for any increase in credit outstanding above a specified "base" amount.

2. Ohio, for example, has revised its consumer lending statutes twice since 1979. Effective in March of 1980, it brought allowable interest rates on revolving credit up to 1-1/2 percent per month from a previous graduated ceiling capped at 1 percent on balances over $400. Then in early 1982 it authorized creditors to charge whatever rate were established by contract with the borrower, not to exceed 25 percent per year. Several other states, including New Jersey and New York, now likewise limit finance charges to the rate "set by contract." Washington and Minnesota, two states which formerly capped credit card interest rates at 1 percent per month, have revised their laws. In Minnesota, customers now have the option of paying a 1 percent monthly finance charge plus an annual fee (maximum of $15), or a finance rate of 1-1/2 percent per month with no fee permitted. In Washington, the ceiling was raised to 1-1/2 percent per month in 1981, and Washington voters subsequently rejected an initiative item that would have restored the pre-1981 1 percent limit.

3. Charles H. Gushee, ed., The Cost of Personal Borrowing in the United States (Boston: Financial Publishing Company, 1979, 1982).

TABLE 6.1

NET EARNINGS ON CREDIT CARD PLANS AT COMMERCIAL BANKS
FOR SELECTED YEARS BY DEPOSIT SIZE CATEGORIES

Bank Categories by Deposit Size	Earnings and Costs as Percent of Receivables			
	1977	1979	1980	1981
Less than $50 million				
Net earnings before cost of money	4.63	3.89	4.70	4.96
Cost of money	4.97	5.80	6.90	8.49
Net earnings after cost of money	-.33	-1.91	-2.20	-3.53
$50 - $200 million				
Net earnings before cost of money	6.40	6.42	6.85	7.98
Cost of money	4.77	6.10	7.12	9.05
Net earnings after cost of money	1.62	-.32	-0.27	-1.07
More than $200 million				
Net earnings before cost of money	7.95	8.32	6.17	10.86
Cost of money	4.63	6.52	7.95	9.53
Net earnings after cost of money	3.32	1.80	-1.78	1.33

Source: Federal Reserve Bank of Boston, Functional Cost Analysis, 1978, 1980, 1981, 1982.

While rate ceilings have been perhaps the principal barrier to fully recovering the cost of credit directly from credit users,[1] other factors such as the customary interest-free "grace period" on accounts paid in full may also affect a creditor's ability to cover costs. The costliness of any grace

1. In 1968, G. Lynch found that prices paid on selected appliances in Little Rock, Arkansas (where finance rates were subject to a constitutional ceiling of 10 percent) were from 3 to 7 percent higher than prices paid in cities located in less restrictive states. The National Commission on Consumer Finance concluded that: "Regardless of the costs of providing any form of sales credit, a reduction by legislative fiat of the permitted gross income from finance charges necessitates adjustments in goods prices, fees, or availability. If not, lowered profits will force some retailers--probably small ones--out of business. While credit sellers may recover part of their lost income by reducing other services or adding fees for services previously furnished without charge, the most likely offset is an increase in cash prices resulting in a subsidy of credit by cash purchasers. (See: Gene C. Lynch, "Consumer Credit at Ten Per Cent Simple: The Arkansas Case," University of Illinois Law Review (1968), pp. 592-601, and National Commission, Consumer Credit in the United States, p. 107.)

period, of course, would vary with the cost of funds involved in financing receivables.[1]

The assessment of user fees and a moderate boosting of finance rates since around 1980 have been gradually shifting more of the cost of credit card operations onto the users of credit cards. Some card issuers have also acted to circumscribe the grace period by charging interest from the date of billing to the date of payment on accounts paid in full, or by charging a monthly "maintenance fee" on such accounts. These developments may be reducing the need to cover credit costs through merchant discount fees[2] or through higher prices charged for goods and services. The survey of retailers summarized in Chapter 4 suggests that merchant discounts indeed may have been pared down on average in recent years. The average fee reported there of 3 percent (unweighted in any way for size of firm) and the proportion of respondents paying a 5 percent fee are both lower than corresponding

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1. At least one economist, however, has concluded that "the impact of the so-called 'free ride' is probably substantially less than often suggested." From an examination of account records at a large retail chain in 1973, E. R. McAlister found that the 26 percent of active account holders who paid no finance charge during a 12-month period represented a much smaller share (4 percent) of total balances outstanding. (See E. Ray McAlister, with Edward DeSpain, An Empirical Analysis of Retail Revolving Credit (West Lafayette, Ind.: Krannert Graduate School of Management, Purdue University, 1975), pp. 47-48.) But McAlister, in turn, may have understated the magnitude of the "free ride." For one thing, the 49 percent who paid a finance charge "some of the time" also obtained a "free ride" on occasion, perhaps frequently, but McAlister did not report in detail on experience with these credit users. The significant rise in the costs of financing receivables since 1973 would also serve to temper McAlister's dismissal of the grace period's importance in the overall credit cost structure.

2. A study of four states having widely different rate ceilings found that the average merchant discount fee in a low-ceiling state (Arkansas) was considerably higher than in a high-ceiling state (Illinois). See Robert W. Johnson, Retailers: CRC 1979 Creditor Survey (West Lafayette, Ind.: Krannert Graduate School of Management, Purdue University, 1980). For a similar finding comparing merchant discounts in California and Washington State, see G. G. Gordon and others, The Impact of a Consumer Credit Interest Limitation Law (Seattle: University of Washington, 1970), p. 19.

measures generally believed to prevail a few years ago.[1] Legal barriers in several states still limit recourse to some or all of the methods for covering credit card costs discussed here, but certainly to a lesser extent than a few years ago. Continued state legislative action on this front could in time relegate the approach of the Cash Discount Act to a secondary role.[2]

6.2. Two-tier Pricing Structure

If the costs of credit are not fully met by financing revenues, they could theoretically be recovered from users of credit by charging them an appropriately higher price than paid by cash buyers. That is, any particular item could carry two prices, a cash price and a higher credit price.[3] This is the approach encouraged by the Cash Discount Act. As noted earlier, the Act also makes a further distinction between discounts for cash and surcharges for credit. A two-tier price structure established through discounts for cash is favored by the Act; two-tier pricing arrived at through a surcharge for credit is effectively barred.

The distinction between surcharges and discounts has little apparent foundation in economic theory. Economically speaking, the two are functional equivalents; in a two-tier system tied to the cost of credit, there are simply two separate prices, with the difference between them representing credit

1. Comparable survey data are not available for earlier periods, but personnel at a major card interchange system confirm that merchant discount fees have generally dropped in the past three to five years.
2. The effective removal of artifical barriers to finance rates and other fees would result in the determination of direct charges to credit users and factoring fees to retailers by market forces. The "merchant discount" would not necessarily be eliminated entirely, but would be established in a more fully competitive environment.
3. In fact, several price tiers would be allowable under the Act, apparently as long as the credit price--the "regular" price--occupied the highest tier. Given that the costs of checks for many retailers are less than for credit cards and more than for cash, some merchants might wish to adopt a three-tier pricing system. Discounts for cash could also vary by the size of the transaction or by the type of merchandise purchased. Three-tier and other possible pricing structures are not discussed in detail in this report.

costs not offset by financing revenues. Whether that difference is called a "surcharge" in reference to the lower price or a "discount" in reference to the higher price should not matter. Nevertheless, there may exist some practical considerations that warrant a legal distinction between surcharges and discounts.

From one viewpoint, it might appear obvious that surcharges and discounts would result in different pairs of prices. After all, if an item regularly sells for $20, a $1 discount for cash establishes a $20/$19 price structure, while a $1 surcharge for credit creates a $21/$20 price structure. The root problem with this view is the implicit assumption of a fixed, identifiable, "regular price" from which all adjustments would be made. In fact, of course, prices at the retail level may be altered repeatedly. Merchandise already labeled with a single price of $20 (for example) could be first repriced to $21, then offered on a discount-for-cash basis at some later point. Banning surcharges would not prevent establishment of a $21/$20 price structure, at least in the long run. For seasonal merchandise, such as clothing, the notion of an identifiable regular price is even more elusive--old stock is periodically removed and new items are offered for sale with freshly tagged prices. For a newly stocked item with a price tag of, say, $39 credit/$37 cash, no original one-tier regular price could be identified. Perhaps the item would have been priced at $38 under a single-price system; in fact, there is no way to tell.

Another way to view this issue is to ask why a merchant charging all customers $20 for a certain item would willingly reduce the price to $19 for some segment of his customers. If he could get $20, why would he charge $19? One possibility is that, by tying the discount to payment by cash, the merchant might hope to stimulate a shift from credit card use to cash that

would reduce his credit costs, thereby "paying for" the selective price reduction. The success of such a policy would require that the initial proportion of sales on credit cards be high and that a substantial switch from credit to cash occur in response to the offered discount (or that the cost of providing credit be very high).

For instance, if only 20 percent of sales are on credit prior to the discount, then any merchant choosing to discount from his "old" regular price would be reducing the price to the 80 percent of his clientele who already use cash (and pay his regular price) as well as to the much smaller target group of credit users who can be persuaded to switch to cash. If even half of those who normally use credit shift to cash (10 percent of the total clientele in this example), the cost of credit would have to be 8 times larger than any discount from the regular price if net profits are to be undisturbed. Based on the likely relationship between the costs of cash and the costs of credit discussed in earlier sections, the merchant in this situation almost certainly would have to raise his regular price before applying a discount in order to avoid a reduction in profits.[1]

But the offer of a discount might increase sales, it could also be argued, which could provide an additional offset to credit costs. This possibility requires careful analysis, however. The wholesale cost to the retailer of additional merchandise would have to be covered, as well as the reduced profit margins on items that could have been sold at the higher price, and any other increase in selling costs associated with higher volume. These requirements suggest the necessity that the merchant face a highly elastic

1. A more detailed example of how prices in a two-tier system might compare with the price in a single-price system is presented in Appendix C. The hypothetical example, for a gasoline service station that switches to a discount-for-cash system, utilizes some survey data on consumer reactions to gasoline discounts discussed below in Chapter 6, section 3.

demand curve. From the point of view of a single merchant who offers a discount (while most competitors do not), the sales increase argument seems to depend on competitors observing a loss of customers without retaliating through their own pricing strategies. If compensating actions of competitors are assumed, so that a sales increase for a typical merchant would have to represent "new" business not attracted from competitors--then the sales gain argument requires that industry-wide demand for the product be highly elastic; that is, that a reduction in price stimulates enough additional sales to increase total revenues by more than the cost of additional merchandise. But if this demand configuration exists, it generates a motivation--completely apart from the discount issue--to lower the price and reap additional sales. It then becomes necessary to explain why retailers would operate at an inferior pricing position prior to the time that discounts for cash became an option.

Perhaps the most straightforward argument for making a distinction between a surcharge and a discount--an argument that was employed in Senate floor discussions--is that to allow both approaches to two-tier pricing could breed unnecessary and detrimental confusion among consumers. If only discounts are allowed from the posted price, potential purchasers would always know that they would be charged no higher than the posted price; if surcharges are allowed as well, customers would be less sure whether the posted price is the higher credit price or the lower cash price. If advertising or in-store displays fail to make a surcharge policy clear, credit card customers may be attracted by a low advertised cash price and wind up paying an unexpectedly higher credit price.

The force of the above argument depends in part upon the degree of competitiveness in the marketplace, as noted in Chapter 5. In the long run, if retailing is competitive, stores that mislead customers about surcharge

practices stand to lose customers to more forthright competitors. Consumers might be caught unaware by a surcharge in some instances, but would be unlikely to be "stung" repeatedly.[1] Experience would lead consumers to avoid future visits to stores with poorly publicized surcharge policies, to come prepared to pay cash, or at least to shop with the knowledge that the credit price at certain stores is higher than the tagged price. Similarly, competition would tend to minimize the size of any surcharge, presumably to the approximate cost of uncovered credit costs.

6.3. Buyer and Seller Attitudes to Discounts

The first sections of this Chapter discussed the possible implementation of discount-for-cash plans primarily from a theoretical standpoint. Earlier sections addressed the cost conditions and card use habits that would affect the feasibility of two-tier pricing. But whatever the feasibility, the questions remain whether retailers operating in the marketplace would find two-tier pricing an attractive alternative, and to what extent consumers would respond to discounts for cash by switching from credit cards to cash.

Recent surveys provide some indication of consumer reaction to discounts for cash. The Federal Reserve has sponsored two surveys, one concerning gasoline purchases and the other dealing with likely responses to offers of discounts in various hypothetical situations. A pair of independent researchers has also obtained consumer responses to hypothetical discount offers, which they have integrated into a mathematical model for determination of an optimal size of discount.

Survey of gasoline purchases. By early 1983, gasoline purchase was the one area of retailing in which price discounts for cash payment were

1. Stores that do not depend upon repeat business, of course, would be better positioned to maintain a policy of high but [illegible] communicated surcharges.

offered to consumers on a widespread basis. The major gasoline refining and marketing companies, rather than local dealers, have been the principal proponents of two-tier pricing for gas. Faced from the mid-1970s until lately with steady increases in the cost of funds necessary to carry consumer receivables, the gasoline companies have sought various means to dissuade customers from using credit cards. Some companies had experimented with two-tier pricing in selected localities for several years, but it was not until the summer of 1982 that discounts for cash were made widely available. To document consumer reaction to these discounts, a survey of households about their gasoline buying behavior was conducted for the Federal Reserve by the Survey Research Center in January 1983.

