

HB

246

#3

LAW OFFICES OF
ALASKA LEGAL SERVICES CORPORATION
615 "H" STREET, SUITE 100
ANCHORAGE, ALASKA 99501
TELEPHONE (907) 272-9431

March 15, 1984

Senator Dick Eliason, Chairman
Committee on Labor and Commerce
Pouch V
Juneau, Alaska 99811

Re: H.B. 246

Dear Senator Eliason:

This letter is in response to a telephone call I received from one of your aides requesting that I submit in writing the changes I proposed to H.B. 246. I would like to first restate that it is our position that deregulating consumer interest rates will hurt low income and other consumers in Alaska, will be followed by an increase in consumer interest rates, and will not increase the amount of credit available to low income (or any other) consumers.

However, if the legislature decides to pass some form of interest rate deregulation bill, we feel it should contain the following provisions to protect consumers. First, loans by licensed lenders (AS 06.20.230(a)) should retain an interest ceiling of 3% per month for the first \$850.00, and 2% per month for amounts over \$850.00 up to \$10,000.00. Interest rates for loan amounts over \$10,000.00 may be as agreed by the parties.

Second, credit card (AS 45.10.120(c)) providers could choose either a fixed rate or variable rate ceiling. The fixed rate would be set by the statute (possibly at one or two percent per annum higher than the current rates). The credit provider could also impose either: (a) a yearly fee for the card, not to exceed \$15.00; or (b) charge interest from the date of the transaction to payoff in the first monthly billing cycle, but not both (a) and (b).

The variable rate should be set at 10 percentage points above the 12th Federal Reserve District rate charged to member

Senator Eliason
March 15, 1984
Page Two

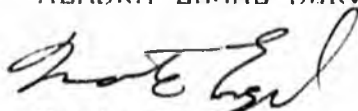
banks, adjusted semiannually. The credit provider under this option could not charge (a) an annual fee or service charge; (b) interest on transactions when the balance is paid in full in the first billing cycle. Under either the fixed or variable rate, the provider should be prohibited from charging a transaction fee (i.e. a charge imposed each time the card is used). Any change in the option chosen by the provider would have to be preceded by a Notice to the card holders at least six months before the change takes place.

Third, other loans under \$25,000.00 (AS 45.45.010) should be limited to a maximum interest rate of 7 percentage points above the 12th Federal Reserve District rate charged to member banks. Finally, if interest rates are deregulated, there should be a statutory presumption that rates in excess of 37.5% per annum are excessive. This would not be an absolute prohibition on interest rates higher than 37.5%, but would put the burden on the credit provider to prove that higher rates are reasonable in any Court action involving the debt.

I would like to thank you and the other committee members for the invitation to present the interest of our clients in this matter.

Respectfully,

ALASKA LEGAL SERVICES CORPORATION



Monte Engel
Staff Attorney

ME/ljz

LAW OFFICES OF
ALASKA LEGAL SERVICES CORPORATION
615 "H" STREET, SUITE 100
ANCHORAGE, ALASKA 99501
TELEPHONE (907) 272-9431

March 20, 1984

Senator Dick Eliason, Chairman
Labor and Commerce Committee
Pouch V
Juneau, Alaska 99811

Re: HB 246

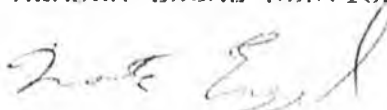
Dear Senator Eliason:

At the March 3, 1984 hearing in Anchorage, one of the committee members requested that I update the information supplied by Robert Hickerson in