In that survey, 52 percent of the almost 700 respondents possessed either a bank credit card, a gasoline company credit card, or a general purpose credit card (or combination of such cards). Just over half of these cardholders, however, reported that they "never" used credit cards to buy gasoline. By contrast, slightly more than 20 percent said they "always" used a credit card to buy gas. The remainder designated a frequency of credit card purchase ranging from one-fourth to three-fourths of the time. Respondents who held gasoline company cards--about 30 percent of the full sample--were also asked whether they used gasoline cards on a weekly, a monthly, or a lesser frequency. Nearly one-half of that subgroup said they used gasoline cards weekly; about 10 percent said they did not use the cards at all.

Respondents who held a bank, gasoline, or general purpose credit card were questioned further about their experience with discounts for cash. Results of some of these questions are presented in table 6.2. By January 1983, 60 percent of these respondents, at least once in the past year, had

been to a gasoline station that offered a discount for cash. Those thereby exposed to discounts were asked how they had paid for their purchase of gas on the most recent occasion that a discount had been available. About three-quarters of those answering the question had paid by cash. Since somewhat more than 60 percent of card holders had reported generally using cash,[1] it appears that the offer of a discount for cash generated a modest increase in the proportion of customers paying cash.

Certain characteristics of those who pay cash and those who use credit cards when offered discounts can be observed. When respondents are classified either as frequent credit card users or as frequent cash users, it can be seen, as might be expected, that virtually all of those who paid by credit card when offered a discount for cash were classified as frequent users of credit cards. Table 6.2 also shows that of 78 respondents classified as frequent users of credit cards,[2] 59 percent had used their credit card to buy gas the last time that a discount was offered, and 41 percent had paid with cash. Roughly speaking, then, about 40 percent of the target population surveyed (those who often use credit cards) used cash when offered a discount. Some of these, of course, might have used cash anyway, reducing the number of consumers that can be regarded as having altered their means of payment in response to the discount for cash.

To further investigate responses to discounts, respondents who had paid cash on the most recent offer of a discount were asked how they would

1. Those "generally using" cash included the approximate one-half of card holders that "never" used a credit card to buy gasoline, and some others--about 10 percent of the sample--who sometimes used a card but more frequently used cash.
2. Eighty-five respondents were identified as frequent card users, but 7 did not answer the question about their most recent purchase when a discount was available.

TABLE 6.2

USE OF CREDIT CARDS OR CASH IN PAYMENT FOR GAS
AND EXPOSURE TO DISCOUNT FOR CASH

	All Card Holders		Use Card[1] Frequently		Use Cash[2] Frequently	
	Number	Percent	Number	Percent	Number	Percent
1. Card holding respondents[3]	354	100	129	100	220	100
a. Not offered discount[4]	143	40	44	34	94	43
b. Were offered discounts[4]	211	60	85	66	126	57
2. Respondents offered discount[4]	199	100	78	100	121	100
a. Paid by credit card[5]	49	25	46	59	3	2
b. Paid by cash[5]	150	75	32	41	118	98
3. Respondents paying cash when offered discount[5]	147	100	32	100	115	100
a. Would have used cash[6]	124	84	20	63	104	90
b. Would have used card[5]	23	16	12	37	11	10

1. Use a credit card for one-half or more of gasoline purchases, or for one-fourth of purchases if gasoline card usage is weekly.
2. Use a credit card for one-fourth or less of purchases, and gasoline card usage is less than weekly.
3. Holders of bank, gasoline company, or general purpose credit cards. Those who hold only retail store credit cards are excluded.
4. Respondents were asked if on any occasion in the past year they had been offered a discount to pay cash for gasoline. Respondents on line 2 are fewer than on line 1.b. because some respondents did not provide answers for 2.a. and 2.b.
5. Those exposed to a discount at least once in past year were asked how they paid for gas on the most recent occasion that they were offered a discount. Respondents on line 3 are fewer than on line 2.b. because some respondents did not provide answers for 3.a. and 3.b.
6. Respondents who paid cash when offered a discount were asked how they would have paid for the gasoline purchase in the absence of a discount offer.

Responses from household survey, 1983.

have paid for the gas in the absence of a discount. Eighty-four percent said they would have paid cash anyway. Twenty-three respondents (16 percent) said they would have used a credit card. Looking only at the 32 frequent card users who paid cash when offered a discount, 20 said they would have paid

cash in the absence of a discount, and only 12 said they would have used a credit card. Thus, based on responses to this hypothetical question, the proportion of people who would actually alter their intended means of payment when offered a discount may be considerably smaller than the 40 percent suggested by a simple breakdown of frequent card users into categories of cash payment and credit payment. Of 78 frequent card users in the survey, 32 used cash, but for only 12 of these did use of cash actually represent a change in how they would have paid for the specific purchase in question.

Some of these results can be used to construct a hypothetical example of gasoline pricing before and after adoption of a discount for cash program. The example illustrates the argument advanced earlier that when a relatively large number of consumers use cash initially and/or when a relatively small number shift from card to cash when offered a discount, a seller must raise the "regular" price before applying the discount if a given level of profitability is to be maintained. The details of this example are given in Appendix C.

Survey of hypothetical reactions to discounts. In another monthly SRC survey, in October 1982, consumer reactions to discounts for cash on purchases of furniture and appliances and clothing were probed through a series of questions about certain hypothetical situations. Respondents identified as possessing at least one type of credit card among bank, store, and "general purpose" cards were asked to what extent they used a credit card to transact purchases in the durable goods and clothing categories. Choices were: "never, one-fourth of the time, about half, three-fourths, or all of the time." Dollar amounts of purchase were not specified, but it seems likely that furniture and appliance purchases would represent a fairly large dollar amount, while clothing would cover a broader range.

Respondents who said that they used a credit card some or all of the time (all responses other than "never") were then asked what they thought their card use would be if a discount of 3 percent were offered for paying by cash or check. Respondents who still indicated they would use a credit card at least some of the time were then asked about their reaction to a 5 percent discount; this procedure was repeated for discounts of 7 and 9 percent. There are obvious reservations that attach to this line of questioning. Aside from possible variance between hypothetical and actual reactions to a situation, the progressive nature of the questions risked inviting a response that credit cards would not be used if discounts were available. Nevertheless, it was believed that responses to such questions would provide a rough approximation of consumer sensitivity to discounts for cash.

Results for durable goods purchases are shown in table 6.3. The top panel presents responses relative to the number of card holders in the survey--around two-thirds of the panel. Among card-holding respondents, 48 percent said they never used credit cards to purchase furniture or appliances;[1] 52 percent would sometimes use a credit card, including 12 percent who said they used credit cards all of the time. If a discount of 3 percent were to be offered, the proportion of those who would sometimes use a credit card drops 20 percentage points to 31 percent of the card holders. As shown, each further increment in the hypothetical discount diverts additional respondents away from card use, but the largest shift occurs between no discount at all and the 3 percent level. At the highest level of discount discussed,

1. Those who never use credit cards, of course, might use other forms of credit to finance such purchases, including cash loans from banks, credit unions or other institutions. The proceeds of such loans would finance a "cash" transaction at the retail store.

15 percent of the card-holding respondents would use a card at least part of the time, and 2 percent would still use one all of the time.

The bottom part of table 6.3 incorporates respondents who do not have credit cards into the analysis. When they are added into the "never use card" column, an estimated 66 percent of all respondents would purchase durables without using credit cards, even when no discount for cash were offered.[1] At a 3 percent discount for cash, 80 percent would entirely dispense with credit cards, and at the highest discount considered--9 percent--90 percent would never use a credit card.

Respondents indicated a more frequent use of credit cards for clothing than for durable goods purchases. In the initial "no discount" situtation, 30 percent said they would never use a card to buy clothing. At a 3 percent discount, 53 percent would never use a card. At the highest discount considered, 81 percent would cease using a credit card entirely. The comparison between durables and clothing as to non-use of cards is shown in table 6.4.

Although a measurable shift from credit to cash appears likely, the survey results, especially for durables, suggest that a discount-for-cash program might be of limited cost effectiveness. It appears that the offer of a 3 percent discount may persuade 20 percent of the card-holding customer base to switch from credit to cash, thus generating savings on credit costs. But from 30 to 50 percent of the customer base that would pay cash anyway would have to be given the same discount given to the "switchers," strongly suggesting that the "credit price" in any two-tier system would have to be above the regular price in a one-price system.

1. This estimate is likely biased upward to some extent in that the group of respondents that have no credit cards may include some persons who buy few or no consumer durable goods.

TABLE 6.3

USE OF CREDIT CARDS FOR PURCHASES OF FURNITURE AND APPLIANCES
AT VARIOUS LEVELS OF DISCOUNT FOR CASH

Discount (Percent)	Responses as Percentage of Number of Card Holders						
	Would Use Card		Proportion of Time Would Use Card				
	Never	Sometime	None	1/4	1/2	3/4	All
0	48	52	48	22	12	6	12
3	69	31	69	16	8	2	5
5	75	25	75	12	7	2	4
7	82	18	82	9	5	2	3
9	85	15	85	9	3	1	2

Discount (Percent)	Responses as Percentage of All Respondents						
	Would Use Card		Proportion of Time Would Use Card				
	Never	Sometime	None	1/4	1/2	3/4	All
0	66	34	66	15	8	4	8
3	80	20	80	10	6	1	3
5	84	16	84	8	4	2	3
7	88	12	88	6	3	1	2
9	90	10	90	6	2	1	1

Responses from household survey, 1982.

TABLE 6.4

PROPORTION OF CREDIT CARD HOLDERS
THAT WOULD "NEVER" USE CARD

Discount (percent)	Type of Purchase	
	Durables	Clothing
0	48	30
3	69	53
5	75	64
7	82	74
9	85	81

Responses from household survey, 1982.

Independent study of feasible discounts. In a 1982 journal article, C. Ingene and M. Levy[1] set out the conditions under which a discount for cash can be advantageous to retailers and their customers, and used results from a consumer survey on credit buying habits and attitudes toward discounts to assess the feasibility of discount plans.

The authors began by presenting an equation for the "present value" of the sales of a retail merchant. The equation included terms for the proportions of sales on cash and third-party credit cards, respectively, as well as the proportion of the sales price retained on cash sales (which varies with the size of any discount for cash), and the proportion of the price retained on credit card sales (which depends upon the factoring fee paid to the card issuer and upon the number of days between the sale and the collection of funds from the card issuer). Given some cost of credit, the authors observed that the optimal discount for cash depends upon the proportion of credit customers that can be converted from credit to cash at various sized discounts.[2] All calculations were based on the assumption of an unchanged regular price that becomes the credit price when discounts are introduced.

To make an empirical estimate of the extent to which discounts for cash might induce customers to pay cash rather than use a credit card, Ingene and Levy conducted a random telephone sample of 248 respondents in a major southwestern metropolitan area. The questions presented hypothetical

1. Charles A. Ingene and Michael Levy, "Cash Discounts to Retail Customers: An Alternative to Credit Card Sales," Journal of Marketing, vol. 46 (Spring 1982), pp. 92-103.
2. This formulation ignores the possibility that a store offering a cash discount might attract additional customers. This outcome is excluded on the grounds that, in equilibrium, competitive conditions would result in other retailers offering similar discounts, negating the incentive for prospective customers to switch stores to obtain discounts.

situations in which consumers were asked to report their intended purchase behavior. As the authors described the survey, "respondents were asked, for example, if they would use a credit card or cash (or check) for a typical $100 purchase. If they indicated they would use a card, then the interviewer asked if they would prefer to use their card on a $100 item or pay $97 in cash or check; that is, would they accept a 3% discount. If they chose to use their card, they were asked if they would still use their card in lieu of $96 in cash, a 4% discount."[1] This iterative questioning procedure continued until the respondent indicated a preference for paying cash, or until a 7 percent discount level was reached. Part of the sample was asked questions regarding a $100 purchase, and another part was asked about a hypothetical $25 purchase. These questions, while quite similar to the Federal Reserve questions discussed earlier, differ from them in some respects. For instance, they concern purchases of a specified dollar amount rather than of particular types of products.

For the case of a $100 purchase, only 12 percent of the respondents indicated that they would typically not use a credit card; almost 90 percent would use a card.[2] In response to questions about discounts, only 8 percent said they would not switch from credit to cash for a 7 percent discount. Taking account of those that would have used cash without any discount and those who would stick with credit cards despite cash discounts, it appeared that 80 percent would switch from credit to cash for a discount of somewhere between 2-1/2 and 7 percent. At a discount of 3 percent, 50 percent of the sample thought that they would use cash for a $100 purchase--the 12 percent

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1. Ibid., p. 96.
2. This proportion of credit users is far higher than indicated in the Federal Reserve surveys, which may be partly due to the specification of a dollar amount of purchase in the Ingene-Levy study.

who would always use cash and 38 percent who would switch to cash for a discount of 3 percent.

When another set of respondents was asked about a $25 purchase, 34 percent indicated they normally would use cash (or check). All but 4 percent of the panel would pay with cash at some level of discount. Assuming that the propensities uncovered in these surveys truly reflected conditions faced by a typical retailer, the authors calculated that the optimal discount for purchases in the $100 range would be about 3 percent, but that for $25 purchases optimal results would be achieved with no discount at all.

The statistical summary of the findings for a $100 purchase is presented in table 6.5, reproduced from the Ingene and Levy article. In order to calculate the present value of sales, it was necessary to determine or assume the costs associated with cash and credit. The authors assumed that a retailer would pay a factoring fee of 5 percent to the card processor. They also assumed a six-day lag between a credit card sale and collection from the card processor, and used an interest rate of .05 percent per day to figure the present value of such receipts. The only explicit cost of cash was the hypothetical discount, which varied from zero to 7 percent.

As the discount for cash increased, the present value of cash sales would be diminished by the rising discount, offset to varying degrees by the cost saving on factoring fees no longer required for sales diverted from credit cards. The table shows, for progressive levels of discount, the proportion of people that would pay cash, and the calculated present value of sales. For the $100 case, peak profitability is reached at a 3 percent discount. The value of sales at a 4 percent discount still exceeds that at the no-discount level by a small margin. At higher discounts, the incremental number of switchers is relatively small, resulting in little additional

reduction in credit-related costs, but a widening decline in revenues because all cash customers must be given the higher discount.

TABLE 6.5

DISCOUNTED PRESENT VALUES FOR DISCOUNTS THAT CONSUMERS REQUIRE TO PAY CASH RATHER THAN USE CREDIT CARDS ON $100 PURCHASES

Discount	Cumulative Proportion Paying Cash	Discounted Present Value as a Percent of Sales*
0	.1176	95.34
2-1/2	.2745	95.48
3	.5000	95.86
3-1/2	.5784	95.75
4	.5980	95.45
4-1/2	.7157	95.27
5	.8235	94.95
5-1/2	.8627	94.53
6	.8824	94.13
6-1/2	.9020	93.62

*Assuming a factoring fee of 5%, a daily interest rate of .05% and a six-day lag between sales and collection from the factor.

Source: Ingene and Levy, "Cash Discounts to Retail Customers," table 1, p. 97.

A crucial determinant of these results is the linkage between the optimal discount and the size of the factoring fee. The authors, as noted, assumed a 5 percent factoring fee in their calculations, but a fee of around 3 percent may now be more nearly typical, even for smaller retailers, according to the Federal Reserve's retailer cost survey described in Chapter 4. When the Ingene-Levy estimates of present value of sales are recomputed for a 3 percent factoring fee, the benefit to the retailer of a discount for cash (with unchanged regular price) disappears entirely, notwithstanding the high incidence of credit card use in the no-discount situation.

At a 3 percent discount for cash, the calculated present value of sales is 24 cents lower per $100 of sales than when no discount at all is given. With a 4 percent factoring fee, the 3 percent discount for cash is optimal by a small margin--by 13 cents per $100 of sales, compared with the no discount case. Under these conditions, if the initial proportion of credit customers or the proportion of switchers from credit to cash were even slightly overestimated in the surveys, the small remaining advantage to the retailer from offering discounts could easily be eliminated.[1] With apparently so little to gain, then, it would not be surprising to find retailers hesitant to undertake programs to offer discounts for cash. Or that, if they do offer discounts, they adjust their structure of prices upward compared with the single-price level.

Results of retailer poll on attitudes to two-tier pricing. The Federal Reserve's survey of retailers in April-May 1983 included a number of questions about the extent to which retailers had adopted discount-for-cash programs and about retailer attitudes toward such programs. As will be seen, discounts for cash were considerably more widespread among gasoline retailers than among other retailers. In both cases, however, the offering of a discount for cash was not a typical practice.

Retailers offering a discount for cash were asked the size of the discount, how the size of the discount was decided upon, whether the discount was available for check payment as well as cash, what limitations (if any) applied to the discount, whether the program was permanent or was a temporary promotional measure, and whether the discount was automatically given to cash

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1. Moreover, in this relatively simple model, the costs of cash and checks are treated as equivalent, and payers by check also receive discounts. In fact, checks apparently are more costly to handle than cash. If customers switching from credit cards frequently choose to pay by check, the gains to the retailer would be minimized further.

customers or had to be requested. Discount-for-cash retailers were also asked what proportion of their customers received discounts for cash.

Retailers not offering discounts for cash at the time of the survey were asked a series of questions about whether they had ever offered such a discount and, if so, why they had discontinued the practice, or whether they had ever considered offering such discounts and, if so, why they had decided against it. Remaining respondents were also asked why they chose not to offer discounts for cash, and all non-discounting retailers were asked how large a discount they thought they could offer (assuming no change in prices) and still maintain the same level of profits.

Finally, all survey respondents were asked whether they thought it a good idea or a bad idea for a retailer to offer a discount to customers who pay in cash instead of by credit card, and respondents were probed for the reasons behind their assessment. They were also asked whether a surcharge for credit was preferable to a discount for cash, and why.

Table 6.6 presents a listing of businesses offering discounts for cash, and includes information on type of business, sales volume, proportion of sales on credit card, size of merchant discount paid, and the size and other characteristics of the discount for cash. Summary statistics by size and type of business are provided in table 6.7.

About one-fourth of the gasoline stations surveyed said that they provided discounts for use of cash. Other providers of discounts were widely scattered by type of business, representing about 6-1/2 percent of all non-gasoline retailers interviewed.

Aside from gasoline stations, lumber and building supply dealers were most frequently found to offer discounts for cash. Some dealers have customarily provided building contractors with discounts for immediate cash

TABLE 6.6

SELECTED CHARACTERISTICS OF BUSINESSES OFFERING DISCOUNTS FOR CASH

Type of Business	Sales Volume ($ thou.)	Proportion of Sales on Credit Card		Merchant Discount Paid	Size of Discount for Cash	Discount Also for Checks	Limitation on Cash Disc.[1]	Automatic or "Ask for"	Proportion of Customer Using
		Store	3rd-Party						
Lumber, Bldg. Supply	118,000	--	20	3.0	n.a.	no	n.a.	auto.	n.a.
Lumber, Bldg. Supply	1,000	--	5	1.9	2.0	yes	--	auto.	95
Lumber, Bldg. Supply	3,000	--	1	3.0	4.0	yes	min.	auto.	10
Lumber, Bldg. Supply	3,000	--	5	5.5	5.0	yes	mdse.	auto.	70
Lumber, Bldg. Supply	2,000	--	79	3.5	5.0	yes	--	auto.	21
Lumber, Bldg. Supply	1,100	--	1	2.0	10.0	yes	--	ask for	50
Lumber, Bldg. Supply	29,000	--	3	5.0	2.0	no	--	auto.	100
Paint, wallpaper	1,060	--	10	3.5	10.0	yes	--	auto.	100
Gas Stations	900	50	--	5.0	4.0	yes	mdse.	auto.	50
Gas Stations	1,100	40	10	5.0	3.0	no	--	auto.	25
Gas Stations	5,990	--	5	3.5	n.a.	yes	n.a.	auto.	55
Gas Stations	17,000	--	20	3.0	5.0	yes	--	auto.	50
Gas Stations	156,000	5	3	3.5	5.0	yes	--	auto.	95
Gas Stations	1,500	20	10	5.0	3.0	no	mdse.	auto.	50
Gas Stations	3,000	--	10	3.5	5.0	yes	mdse.	auto.	90
Gas Stations	1,500	--	20	3.0	3.0	yes	mdse.	auto.	95
Gas Stations	1,000	--	30	3.0	n.a.	yes	n.a.	auto.	65
Gas Stations	9,000	--	30	3.5	5.0	yes	mdse.	auto	40
Gas Stations	750	--	40	3.0	4.0	yes	--	auto	50
Gas Stations	4,000	--	20	3.0	4.0	yes	--	auto.	80

1. Discounts are limited to minimum size purchases (min.), to maximum size purchases (max.), or certain types of merchandise (mdse.).

"n.a." means a response was not available.

-- means that no limitations were imposed on discount availability.

Responses from survey of retailers, 1983.

TABLE 6.6 (continued)

SELECTED CHARACTERISTICS OF BUSINESSES OFFERING DISCOUNTS FOR CASH

Type of Business	Sales Volume ($ thou.)	Proportion of Sales on Credit Card		Merchant Discount Paid	Size of Discount for Cash	Discount Also for Checks	Limitation on Cash Disc.	Automatic or "Ask for"	Proportion of Customer Using Disc.
		Store	3rd-Party						
Gas Stations	820	10	--	n.a.	4.0	yes	min.	auto.	90
Gas Stations	100	35	5	3.0	3.0	yes	--	auto.	90
Gas Stations	1,330	15	--	3.0	3.5	yes	--	auto.	30
Gas Stations	12,100	--	25	4.0	4.0	yes	mdse.	auto.	50
Gas Stations	325	--	20	3.0	4.0	no	mdse.	auto.	60
Gas Stations	600	50	5	3.0	n.a.	yes	mdse.	auto.	40
Gas Stations	850	30	30	n.a.	3.0	no	--	auto.	60
Gas Stations	1,100	--	6	n.a.	3.5	no	mdse.	auto.	93
Gas Stations	1,340	--	10	3.0	3.0	yes	--	auto.	37
Gas Stations	107,000	15	25	n.a.	3.5	no	mdse.	auto.	70
Apparel	437	--	8	2.5	10.0	no	max.	auto.	n.a.
Apparel	30	--	20	n.a.	25.0	no	mdes.	auto.	65
Apparel	381	--	10	3.7	5.0	no	--	auto.	100
Apparel	40	--	3	5.0	5.0	no	--	ask for	5
Apparel	10	--	7	4.0	5.0	yes	min.	auto.	90
Furniture	875	--	5	3.0	5.0	yes	--	ask for	n.a.
Furniture	2,510	--	5	3.0	3.0	yes	--	auto.	70
Furniture	953	--	2	4.0	10.0	yes	--	auto.	100
Furniture	1,750	--	1	2.0	2.0	no	--	auto.	n.a.
Furniture	350	--	10	2.0	2.0	yes	max.	auto.	5
Furniture	1,500	--	15	1.5	5.0	yes	mdse.	auto.	15
Furniture	1,500	--	10	4.0	n.a.	yes	--	ask for	n.a.
Floor Covering	700	--	5	4.0	5.0	yes	--	ask for	70
Floor Covering	3,000	--	5	2.5	2.0	yes	--	auto.	100
Floor Covering	600	--	5	2.7	4.5	no	--	ask for	5
Drapery & Upholstery	300	--	10	2.5	5.0	yes	--	ask for	50

TABLE 6.6 (continued)

SELECTED CHARACTERISTICS OF BUSINESSES OFFERING DISCOUNTS FOR CASH

Type of Business	Sales Volume ($ thou.)	Proportion of Sales on Credit Card		Merchant Discount Paid	Size of Discount for Cash	Discount Also for Checks	Limitation on Cash Disc.	Automatic or "Ask for"	Proportion of Customer Using Disc.
		Store	3rd-Party						
Appliance & TV	700	--	15	2.5	2.0	yes	mdse.	ask for	30
Appliance & TV	293	--	5	2.0	n.a.	yes	mdse.	ask for	50
Appliance & TV	32	--	2	5.0	10.0	no	--	ask for	60
Music	220	--	1	4.7	4.0	no	min.	auto.	50
Music	47	--	4	4.0	4.0	yes	mdse.	auto.	50
Music	185	--	1	3.0	5.0	yes	--	auto.	80
Drug Stores	100	--	2	4.0	4.0	no	--	ask for	1
Drug Stores	800	--	1	5.0	10.0	no	mdse.	auto.	6
Sporting Goods	750	--	3	2.0	3.0	no	--	auto.	95
Stationery	791	--	1	4.0	10.0	yes	min.	auto	13
Stationery	8,500	--	5	4.0	3.5	yes	mdes.	auto.	20
Jewelers	359	--	45	3.0	10.0	no	--	auto.	45
Jewelers	865	--	40	3.0	5.0	no	--	ask for	5

payment (or, commonly, for payment within 10 days), which may be reflected in the high incidence of reported discounts in this group. Among other types of retailers, discounts of 10 percent were fairly common and one retailer reported a 25 percent discount. This latter respondent may have been citing a broader discount pricing approach,[1] in that a discount of 25 percent is likely much larger than the cost saving realizable from shifting some customers to cash from credit cards. The discounts of 10 percent also appear larger than supportable by cost differences alone, and thus may partly reflect expectations of or attempts to gain increased sales. Nevertheless, insofar as such discounts are tied to use of cash and not available to credit card users, they are appropriately treated as discounts for cash.

Summary statistics (table 6.7) show that the average size of the discounts for cash was just under 4 percent at gasoline stations and nearly 6 percent at other types of retailers (column 6). At 62 percent of the gasoline stations and at 43 percent of other retailers, a size-of-purchase or type-of-merchandise restriction limited eligibility for the discount (column 9). Several retailers--27 percent of the gas stations and 38 percent of the other retailers--excluded check transactions from their discount offer (column 8). The discount was automatically available at all of the gasoline stations, but had to be requested at a third of the other retailers (column 7), indicating that the availability of discounts in several cases was narrower than contemplated in the Cash Discount Act.

Among other statistics of note, average factoring fees paid to credit card issuers were slightly higher at retailers that offered discounts (3.4 percent) than at card-honoring retailers generally (3.1 percent, from

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1. Some "discount stores," for instance, advertise goods at prices substantially lower than a specified list price or one described as commonly available.

TABLE 6.7

PROPORTION OF RETAILERS OFFERING DISCOUNTS FOR CASH AND SELECTED STATISTICS BY TYPE AND SIZE OF RETAILER

Categories of Retailers	Total Number of Respondents	Respondents Offering Discounts for Cash: Number of Retailers	As Percent of: All Retailers	As Percent of: Card Acceptors	Size of Merchant Discount	Size of Discount for Cash	Proportion of retailers with discount: Given Only On Request	Proportion of retailers with discount: Not Given For Checks	Proportion of retailers with discount: Subject to Other Limits[1]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All Retailers	712	61	8.6	10.7	3.4	5.1	21	34	49
Gas Stations	92	22	23.9	26.2	3.5	3.8	0	27	62
All Other	620	39	6.3	8.0	3.3	5.8	33	38	43
All other, by sales									
Less than $100 thousand	79	5	6.3	13.2	4.5	9.8	40	60	60
$100-999 thousand	270	18	6.7	8.4	3.1	5.9	44	50	39
$1 - 9.99 million	169	13	7.7	9.1	3.1	4.6	23	8	38
$10 - 99.9 million $100 million and over	100	3	3.3	9.7	4.0	2.6	0	67	67

1. Limits most commonly mentioned included restrictions on the type of merchandise eligible for discounts or on the minimum size of purchase to which a discount would be applied.

Responses from survey of retailers, 1983.

table 4.9). The proportion of sales on credit cards at discount-offering retailers was somewhat lower than average.

Table 6.7 also indicates that the size of the discount for cash tended to vary with the size (sales volume) of the retailer, although the small number of observations limits the confidence that can be accorded the size-group breakdown. Still, differences in average discounts for cash among retailers of different size were rather striking. The pattern of difference is consistent with the factoring fee structure for credit cards whereby smaller merchants pay larger fees (and therefore have a greater incentive to offer larger discounts for cash).

The propensity of smaller merchants to give larger discounts is also consistent with the responses given by non-discounting merchants to the question of how large a discount they thought that they could offer and still maintain a given level of profits. Shown in table 6.8, this distribution of estimated "equal-profit" discounts shows smaller differences among retailer size groups, but the inverse association of size of business with size of discount holds across all categories of retailer.

Table 6.9 provides certain information about the retailers that reported not offering discounts for cash. A small number (about 4 percent of all respondents) once offered discounts for cash, but no longer do so. A larger group (about 18 percent) said they had considered offering discounts for cash, but had decided against such an action. Of those retailers that were not offering discounts, therefore, the majority had not seriously considered such an option. All retailers in these categories were asked why they were not offering discounts for cash. Responses are shown in the table for gasoline stations and all other retailers separately.

In general, there were few major differences among the categories of retailers in reasons for not offering discounts for cash. Many reasons were mentioned, with no single reason dominating the responses. Most often mentioned was the lack of need for such a measure, frequently because little or no business was transacted by credit card. Mentioned almost as often was the view that a discount for cash would be "too costly," would "cut profits," or might "start price wars." Several different reasons were mentioned by about 7 to 10 percent of the respondents. These included the assertions that discounts were "too confusing" or that "customers don't like" them, that discounts are "unfair" or "discriminatory" to some customers, and that the retailer might "lose sales" or "not gain any sales" by offering discounts. Bookkeeping and paperwork problems were mentioned by several gas stations but by only a few retailers in other lines of business.

TABLE 6.8

ACTUAL AND POSSIBLE DISCOUNTS FOR CASH AT NON-GASOLINE RETAILERS

<table>
<tr><th>Sales Categories of Retailers</th><th>Actual Discounts for Retailers That Offer Discounts</th><th>Possible Discount With Unchanged Profits for Non-discounters</th></tr>
<tr><td>Less than $100 thousand</td><td>9.8</td><td>5.3</td></tr>
<tr><td>$100 - 999 thousand</td><td>5.9</td><td>4.5</td></tr>
<tr><td>$1 - 9.99 million</td><td>4.6</td><td>3.7</td></tr>
<tr><td>$10 - 99.9 million</td><td rowspan="2">2.6</td><td>2.5</td></tr>
<tr><td>$100 million and over</td><td>2.2</td></tr>
</table>

Responses from survey of retailers, 1983.

TABLE 6.9

REASONS GIVEN BY RETAILERS NOT OFFERING DISCOUNTS FOR CASH

Categories of Retailers	Number of Retailers	Proportion Citing as Reason for Not Offering Discount							
		No Need; Not Many Card Sales	Too Costly; Cut Profits; Price Wars	Might Lose Sales; No Sales Gain	Unfair to Customers; Discriminates	Difficult For Sales Clerks	Confusion; Customers Don't Like	Bookkeeping Paper Work Problems	All Other Reasons
Used to Offer Discount, Don't Now	20	20	40	5	5	--	10	10	10
Gas Stations	4	(too few observations, proportions not meaningful)							
All Other	16	25	44	6	-	--	6	13	6
Have Considered, Don't Offer Discount	89	18	17	7	8	5	13	9	23
Gas Stations	15	13	20	-	7	-	13	33	13
All Other	74	19	16	8	8	6	12	4	26
Others not Offering Discount	391	33	19	7	6	3	11	3	18
Gas Stations	45	24	29	9	7	-	7	11	13
All Others	346	34	20	6	6	3	11	2	18

Responses from survey of retailers, 1983.

All survey respondents were asked whether they thought it a good idea or a bad idea for a retailer to offer discounts for cash. These responses, with the reasons given, are shown in table 6.10. While questions of this theoretical open-ended nature warrant conservative interpretation, the proportion labeling discounts a "good idea" is nevertheless impressively high at 41 percent of the panel. The figure is somewhat surprising in view of the far smaller number of retailers that actually offer discounts for cash. It may be that some respondents believe discounts are a good idea for retailers generally but, for some reason, not in their own situation. More likely, the assessments mainly reflect spontaneous reactions to an issue by respondents who had given it little serious thought before,[1] a situation that might tend to yield a relatively even division between "good" and "bad" assessments.

In view of the higher proportion of gas stations offering discounts than of other types of retailers, it is anomalous that a smaller proportion of gas stations viewed discounts favorably (34 percent) than was the case among other retailers (42 percent). Curiously, among the 21 gas stations actually offering discounts, 9 described that policy as a "bad idea." Reasons for regarding discounts as a "good idea" were rather evenly divided among such benefits as improved cash flow, generation of incremental sales or profits, a sense of fairness to cash-using customers, and better coverage of credit card costs.

How non-gasoline retailers of different size regarded the practice of giving discounts for cash is shown in Table 6.11. Clearly, smaller retailers were more likely to view discounts favorably; those in the lowest

1. As table 6.9 shows, only about 22 percent of retailers not offering discounts for cash had ever considered doing so (or had actually done so).

sales category were twice as likely to term discounts a good idea as were retailers in the highest sales category. This result is, of course, consistent with findings already presented that higher proportions of smaller retailers provide discounts for cash, that they pay higher factoring fees to card issuers, and offer larger discounts for cash.

TABLE 6.10

ASSESSMENT OF DISCOUNT FOR CASH AS GOOD OR BAD IDEA, WITH REASONS CITED

Categories of Retailers	Proportion[1] Responding "Good Idea"	Reasons for Regarding as Good Idea (percent of "good" responses)				
		Better Cash Flow; Prompter Receipt	Attract Customers; Sales Higher	Increase Profits	Fair to Customer	Cover Cost of Cards; Reduce Fees
All Retailers	41	15	14	11	13	8
Gas Stations	34	16	19	--	29	10
All Others	42	15	13	12	10	8

Categories of Retailers	Proportion[1] Responding "Bad Idea"	Reasons for Regarding as Bad Idea (percent of "bad" responses)				
		Too Costly; Cut Profits; Price Wars	Unfair to Customer; Discriminates	Confusion; Customers Don't Like	No Need; Not Many Card Sales	Might Lose Sales; No Sales Gain
All Retailers	57	23	20	15	11	8
Gas Stations	66	17	25	13	3	12
All Other	56	24	19	15	13	7

1. Proportions of "good idea" and "bad idea" responses do not add to 100 percent within particular categories because of "don't know" responses.

Responses from survey of retailers, 1983.

Finally, respondents were asked whether, instead of a discount for cash, adding an extra fee when customers use credit cards was a good idea or a bad idea. (Results are shown in table 6.12.) Twenty-nine percent of all respondents who answered the question thought that surcharges for credit

TABLE 6.11

ASSESSMENT OF DISCOUNT FOR CASH AS GOOD OR BAD IDEA BY SIZE OF RETAILER

Category of Retailer By Sales Volume	Total Non-Gasoline Respondents	Number Citing Discounts for Cash As:		Proportion Citing Discounts for Cash As:	
		Good Idea	Bad Idea	Good Idea	Bad Idea
All Respondents	613	257	341	41.9	55.6
Less than $100 thouand	80	40	38	50.0	47.5
$100 - 999 thousand	266	113	144	42.5	54.1
$1 - 9.99 million	168	73	94	43.5	56.0
$10 - 99.9 million	56	20	35	35.7	62.5
$100 million & over	41	10	29	24.4	70.7

Responses from survey of retailers, 1983.

represented a better approach to two-tier pricing than did discounts for cash.[1] Among non-gasoline retailers, smaller businesses were more likely than large businesses to regard surcharges as a better idea than discounts. On the whole, it did not appear that authorization of surcharges would have a major impact on the frequency of two-tier pricing. As indicated in previous tables, 42 percent of non-gasoline retailers described discounts for cash as a good idea, but only 6-1/4 percent actually were offering discounts in the spring of 1983. Judging from these results, if about 6 percent of those who thought surcharges to be the better approach would adopt two-tier pricing, an additional 2 percent of all non-gasoline retailers would employ a two-tier system.

TABLE 6.12

RETAILER COMPARISON OF CREDIT CARD SURCHARGE TO CASH DISCOUNT

Type of Retailer and Volume of Sales Categories	Number of Respondents	Percentage of Retailers That Said Surcharge Good or Bad Idea Compared to Discount for Cash	
		Good Idea	Bad Idea
All Retailers	700	29	71
Gasoline Stations	89	33	67
All Other	611	28	72
Less than $100 thousand	78	41	59
$100 - 999 thousand	267	31	69
$1 - 9.99 million	167	21	79
$10 - 9.99 million	55	20	80
$100 million and over	42	26	74

Responses from survey of retailers, 1983.

1. It made little difference whether the respondent had previously described discounts as a good idea or a bad idea.

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APPENDIX A

TEXT OF CASH DISCOUNT ACT OF 1981

Public Law 97-25
97th Congress

An Act

July 27, 1981
[H.R. 31]

To amend the Truth in Lending Act to encourage cash discounts, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Cash Discount Act".

Cash Discount Act.
15 USC 1601 note.

TITLE I—CASH DISCOUNTS

SEC. 101. Section 167(b) of the Truth in Lending Act (15 U.S.C. 1666f(b)) is amended to read as follows:

"(b) With respect to any sales transaction, any discount from the regular price offered by the seller for the purpose of inducing payment by cash, checks, or other means not involving the use of an open-end credit plan or a credit card shall not constitute a finance charge as determined under section 106 if such discount is offered to all prospective buyers and its availability is disclosed clearly and conspicuously.".

15 USC 1605.

SEC. 102. (a) Section 103 of the Truth in Lending Act (15 U.S.C. 1602) is amended by adding at the end thereof the following:

"Regular price."

"(z) As used in this section and section 167, the term 'regular price' means the tag or posted price charged for the property or service if a single price is tagged or posted, or the price charged for the property or service when payment is made by use of an open-end credit plan or a credit card if either (1) no price is tagged or posted, or (2) two prices are tagged or posted, one of which is charged when payment is made by use of an open-end credit plan or a credit card and the other when payment is made by use of cash, check, or similar means. For purposes of this definition, payment by check, draft, or other negotiable instrument which may result in the debiting of an open-end credit plan or a credit cardholder's open-end account shall not be considered payment made by use of the plan or the account.".

15 USC 1602 note.
94 Stat. 169.

(b) Effective April 10, 1982—

(1) subsections (x) and (y) of section 103 of the Truth in Lending Act (as redesignated by section 603(b) of Public Law 96-221) are redesignated as subsections (y) and (z), respectively; and

(2) subsection (z) of such section (as added by subsection (a)) is redesignated as subsection (x) and is inserted after subsection (w).

15 USC 1666f note.
Supra.

SEC. 103. Any rule or regulation of the Board of Governors of the Federal Reserve System pursuant to section 167(b) of the Truth in Lending Act, as such section was in effect on the day before the date of enactment of this Act, is null and void.

TITLE II—BAN ON CREDIT CARD SURCHARGES

SEC. 201. Section 3(c)(2) of Public Law 94-222 (15 U.S.C. 1666f note) is amended to read as follows:

"(2) The amendments made by paragraph (1) shall cease to be effective on February 27, 1984.".

SEC. 202. Not later than two years after the date of enactment of this Act, the Board of Governors of the Federal Reserve System shall prepare a study, on the basis of a review and analysis of such data and studies as it finds appropriate, and shall submit its findings to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives on the effect of charge card transactions upon card issuers, merchants, and consumers, including to the extent possible—

Study findings, submittal to congressional committees. 15 USC 1601 note.

(1) the effects of charge card transactions on retail sales;

(2) the effect of charge card usage on consumers and on merchants, including the effects on merchant cost; and

(3) the effect of charge card usage on the pricing of goods and services, with a comparison of the costs resulting from payment by (A) currency and coin, (B) by personal check or similar instrument, (C) by in-house credit plans, and (D) by charge card.

TITLE III—MISCELLANEOUS

SEC. 301. Section 625(c) of Public Law 96-221 is amended by adding at the end thereof the following: "Any creditor who elects to comply with such amendments and any assignee of such a creditor shall be subject to the provisions of sections 130 and 131 of the Truth in Lending Act, as amended by sections 615 and 616, respectively, of this title.".

94 Stat. 185. 15 USC 1602 note.

94 Stat. 180, 182. 15 USC 1640, 1641.

SEC. 302. Section 5137 of the Revised Statutes (12 U.S.C. 29) is amended by adding at the end thereof the following new paragraph:

94 Stat. 186.

"Notwithstanding any other provision of this section, any national banking association which, on the date of enactment of this paragraph, held title to and possession of real estate which was carried on the association's books at a nominal value on December 31, 1979, may continue to hold such real estate until December 31, 1982, if the earnings from such real estate are separately disclosed in the financial statements of the association.".

SEC. 303. (a) Section 204 of the Public Health Service Act is amended by inserting after the first sentence the following new sentence: "The President may appoint to the office of Surgeon General an individual who is sixty-four years of age or older.".

42 USC 205.

Presidential appointee.

(b) Section 211(a)(1) of such Act is amended by adding at the end thereof the following new sentence: "This paragraph does not apply to the Surgeon General of the United States.".

42 USC 212.

Approved July 27, 1981.

LEGISLATIVE HISTORY—H.R. 31 (H.R. 3132) (S. 414):

HOUSE REPORT No. 97-159 (Comm. of Conference).
SENATE REPORT No. 97-23 Accompanying S. 414 (Comm. on Banking, Housing, and Urban Affairs).
CONGRESSIONAL RECORD, Vol. 127 (1981):
Feb. 24, considered and passed House.
Mar. 5, S. 414 considered in Senate.
Mar. 12, considered and passed Senate, amended, in lieu of S. 414.
May 4, H.R. 3132 considered and passed House.
May 20, June 24, House considered and agreed to conference report.
July 14, Senate agreed to conference report.

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APPENDIX B

FEDERAL RESERVE SURVEYS ON CREDIT CARDS AND RELATED MATERIALS

The Federal Reserve Board has sponsored a number of consumer and retailer surveys, mentioned in the text of this report, that focus on credit cards to some extent. Three surveys--two of consumers in 1982 and 1983, and one of retailers in 1983--were designed specifically to address issues discussed in the report. All of the consumer and retailer surveys summarized below were conducted on behalf of the Federal Reserve Board by the Survey Research Center (SRC), Institute for Social Research, University of Michigan. In addition, the Federal Reserve Board initiated, and served as a joint sponsor of, a benchmark Survey of Consumer Finances in 1983. Information from over 4,000 households was collected by SRC mainly in the spring and summer of 1983. Results are not yet available.

<u>1977 Consumer Credit Survey</u>. A survey of 2,563 households, conducted in August and September of 1977, explored consumer use of different types of credit, and measured consumer awareness, understanding, attitudes, and behavior regarding credit and its regulation. Field work was jointly sponsored by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. An analysis of the information obtained in the survey was published in Thomas A. Durkin and Gregory E. Elliehausen, <u>1977 Consumer Credit Survey</u> (Washington: Board of Governors of the Federal Reserve System, December 1978).

<u>1978 Follow-up Survey of Consumers</u>. In August and November of 1978, SRC conducted reinterviews with many of the same households questioned in the 1977 Consumer Credit Survey. An analysis of some of the reinterview findings appeared in Charles A. Luckett, "Household Financial Behavior:

Implications for Consumer Spending," West Lafayette, Ind.: Krannert Graduate School, Credit Research Center Working Paper No. 37 (1980).

Consumer holding and use of credit cards. On several occasions in 1981, 1982, and 1983, SRC included a set of Board-sponsored questions on credit card holdings and use in its regular monthly Survey of Consumer Attitudes that covers about 700 households. Results appear at various places in this report.

Consumer reactions to discounts for cash. In October 1982 SRC included a set of Board-sponsored questions about cash discounts in its regular monthly Survey of Consumer Attitudes. Approximately 700 households were queried about their reactions to discounts for cash on purchases of furniture and appliances and clothing through a series of questions about certain hypothetical situations. Results are discussed in Chapter 6 of this report.

Means of payment for gasoline purchases. In its January 1983 Survey of Consumer Attitudes, SRC asked approximately 700 households a set of Board-sponsored questions about consumer use of credit cards to purchase gasoline, and about consumer experience with discounts for cash in buying gasoline. Results are discussed in Chapter 6 of this report.

Retailer credit policy. SRC conducted a Board-sponsored survey in April-May 1983 of a sample of retail organizations, primarily to develop information about relative costs to merchants of cash, check, and credit card transactions, merchant preferences regarding these modes of transactions, merchant experience with cash discounts, and merchant attitudes toward discounts for cash and surcharges for credit.

The survey was based on telephone interviews with 713 retail establishments selected as a stratified random sample among types of firms

likely to accept several means of payment, including credit cards. The study population encompassed all retail establishments in the coterminous United States with a primary Standard Industrial Classification code from one of the following categories: 52 (building materials and garden supplies), except 527 (mobile home dealers); 53 (general merchandise stores); 553 (auto and home supply stores); 554 (gasoline service stations); 56 (apparel and accessory stores); 57 (furniture and home furnishing stores); 591 (drug stores and proprietary stores); 594 (miscellaneous shopping good stores); 5961 (mail order houses); 5983 (fuel oil dealers); 5984 (liquefied petroleum gas dealers); and 5992 (florists). Results of the survey are discussed in various places in this report, especially Chapters 4 and 6.

Other Federal Reserve materials on credit cards. In 1968, a Federal Reserve System Report was published on Bank Credit-Card and Check-Credit Plans (July 1968). At the end of 1972, the Bank Report of Condition contained a special statistical supplement on credit cards, analyzed by David F. Seiders in "Credit-Card and Check-Credit Plans at Commercial Banks," Federal Reserve Bulletin (September 1973), pp. 646-53. In addition, in its monthly statistical release entitled "Consumer Installment Credit" (G.19), the Federal Reserve Board regularly publishes estimates of the amount of revolving credit at commercial banks, gasoline companies, and retailers.

APPENDIX C

HYPOTHETICAL EXAMPLE OF TWO-TIER PRICING OF GASOLINE

This Appendix presents a hypothetical example of gasoline pricing before and after adoption of a discount-for-cash program. The example assumes that there are no shifts in underlying wholesale gasoline prices, that sales volume remains constant, and that the gasoline retailer has an objective of maintaining a constant level of profits.[1] The purpose of the example is to indicate the relationship that could be expected between a former single price for gasoline and a new two-tier set of prices, using estimates about certain aspects of buyer behavior that were discussed in Chapter 6, section 2.

The example, shown in table C.1, is constructed with 100 customers each buying one gallon of gasoline. Drawing on the household survey results, the assumption is made that about 40 customers would use credit cards and 60 would pay in cash in the absence of a discount offer. For sake of illustration, it is assumed that gross receipts of $120 would cover all costs, including credit card costs, and yield the gasoline seller some desired level of profits. Obviously, under a single-price system, the retail price of a gallon of gas would be $1.20 to each customer.

Introduction of a discount-for-cash policy complicates the price structure. In line with the discussion in Chapter 6 and statisti - in table 6.2, when a discount is offered, the proportions of cash and credit buyers are assumed to shift from .60 and .40, respectively, to .75 and .25.

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1. It is recognized that the introduction of a discount-for-cash program may affect a station's volume of sales, at least at first. The station may hope to increase sales by attracting cash users away from competitors. But--to repeat a point made elsewhere in this report--competitive response by other stations is likely to minimize any sales advantage initially accruing to a dealer that sets up a two-tier system. Unless two-tier pricing were to stimulate total industry-wide gasoline sales, it would be inappropriate to assume some permanent sales gain for any particular retailer.

In the present example, then, 75 persons would buy for cash and 25 would use a credit card under two-tier pricing, for a net shift of 15 customers from credit to cash. Since this shift would reduce the seller's cost of carrying receivables, the gross revenue needed to maintain level profits would drop by 15 times the per gallon cost saving. In the example, a credit-handling cost of 3 cents per gallon of gas sold on credit is used, which approximates the cost estimated by several major gasoline companies. By influencing 15 customers to switch from credit card to cash, the gas station in the example could save 45 cents in credit servicing costs, thus reducing the level of gross revenues needed to maintain constant profits to $119.55 from $120.

Assuming that the cash price and credit price would be set to differ by the amount of credit-related costs per gallon, it can be calculated (as shown in table C.1) that the gasoline seller would need to price gas at $1.188 for cash sales and $1.218 for credit sales.[1] Because the lower price for cash must be offered to those who would pay cash anyway, the cash price cannot be reduced from the old $1.20 price by the full amount of the per gallon cost of credit. Instead, the two-tier price would points bracket the old single price point.

Retail gasoline prices in the real world often fluctuate a few cents from week to week. Thus it is difficult to judge how closely an actual station's two-tier price structure vis-a-vis an alternative single price policy might compare with the example sketched here. However, as noted,

1. Alternatively, rather than assuming a price differential equal to the difference in cost between credit card and cash transactions, then solving for the two prices, one could assume the credit price to be set equal to the price that would be charged in a one-tier system ($1.20 in this example), then solve the equations for the cash price. Under this approach, it can be calculated that, given the credit price of $1.20 in the two-tier system, the cash price would have to be at least $1.194 to maintain the target level of profits.

values of the key variables in the example were chosen--based on survey results--to realistically reflect conditions faced by typical gasoline retailers. Moreover, as further calculations under alternative assumptions would show, the implications of the example do not depend narrowly on the specific values of the variables used. That is, under widely different customer purchasing habits, the new two-tier price schedule would still bracket the old one-tier price. For instance, if it were assumed that as many as 60 percent (instead of 40 percent) of the customers would use credit cards in a single-price system, and that only 20 percent would use credit cards in a two-tier system,[1] the "equal-profit" prices would be $1.182 for cash and $1.212 for credit, compared with the one-tier price of $1.20.

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1. In other words, 40 percent of the total customer base would switch from credit card to cash in this alternative, compared with 15 percent who switched in the original example.

TABLE C.1

HYPOTHETICAL GASOLINE PRICING WITH CONSTANT PROFITS
UNDER ONE-TIER AND TWO-TIER PRICING SCHEMES

Single-price case		Two-tier pricing:
$aX + bY = R$	revenue function	$(a+s)X + (b-s)Y = R - cs$
$X - Y = 0$	price structure	$X = Y - c$

calculations:

Single-price case	Two-tier pricing
$60X + 40Y = \$120$	$(60+s)X + (40-s)Y = \$120 - \$.03s$
$X - Y = 0$	$X - Y = -c$
$100X = \$120$	
$X = \$\ 1.20$	$75X + 25Y = \$119.55$
$Y = \$\ 1.20$	$X - Y = -\$\ .03$
	$100X = \$118.80$
	$X = \$\ 1.188$
	$Y = \$\ 1.218$

where:
- X = cash price
- Y = credit price
- a = number of customers per 100 that typically pays cash
- b = number of customers per 100 that typically uses credit card
- R = desired gross revenue for initial cash/credit sales mix
- s = number of customers that shifts to cash from credit
- c = cost of financing receivables per gallon of gas sold on credit

assumptions:

- $a = 60$, $b = 40$
- $R = \$120$
- $s = 15$
- $c = .03$
- each customer buys one gallon of gas

SIGN-IN SHEET Proposed Legislation HB 246

Name (please print)	Address	Representing	Testify?? (YES or NO)	Phone Number
DON MAGNUSSON	174 S. FRANKLIN JUNEAU	ALASKA RETAIL ASS'N	YES	586-6706
JOHN ANDREW	333 S. Hope St. Los Angeles, CA	J C Penney	No	(213)620-1740
Joseph Morales	9005 Fremont Ave. Alhambra, CA.	Sears, Roebuck	No	(213)576-4618
GARY L. JENKINS	P.O. Box 194, Auke Bay	Specialized Prof. Services	yes	586-4100
Willis Kirkpatrick	Director of Banking		yes	
Susan R Clark	1109 C St Juneau	Self	yes	586-6952
Roy Kehrer	536 [illegible] # D Juneau	Self	yes	[illegible] 5887
Richard Hall	Box 600 Anch	NBAA	Yes	265-2936
David Gray	835 Calhoun, Jnu	Tlingit-Haida	Yes	586-1557
Win Gruening	PO Box 1067 Juneau 99802	Alaska Bankers Assn	Yes	586-[illegible]

SENATE LABOR AND COMMERCE COMMITTEE HEARING DATE 5/26/83

De regulation of interest rates

LEGISLATIVE TELECONFERENCE NETWORK SIGN IN SHEET

DATE:

Start time:
End time:
Address:
Bin Number:

LOCATION:

SPONSOR/SUBJECT:

PLEASE PRINT

NAME/REPRESENTING	ADDRESS	PHONE	Here to Testify	Here to Observe
John Ellis/	1414 Karluk 01	276 0353	X	
[illegible] / The Alaska Women's Political Caucus		279-3982	X	
Tom Alvarez	200 Potter DR			
Tim Erickson	Anch Daily News			
Hugh Fleischer	1409 W. 11th Ave. Anch	279-5520		
Thomas	ADN			
Jane Angvik	600 Barrow St	277-6923	X	
Nancy ~~An~~ Groszek	Ak. Women Caucus			
Gary Wills	Home Savings & Loan			

Legislative Information and Teleconference Networks

LEGISLATIVE TELECONFERENCE NETWORK SIGN IN SHEET

Start time:
End time:
Address:
Bin Number:

DATE: 3 MAR 84
LOCATION: ANCHORAGE LTN/LIO
SPONSOR/SUBJECT: SENATE L&C
HB 246

PLEASE PRINT

NAME/REPRESENTING	ADDRESS	PHONE	Here to Testify	Here to Observe
Bonnie Barker [illegible] ☆	[illegible] Carlston [illegible] Juneau, AK [illegible]	276-4331	✓	
Maureen Kennedy - AKPIRG ☆	PO Box 1093 Anch AK 99510	278-3661	✓	
[illegible, crossed out]		[illegible, crossed out]		
Monte Engel ☆	615 "A" St, Suite 100 Anchorage, AK 99501	272-9407	✓	
[illegible] ☆	3321 Sleeping Lady Lane Anchorage, Alaska 99502	349-1572	✓	
Dorsell Smith ☆	12100 Skyway Drive Anch AK 99515	344-8035	✓	
Willis Ratcliff ☆	835 [illegible] Anc 99501	277-7733	✓	
John H. Andres	333 S. Hope St #3720 Los Angeles, CA 90071	213 620-1740		✓
L. DELGADO	4670 [illegible] Dr. G-16 Anchorage AK 99504	907-338-[illegible]		✓
Carl [illegible]	3830 [illegible] Anch AK 99504	333 5609		✓
Doug [illegible]	9420 [illegible] 99504	337-1368		✓
Margaret Lippitt	2203 [illegible] Ave, Seward	248-4070		✓
Charles Lippitt ☆	"	"	✓	
Gary Mills Home Savings & Loan	535 A St. Anchorage	273-1451		✓
FRED MORINO ☆	935 [illegible] St 99501	272-55[illegible]	✓	

MSG 84-00020421 PRTY 1 03/03/84 10:13:42 ORIG: LS90 IN= 0002 OUT= 0022
FROM: FALEENE/SITKA TO: MODERATORS
TARGET: LAH2 SUBJ: (S)L&C, HB246, T/C

OMNI #1

#5

TO TESTIFY

1. MARCIA JOHNSON, REPRESENTING ALASKA WOMEN'S COMMISSION

TO OBSERVE:

1. CANDY RUTLEGE

EOM

MSG 84-00020420 PRTY 1 03/03/84 10:12:57 ORIG: LJ09 IN= 0002 OUT= 0021
FROM: MARTHA/JACK JNU TO: ALL SITES
TARGET: LAH2 SUBJ: TC PUB HEARING HB 246 DEREG INT RATES

TESTIFY 1. GARY JENKINS
2. WIN GRUENING

#6

OBSERVERS:
1.W. COYNER
2.D. MAGNUSON
3.J. VARRATI
4.B. RAMAGE

FOR JUNEAU TO RECEIVE INFO, PLEASE INCLUDE LJHG AFTER THE LAXTC ADDRESS

THANKS

10:2 :30 ORIG: LJ09 IN= 0003 OUT= 0026
FROM: JACK/MARTH ... TO: ALL ...TES
TARGET: LAH2 SUBJ: TC PUB HRNG HB 246 DEREG INT RATES

PLEASE CORRECT ...EAU PRINTER ADDRESS TO READ L...
TESTIFY:
3. SUSAN CLARK
OBSERVE:
5. W. K...PATRICK

HOMER CALLED IN, TO TESTIFY: BILL SCHNIDER

EOM

#3

MSG 84-00020419 PRTY 1 03/03/84 10:05:29 ORIG: LG00 IN= 0004 OUT= 0020
FROM: JOANN / GLENNALLEN TO: DAVE
TARGET: LAH2 SUBJ: TC HB 246 DEREG. INTEREST RATES

OMNI 2.

MAXWELL FANCHER WOULD LIKE TO TESTIFY.

EOM

MSG 84-00020417 PRTY 1 03/03/84 10:00:53 ORIG: LF02 IN= 0001 OUT=
FROM: PAULA/FKS TO: DAVE ANC
TARGET: LAH2 SUBJ: DEREGULATE INTEREST RATES T/C

OMNI # 1 FAIRBANKS PARTICIPANTS

TO TESTIFY:

#4

TO OBSERVE

1. WILLIAM GREEN, AK BANKERS ASSOC. -- MAY TESTIFY LATER

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

M E M O R A N D U M   May 31, 1983

SUBJECT: Deregulation of interest rates (SCS CSHB 246 (L&C))

TO: Senator Richard I. Eliason
Chairman, Senate Labor and
Commerce Committee

FROM: Thomas A. Sofo TAS
Legislative Counsel

You have requested this office to prepare a sectional analysis of SCS CSHB 246 (L&C).

Section 1 of the bill removes the fixed numerical interest rate ceiling on small loans. It allows Alaska small loans lenders a rate as high as can be mutually agreed on by contract.

Section 2 does the same thing for premium financing agreements by removing the numerical percentage interest ceiling and replacing it with a rate agreed on by contract.

Section 3 increases the interest paid on eminent domain judgments from six percent a year to five percent above the lawful rate of interest. The lawful rate of interest referred to is the rate set in AS 45.45.010(a) which presently is 10.5 percent a year.

Section 4 removes the interest ceiling from retail installment contracts and replaces it with a rate agreed on by contract. An example of retail installment contracts are the types of agreements typically used by furniture stores.

Section 5 removes the ceiling formerly contained in subsection (b) to AS 45.45.010. That ceiling was a limit on interest charged by the express agreement of the parties to five percentage points above the Twelfth Federal Reserve district rate. The bill does not change the rate of interest in state in the absence of an agreement, which

remains at 10.5 percent a year, but removes the floating ceiling rate formerly contained in subsection (b) which was the upper limit for the legal rate of interest to be charged when there is an express agreement by the parties.

Section 6 merely reenacts the changes deleted in sec. 1 of the bill.

Section 7 undoes the amendments made in sec. 2 of this bill.

Section 8 undoes the amendments made in sec. 3 of this bill.

Section 9 is the first half of the amendment which returns to the original the legal rate of interest language which was changed in sec. 5 of the bill.

Section 10 reenacts the open-end loans statute which is repealed in sec. 14 of the bill.

Section 11 reenacts AS 06.45.060(5)(A)(vi) which is the section dealing with interest rates for credit unions.

Section 12. The addition of subsection (i) to AS 45.45.010 is merely a reinsertion of the language which was formerly contained in AS 45.45.010(b).

Section 13 requires the division of banking to make a report to the legislature on or before March 15, 1985, concerning the effects of this legislation.

Section 14. This section repeals the interest rate ceilings on open-end loans (AS 06.20), credit unions (AS 06.45), and general interest ceiling for private agreements contained in AS 45.45.010(b).

Section 15. This section makes the first five sections of the Act as well as secs. 13 - 15 effective on July 1, 1983.

Section 16. This section makes secs. 6 - 12 of the bill effective on July 1, 1985. The intended effect of this section is to return the language to the original by undoing the amendments that were made in the other portions of the bill (with the exception of the amendment made to the interest rate on eminent domain judgments). The statutes would return to their present wording on July 1, 1985 in the absence of further action by the legislature.

22/022

STATEMENT BY SEN. JOE JOSEPHSON

TO COMMITTEE ON LABOR & COMMERCE

26 May 1983

Mr. Chairman and Members of the Committee:

As the prime sponsor of Senate Bill 276 to deregulate bank interest rates, I urge the Committee to report favorably House Bill 246.

For the past fifteen years, I have been a public advocate of bank interest rate deregulation. As a state senator in 1969 and 1970, I wrote the law which changed Alaska's usury statute for some categories of loans; the new law provided for a more flexible interest rate ceiling that could reflect, on a quarterly basis, the availability of funds to bank lenders as measured by the federal reserve discount rate. As a whole, and with subsequent changes by succeeding legislatures, that approach has served Alaska relatively well.

But now, Mr. Chairman, the time has come for the next step. Across the country, at the federal and state levels, there is a movement towards deregulation. The Omnibus Banking Bill granted additional consumer lending powers to savings banks and savings and loan associations. As a result, there is a greater degree of competition in consumer lending and a wider range of choice for consumers among different types of banking institutions.

In addition to the greater competitiveness among lenders wrought by the expanded powers of thrift institutions, and credit unions, we have seen an expansion in the number of state-chartered banks as well.

So the time has come for the next step because the banking landscape

has changed, and the Alaska lending industry has become increasingly competitive.

The time has come for the next step because the removal of statutory usury ceilings will not work hardship upon consumers. I have already noted the competitive nature of the lending industry today. In addition, there is evidence that the existence of the usury law, contrary to what was once conventional wisdom, operates against the "little guy".

For example, one study for the Federal Reserve Bank of Chicago, surveying usury limits in banks in the Seventh Federal Reserve District, found:

> "Economic Research clearly supports the current legislative moves toward deregulation of usury ceilings. The evidence on the impact of usury ceilings shows that they have not achieved their objectives. According to the empirical studies surveyed, usury ceilings have significantly reduced the availability of credit hardship for those who were supposed to be protected. Ceilings have encouraged lenders to use such credit rationing devices as higher down payments, shorter maturities and higher fees, for related non-credit services, which increase the effective interest rate. The have curtailed the amount of credit available to lower income and higher risk borrowers, harming primarily those individuals whom the ceilings are intended to benefit. Finally, the lack of uniformity of usury laws across states had distorted credit flows and economic activity, favoring those states and regions which are less regulated."

Mr. Chairman, let me anticipate two objections.

It will be said that many borrowers are too unsophisticated to do "comparison shopping" among the terms offered or available from potential leaders. I believe usch concerns are exaggerated; however, to the extent that they are justified, the way to address that aspect of the issue is

through consumer education rather than industry regulation.

In New York, where after the relaxation of usury states, the New York Banking Department found a wide range of rates and fees, with numerous choices for consumers, the Department embarked on a broad campaign to educate the public and urge that consumers shop for credit. The Department distributed almost 5 million copies of a brochure entitled "Shopping for Credit - A Consumer Guide for Credit in New York State". On a much smaller scale, of course, the State of Alaska could help consumers to develop a growing awareness of the choices available to borrowers.

It will also be said, Mr. Chairman, that the public policy of Alaska should be to discourage high interest rates. I agree. And, as I have already noted, we believe that competition will itself discourage high interest charges to consumers. But in addition, Alaska as a state policy intervenes directly in the marketplace, where public policy considerations suggest we should do so, to subsidize interest rates. In other words, Alaska's government has numerous loan programs designed to make money available to borrowers, for specific purposes, at relatively low rates of interest. I support those programs. I believe that the way to achieve low interest loan rates in specific cases found by the legislature to be justified is through loan guarantees and state-supported or state-subsidized loans, and not through archaic usury limits that can drive business away from Alaska and operate to prevent loans from being available to those who need them.

Finally, Mr. Chairman, I note that what is called for in the bill before you is a bill of limited life -- a four-year test with a sunset provision. I believe that the test is worthwhile, and will prove to be to the benefit of all Alaskans.

M E M O R A N D U M July 27, 1983

SUBJECT: Interest rates
(SB 316)

TO: Senator Richard I. Eliason
Chairman, Senate Labor and
Commerce Committee

FROM: Thomas A. Sofo
Legislative Counsel

You have requested this office to prepare a comparative sectional analysis of SCS CSHB 246 (L&C) and SB 316.

SCS CSHB 246 (L&C)	SB 316
Section 1 of the bill removes the fixed numerical interest rate ceiling on small loans. It allows Alaska small loans lenders a rate as high as can be mutually agreed on by contract.	The bill contains no comparable section.
Section 2 of the bill does the same thing for premium financing agreements by removing the numerical percentage interest ceiling and replacing it with a rate agreed on by contract.	Section 1 of the bill increases the present rate of 15 percent a year to a rate of two percent a month on the first $10,000 and deregulates interest only for that part of the loan in excess of $10,000.
Section 3 of the bill increases the interest paid on eminent domain judgments from six percent a year to five percent above the lawful rate of interest. The lawful rate of interest referred to is the rate set in AS 45. . .010(a) which presently is 10.5 percent a year.	Section 2 of the bill replaces the six percent a year rate with a floating rate set at five percentage points above the federal reserve rate.
Section 4 of the bill removes the interest ceiling from retail installment contracts and replaces it with a rate agreed on by contract. An example of retail installment contracts are the	Section 3 of the bill increases the effective interest chargeable on retail installment contracts by increasing the percentages from five-sixths to

SCS CSHB 246 (L&C)	SB 316
types of agreements typically used by furniture stores.	one and three-fourths and removing the two tiered interest ceiling by raising the $1,000 ceiling to $10,000 and deregulating interest on that part of the balance which exceeds $10,000.
No comparable provision in the bill for retail charge agreements.	Section 4 of the bill increases the effective interest rate interest for retail charge agreements from one and one-half to one and three-fourths percent per month and deregulates interest on balances over $10,000.
Section 5 of the bill removes the ceiling formerly contained in subsection (b) to AS 45.45.010. That ceiling was a limit on interest charged by the express agreement of the parties to five percentage points above the Twelfth Federal Reserve district rate. The bill does not change the rate of interest in state in the absence of an agreement, which remains at 10.5 percent a year, but removes the floating ceiling rate formerly contained in subsection (b) which was the upper limit for the legal rate of interest to be charged when there is an express agreement by the parties.	Section 5 of the bill changes interest ceiling for agreements between parties generally to two percent a month and deregulates loans in which the principal amount is greater than $10,000.
Section 6 merely reenacts the changes deleted in sec. 1 of the bill.	The bill contains no comparable section.
Section 7 undoes the amendments made in sec. 2 of this bill.	The bill contains no comparable section.
Section 8 undoes the amendments made in sec. 3 of this bill.	The bill contains no comparable section.
Section 9 is the first half of the amendment which returns to the original the legal rate of interest language which was changed in sec. 5 of the bill.	The bill contains no comparable section.
Section 10 reenacts the open-end loans statute which is repealed in sec. 14 of the bill.	The bill contains no comparable section.

SCS CSHB 246 (L&C)	SB 316
Section 11 reenacts AS 06.45.060(5)(A)(vi) which is the section dealing with interest rates for credit unions.	The bill contains no comparable section.
Section 12. The addition of subsection (i) to AS 45.45.010 is merely a reinsertion of the language which was formerly contained in AS 45.45.010(b).	The bill contains no comparable section.
Section 13 requires the division of banking to make a report to the legislature on or before March 15, 1985, concerning the effects of this legislation.	The bill contains no comparable section.
Section 14. This section repeals the interest rate ceilings on open-end loans (AS 06.20), credit unions (AS 06.45), and general interest ceiling for private agreements contained in AS 45.45.010(b).	Section 6 of the bill repeals interest rate ceiling for credit unions.
Section 15. This section makes the first five sections of the Act as well as secs. 13 - 15 effective on July 1, 1983.	Section 7 of the bill gives an immediate effective date to the entire bill.
Section 16. This section makes secs. 6 - 12 of the bill effective on July 1, 1985. The intended effect of this section is to return the language to the original by undoing the amendments that were made in the other portions of the bill (with the exception of the amendment made to the interest rate on eminent domain judgments). The statutes would return to their present wording on July 1, 1985 in the absence of further action by the legislature.	

TAS:ljb
26/018

M E M O R A N D U M — June 16, 1983

SUBJECT: Interest rates
(Work Order No. 13-1465)

TO: Senator Richard I. Eliason
Chairman, Senate Labor and
Commerce Committee

FROM: Thomas A. Sofo TAS
Legislative Counsel

You have requested this office to prepare a comparative sectional analysis of SCS CSHB 246 (L&C), hereinafter "the bill" and the attached bill draft, Work Order No. 13-1465, hereinafter "the draft".

SCS CSHB 246 (L&C)	Work Order No. 13-1465
Section 1 of the bill removes the fixed numerical interest rate ceiling on small loans. It allows Alaska small loans lenders a rate as high as can be mutually agreed on by contract.	The draft contains no comparable section.
Section 2 of the bill does the same thing for premium financing agreements by removing the numerical percentage interest ceiling and replacing it with a rate agreed on by contract.	Section 1 of the draft increases the present rate of 15 percent a year to a rate of two percent a month on the first $10,000 and deregulates interest only for that part of the loan in excess of $10,000.
Section 3 of the bill increases the interest paid on eminent domain judgments from six percent a year to five percent above the lawful rate of interest. The lawful rate of interest referred to is the rate set in AS 45.45.010(a) which presently is 10.5 percent a year.	Section 2 of the draft replaces the six percent a year rate with a floating rate set at five percentage points above the federal reserve rate.
Section 4 of the bill removes the interest ceiling from retail installment contracts and replaces it with a rate agreed on by contract. An example of retail installment contracts are the	Section 3 of the draft increases the effective interest chargeable on retail installment contracts by increasing the percentages from five-sixths to

SCS CSHB 246 (L&C)	Work Order No. 13-1465
types of agreements typically used by furniture stores.	one and three-fourths and removing the two tiered interest ceiling by raising the $1,000 ceiling to $10,000 and deregulating interest on that part of the balance which exceeds $10,000.
No comparable provision in the bill for retail charge agreements.	Section 4 of the draft increases the effective interest rate interest for retail charge agreements from one and one-half to one and three-fourths percent per month and deregulates interest on balances over $10,000.
Section 5 of the bill removes the ceiling formerly contained in subsection (b) to AS 45.45.010. That ceiling was a limit on interest charged by the express agreement of the parties to five percentage points above the Twelfth Federal Reserve district rate. The bill does not change the rate of interest in state in the absence of an agreement, which remains at 10.5 percent a year, but removes the floating ceiling rate formerly contained in subsection (b) which was the upper limit for the legal rate of interest to be charged when there is an express agreement by the parties.	Section 5 of the draft changes interest ceiling for agreements between parties generally to two percent a month and deregulates loans in which the principal amount is greater than $10,000.
Section 6 merely reenacts the changes deleted in sec. 1 of the bill.	The draft contains no comparable section.
Section 7 undoes the amendments made in sec. 2 of this bill.	The draft contains no comparable section.
Section 8 undoes the amendments made in sec. 3 of this bill.	The draft contains no comparable section.
Section 9 is the first half of the amendment which returns to the original the legal rate of interest language which was changed in sec. 5 of the bill.	The draft contains no comparable section.
Section 10 reenacts the open-end loans statute which is repealed in sec. 14 of the bill.	The draft contains no comparable section.

SCS CSHB 246 (L&C)	Work Order No. 13-1465
Section 11 reenacts AS 06.45.060(5)(A)(vi) which is the section dealing with interest rates for credit unions.	The draft contains no comparable section.
Section 12. The addition of subsection (i) to AS 45.45.010 is merely a reinsertion of the language which was formerly contained in AS 45.45.010(b).	The draft contains no comparable section.
Section 13 requires the division of banking to make a report to the legislature on or before March 15, 1985, concerning the effects of this legislation.	The draft contains no comparable section.
Section 14. This section repeals the interest rate ceilings on open-end loans (AS 06.20), credit unions (AS 06.45), and general interest ceiling for private agreements contained in AS 45.45.010(b).	Section 6 of the draft repeals interest rate ceiling for credit unions.
Section 15. This section makes the first five sections of the Act as well as secs. 13 - 15 effective on July 1, 1983.	Section 7 of the draft gives an immediate effective date to the entire draft bill.
Section 16. This section makes secs. 6 - 12 of the bill effective on July 1, 1985. The intended effect of this section is to return the language to the original by undoing the amendments that were made in the other portions of the bill (with the exception of the amendment made to the interest rate on eminent domain judgments). The statutes would return to their present wording on July 1, 1985 in the absence of further action by the legislature.	

TAS:ljb
24/022

Alaska State Legislature

Advisory Council Members
Senator Kerttula, Chairman
Senator Bennett
Senator Vic Fischer
Senator Fahrenkamp

Pouch V
State Capital
Juneau, Alaska 99811
Phone: (907)465-3114

SENATE ADVISORY COUNCIL

MEMORANDUM

TO: Sena Pete Jeans

FROM: Pete Jeans

DATE: May 2, 1983

RE: Analysis of SB276 /HB246

SB276 deregulates interest rates on various types of consumer loans that are now regulated by statutes.

Sect. 1. Deregulates the interest rate charged by a licensed "Lender of money" for any sum of money not exceeding $25,000. Any person engaged in the business of making loans of money, credit, etc., must be licensed under the Alaska Small Loans Act. The interest rate must be agreed on by contract.

Sect. 2. Deregulates the interest rate charged by a licensed premium finance company. Any person engaged in this business must be licensed under the Premium Financing Act. The interest rate must be agreed on by contract.

Sect. 3. Deregulates the interest rate charged on funds exceeding those deposited with the court in a civil procedures at the time of the judgment. The judgment shall include lawful interest?

Sect. 4. Deregulates the interest rate charged on retail installment contracts to a rate agreed on by contract.

Sect. 5. Deregulates the interest rate charged on a retail charge agreement, revolving charge agreement or other retail charge agreement to a rate agreed on by contract.

Sect. 6. For interest rates in the state to exceed 10.5 percent a year it must be by express agreement of the parties in a contract or loan commitment.

Sect. 7. Repeals specific interest rates an open-end loans and rates charged by credit unions.

As you can tell by the attached information, many states are looking at the usury question. In 1980, as the prime rate moved past 20 percent, 42 states lifted or eliminated their usury ceilings. Other states took action in 1981 for the first time. Ten states now permit banks that issue credit cards to charge any interest rate. Thirteen states, for all intent, no longer limit the interest rates the banks charge on consumer loans. Several states including Delaware, Nevada and New Mexico have completely wiped out all interest-rate restrictions for all classes of lenders. According to the Division of Banking and Securities, none of the states that have eliminated usury statutes have reenacted them.

If you would like copies of any articles listed in the attached abstract, please circle and return.

I hope this information will be helpful.

Alaska Law currently specifies interest rate ceilings for the following:

1) Bank loans not exceeding $25,000. - AS 45.45.010(b) This is a floating rate, five percentage points above the annual discount rate charged by the 12th Federal Reserve.

2) Credit Unions - AS 06.45.060(5)(A)(vi). This is 15% a year or the rate specified in AS 45.45.010(b).

3) Consumer Finance Companies, such as Household Finance - AS 06.20.230(a). This is for loans not exceeding $10,000. The interest rate is 3% a month, or 36% a year for amounts not exceeding $850., and 2% a month, or 24% a year for amounts not exceeding $10,000. The law also allows for loans not to exceed $25,000., but such loans are not regulated.

4) Car dealers and furniture stores may enter into installment contracts under AS 45.10.120(b). The interest rate is five-sixths of one percent a month, or 10% a year (5/6 X 12) for amounts not exceeding $1000. For amounts exceeding $1000., the interest rate is two-thirds of one percent a month, or 8% a year PLUS 10% for the amount under $1000. Therefore, car dealers and furniture stores can legally charge 18% a year, or 1.5% a month.

5) Credit cards and consumer charge accounts - AS 45.10.120(c) If the balance does not exceed $1000., the interest rate is 1.5% a month or 18% a year. For a balance over $1000., the interest rate is one-twelfth of the annual rate allowed in AS 45.45.010(b), see 1) above.

6) Premium financing - AS 06.40.120(c). This is for large businesses. The interest rate is 15% a year.

7) Eminent domain - AS 09.55.440(a). This is when the government condems someone's property to widen a road, for example. The interest rate paid the forced seller is 6% a year.

8) Everything else - AS 45.45.010(a). This general, non-specific interest rate is 10.5% a year.

Sec. 45.10.120. Extent of service charge. (a) The service charge shall include all charges incident to investigating and making the retail installment contract or charge agreement and for the privilege of making the installment payments under the contract or agreement. No other fee, expense, or charge may be taken, received, reserved, or contracted for investigating and making the contract or agreement, or for the privilege of making the payments.

(b) A seller or holder of a retail installment contract may charge, receive and collect a service charge which shall not exceed the following rates multiplied by the number of months, including a fraction of a month in excess of 15 days as one month, elapsing between the date of the contract and the due date of the last installment,

(1) on so much of the unpaid balance as does not exceed $1,000, five-sixths of one per cent;

(2) if the unpaid balance exceeds $1,000, on so much of the unpaid balance as exceeds $1,000, two-thirds of one per cent;

(3) if the total service charge so computed is less than $12, but if the due date of the last installment of the contract is eight months or less after its effective date, $10.

(c) A seller or holder of a retail charge agreement, revolving charge agreement or other retail charge agreement may charge, receive and collect a service charge not to exceed the following rates computed on the outstanding balances from month to month,

(1) on so much of the outstanding balance as does not exceed $1,000, one and one-half per cent per month;

(2) if the outstanding balance is more than $1,000, one-twelfth of the annual rate permitted under AS 45.45.010(b) per month on the excess over $1,000 of the outstanding balance;

(3) if the service charge so computed is less than $1 for any month, $1;

(4) the service charge may be computed on a schedule of fixed amounts if as so computed it is applied to all amounts of outstanding balances equal to the fixed amount minus a differential of not more than $5 provided that it is also applied to all amounts of outstanding balances equal to the fixed amount plus at least the same differential. (§ 13 ch 141 SLA 1962; am § 1 ch 154 SLA 1966; am § 2 ch 79 SLA 1980)

Cross reference. — As to revolving credit plans, see AS 06.05.208.

Effect of amendment. — The 1980 amendment substituted "one-twelfth of the annual rate permitted under AS 45.45.010(b)" for "one per cent" following "more than $1,000" in paragraph (2) of subsection (c).

Sec. 45.10.130. Insurance. If the cost of insurance is included in the retail installment contract or retail charge agreement and a separate charge is made to the buyer for the insurance,

(2) "goods" means personal chattels purchased primarily for personal, family, or household use and not for commercial or business use, but does not include money or, except as provided in the next phrase, chose in action; "goods" includes but is not limited to merchandise certificates or coupons issued by a retail seller to be used in their face amount instead of cash in exchange for goods or services sold by the seller and goods which, at the time of sale or subsequently, are to be so affixed to real property as to become a part of it, whether or not severable from it;

(3) "official fees" means the amount of the fees set by law for filing, recording, or otherwise perfecting and releasing or satisfying a retained title, lien, or other security interest created by a retail installment transaction;

(4) "person" means an individual, partnership, joint venture, corporation, association, or any other group, however organized;

(5) "principal balance" means the cash sale price of the goods or services which are the subject matter of a retail installment contract less the amount of the buyer's down payment in money or goods or both, plus the amounts for insurance and official fees included in the contract if a separate identified charge is made and stated in the contract for insurance and official fees;

(6) "rate" means the percentage which, when multiplied times the outstanding balance for each month or other installment period, yields the amount of the service charge for the month or period;

(7) "retail buyer" or "buyer" means a person who buys or agrees to buy goods or obtain services or agrees to have services rendered or furnished from a retail seller;

(8) "retail charge agreement," "revolving charge agreement," or "charge agreement" means an instrument (A) entered into or performed in the state which sets out the terms of retail installment transactions which may be made under the agreement from time to time, and (B) under the terms of which a service charge is to be computed from time to time in relation to the buyer's unpaid balance;

(9) "retail installment contract" or "contract" means a contract, other than a retail charge agreement or an instrument reflecting a sale price made under a retail charge agreement, entered into or performed in the state for a retail installment transaction; "retail installment contract" includes (A) a chattel mortgage, (B) a conditional sale contract, and (C) a contract in the form of a bailment or a lease if the bailee or lessee contracts to pay a sum substantially equivalent to or in excess of the value of the goods sold as compensation for their use and if it is agreed that the bailee or lessee is bound to become, or for no other or a merely nominal consideration, has the option of becoming the owner of the goods upon full compliance with the provisions of the bailment or lease;

(10) "retail installment transaction" means a transaction in which a retail buyer purchases goods or services from a retail seller under a retail installment contract or a retail charge agreement which provides for a service charge under which the buyer agrees to pay the unpaid balance in one or more installments;

(11) "retail seller" or "seller" means a person engaged in the business of selling goods or services to retail buyers;

(12) "service charge," however denominated or expressed, means the amount which is paid or payable for the privilege of purchasing goods or services to be paid for by the buyer in installments over a period of time; "service charge" does not include the amount charged for insurance premiums, delinquency charges, attorney fees, court costs, or official fees;

(13) "services" means work, labor, or services of any kind purchased primarily for personal, family, or household use and not for commercial or business use, whether or not furnished in connection with the delivery, installation, servicing, repair, or improvement of goods; "services" includes repairs, alterations, or improvements upon or in connection with real property, but does not include the services of a professional person licensed by the state, or services for which the price charged is required by law to be determined or approved by or to be filed, subject to approval or disapproval, with the United States or a state or a department, division, agency, officer, or official of either as in the case of transportation services;

(14) "time balance" means the principal balance plus the service charge. (§ 1 ch 141 SLA 1962)

Sec. 45.10.230. Short title. This chapter may be cited as the Alaska Retail Installment Sales Act. (§ 23 ch 141 SLA 1962)

Chapter 20. Purchase of Ore.

Section

10. Claimant in possession considered owner of ores
20. When purchaser considered owner of ore; nonliability to person subsequently adjudged owner
30. Notice to purchaser by claimant or owner out of possession
40. Failure to bring action
50. Liability of purchaser to person adjudged owner or entitled to possession

Sec. 45.20.010. Claimant in possession considered owner of ores. A person in the actual and peaceable possession of a mining claim, under claim or color of title, and engaged in the mining, shipment and treatment, or sale of ore from it, shall, as to all persons purchasing the ore in good faith and without notice as provided in this chapter of the title or claim of title, or ownership of another person to it, be considered to be the lawful owner of the ore. (§ 29-4-1 ACLA 1949)

ALASKA STATE LEGISLATURE - SENATE

SENATOR RICHARD I. ELIASON

LABOR AND COMMERCE COMMITTEE, CHAIRMAN
RESOURCES COMMITTEE
JUDICIARY COMMITTEE
FISHERIES SUB-COMMITTEE

P.O. BOX 143
SITKA, ALASKA 99835

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4916

M E M O R A N D U M

TO: Senate Labor & Commerce Committee Members

FROM: Senator Dick Eliason, Chair

DATE: February 14, 1984

RE: Deregulation of Interest Rates

I have scheduled a public hearing and teleconference to gather public input on HB 246, "An Act relating to deregulation of interest rates," in Anchorage, March 3, 1984, 10:00 a.m. at the Anchorage Legislative Information Office. We will be taking Anchorage testimony from 10:00-11:00 and statewide testimony via the teleconference network from 11:00 on.

Hopefully you will be able to plan your hectic schedule around this hearing.

Sent to all
Members
2/14/84

OFFICIAL BUSINESS

ALASKA STATE LEGISLATURE - SENATE

COMMITTEE ON LABOR AND COMMERCE

SENATOR RICHARD I. ELIASON
CHAIRMAN

POUCH V • JUNEAU, ALASKA 99811
(907) 465-3844

PRESS RELEASE

Senator Eliason, Chair of the Senate Labor and Commerce Committee, has scheduled a public hearing on March 3, 1984, 10:00 a.m. at the Anchorage Legislative Information Office to take public testimony on HB 246, "An Act relating to deregulation of interest rates'. If passed this bill would remove the current interest rate ceiling placed on small bank loans, retail store's revolving charge accounts, and individual credit card companies.

In conjunction with this public hearing a statewide teleconference is scheduled simultaneously. Committee members will hear testimony from those individuals present in Anchorage from 10:00-11:00 and statewide participants via the teleconference network after 11:00 a.m.

All persons desiring to participate are encouraged to attend the hearing in Anchorage or to contact their local teleconference office.

PUBLIC SERVICE ANNOUNCEMENT FOR STATEWIDE TELECONFERENCE

The Senate Labor and Commerce Committee will hold a statewide teleconference on HB 246, "An Act relating to the deregulation of interest rates," on Saturday, March 3, 1984, at 10:00 a.m. If passed this bill would remove the current interest rate ceiling placed on small bank loans, retail store's revolving charge accounts, and individual credit card companies. The exact rate of interest that could be charged would depend on each individual bank, retail store, or credit card companies.

In conjunction with this teleconference a public hearing to discuss HB 246 is schedule simultaneously in Anchorage at the Legislative Information Office. Committee members will hear testimony from those individuals present in Anchorage from 10:00-1[illegible]:00 and statewide testimony via the teleconference network after [illegible]:00 a.m. However, participants via the teleconference network will be able to listen to all of the Anchorage testimony.

All persons desiring to participate are encouraged to contact their local teleconference office.

OFFICIAL BUSINESS

ALASKA STATE LEGISLATURE - SENATE

COMMITTEE ON LABOR AND COMMERCE

SENATOR RICHARD I. ELIASON
CHAIRMAN

POUCH V • JUNEAU, ALASKA 99811
(907) 465-3844

February 17, 1984

Mr. Monte Engel
Alaska Legal Service
615 H Street
Anchorage, Alaska 99501

Dear Mr. Engel,

The Senate Labor and Commerce Committee has scheduled a public hearing on March 3, 1984, 10:00 a.m. at the Anchorage Legislative Information Office to take public testimony on HB 246, "An Act relating to deregulation of interest rates". If passed this bill would remove the current interest rate ceiling placed on small bank loans, retail store's revolving charge accounts, and individual credit card companies.

This committee would like to invite you or your representative to testify at this hearing. Your insights on how deregulation of interest rates may affect your clients would be very useful to the committee.

Hope to you see Saturday, March 3rd.

Sincerely,

Senator Dick Eliason

OFFICIAL BUSINESS

ALASKA STATE LEGISLATURE - SENATE

COMMITTEE ON LABOR AND COMMERCE

SENATOR RICHARD I. ELIASON
CHAIRMAN

POUCH V • JUNEAU, ALASKA 99811
(907) 465-3844

M E M O R A N D U M

TO: Norman Gorsuch
Attorney General

FROM: Senator Dick Eliason, Chair
Senate Labor and Commerce

DATE: May 25, 1983

RE: Senate Labor and Commerce hearing on HB 246

The Senate Labor and Commerce Committee will be conducting a hearing on HB 246, relating to the deregulation of interest rates, tomorrow at 1:30 p.m. (PST).

The subjects of credit, consumer credit, and interest rate regulation are complicated, and in order for the committee to receive a balanced presentation of the issues it would be desirable if someone working in the area of consumer credit could testify.

Connie Sipe, Chief of your Consumer Protection Section, has been extremely helpful in responding to staff inquiries about how this bill would work, and it seems to me that her explanations of how this bill may affect Alaska consumers would be very useful to the committee.

I'd therefore like to request that she be available to testify before the committee tomorrow. We have arranged a teleconference hookup which will allow her to speak to the committee from her office.

Thank you for your consideration of this request. I hope you have not been inconvenienced by its lateness.

OFFICIAL BUSINESS

ALASKA STATE LEGISLATURE - SENATE

COMMITTEE ON LABOR AND COMMERCE

SENATOR RICHARD I. ELIASON
CHAIRMAN

POUCH V • JUNEAU, ALASKA 99811
(907) 465-3844

May 20, 1983

Ralph Knoohuizen, Executive Director
Alaska Legal Services
615 H Street
Anchorage, Alaska 99501

Dear Mr. Knoohuizen:

The Senate Labor and Commerce Committee presently has in committee CS for House Bill 246(L & C), "An Act relating to the deregulation of interest rates."

As this proposed legislation may have an impact on people [illegible] represent and serve, the Senate Labor and Commerce Committee reques[illegible] that Alaska Legal Services study CSHB 246 and present written findings to the committee.

Thank you for your assistance in this matter.

Sincerely,

Sheila Peterson, Senate Aide
Senate Labor and Commerce Committee

enc.

OFFICIAL BUSINESS

ALASKA STATE LEGISLATURE - SENATE

COMMITTEE ON LABOR AND COMMERCE

SENATOR RICHARD I. ELIASON
CHAIRMAN

POUCH V • JUNEAU, ALASKA 99811
(907) 465-3844

MEMORANDUM

TO: Billy Berrier
Division of Legal Services

FROM: Sen. Dick Eliason

DATE: June 14, 1983

RE: Work order and request for comparative bill analysis

Attached please find copies of CSHB 246(L&C), a section-by-section analysis of that bill, and a copy of legislation introduced in the Senate in 1982.

I would like to have a bill drafted which is modeled on the old proposed legislation (CSSB 750[L&C]/1982). In addition, I would like a section-by-section analysis of the work draft. Finally, I would like a comparative analysis of CSHB 246(L&C) and the work draft modeled on SB 750.

Tom Sofo has been doing the work on HB 246, and provided the attached analysis of that legislation. — Not SO, as per call 6-17

Thank you for your assistance.

P.S. Anticipate any title problems with new draft assuming title of HB246?

OFFICIAL BUSINESS

ALASKA STATE LEGISLATURE - SENATE

COMMITTEE ON LABOR AND COMMERCE

SENATOR RICHARD I. ELIASON
CHAIRMAN

POUCH V • JUNEAU, ALASKA 99811
(907) 465-3844

October 6, 1983

Willis Kirkpatrick, Director
Division of Banking, Securities
and Corporations
Pouch D
Juneau, Alaska 99811

Dear Mr. Kirkpatrick:

This letter is a formal request for copies of your division's Comparative Report of Small Loans and Corporations. I have the 1980 report, and would like copies from 1981 to the present. A copy of the 1980 report is enclosed so you know exactly what I am referring to.

Thank you so much.

Sincerely,

Rocky Plotnick Weller

Rocky Plotnick Weller, Researcher
Senate Labor and Commerce

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING, SECURITIES, SMALL LOANS AND CORPORATIONS
Charles R. Webber, Commissioner
Willis F. Kirkpatrick, Director

COMPARATIVE REPORT OF SMALL LOAN LICENSEES
For Period Ended December 31, 1980

		ASSETS							LIABILITIES		RESERVES	CAPITAL ACCOUNTS			
City & Name of Licensee	Address	Loans Number	Loans Amount	Other Loans	Cash & Due From Banks	Furniture & Fixtures	Other Assets	Total Assets	Accounts & Notes Payable	Other Liabilities	Total Reserves	Branch Office Capital	Capital Stock	Surplus	Total Capital & Liabilities Accounts
ANCHORAGE															
Beneficial Finance Co.	215 E. 4th Avenue	1,387	1,188,487	244,468	824	2,425	28,059	1,464,263	2,766,975	38,666	123,990	(1,893,610)	5,000	423,242	1,464,263
Beneficial Finance Co.	4101 Mt. View Drive	556	468,942	186,323	535	8,977	26	663,802	6,723	37,946	50,870	568,258	–0–	–0–	663,802
Household Finance Co.	300 36th Avenue	672	778,278	264,274	1,589	–0–	1,372	1,045,513	–0–	–0–	–0–	1,045,613	–0–	–0–	1,046,513
Household Finance Co.	600 E. Northern Lights	681	920,371	319,667	1,548	8,783	504	1,250,863	–0–	–0–	–0–	1,250,863	–0–	–0–	1,250,863
Household Finance Co.	4009 Mt. View Dr.	1,086	1,439,774	302,493	1,077	443	803	1,744,590	–0–	–0–	–0–	1,744,590	–0–	–0–	1,744,590
Household Finance Co.	636 E. 15th Street Gambel Building	–0–	–0–	–0–	–0–	–0–	1,562	1,562	–0–	–0–	–0–	1,562	–0–	–0–	1,562
FAIRBANKS															
Household Finance Co.	536 4th Avenue Parish Building	886	1,424,543	226,881	411	1,578	1,691	1,655,104	–0–	–0–	–0–	1,655,104	–0–	–0–	1,655,104
Beneficial Finance Co.	330 Barnette Street	602	746,201	155,387	45	2,206	12,627	916,466	12,555	27,022	47,088	829,801	–0–	–0–	916,466
KENAI															
Beneficial Finance Co.	Professional Building	437	504,038	28,352	449	2,958	2,361	538,158	2,750	6,770	33,187	495,451	–0–	–0–	538,158
TOTALS*		6,107	7,460,634	1,736,835	6,478	27,370	49,004	9,280,321	2,789,003	110,303	255,141	6,097,632	5,000	423,242	9,280,321

*Beneficial Finance Co., Eagle River Road, Alaska office closed 5/1/80. Accounts transferred to Beneficial 215 East 4th Avenue in Anchorage.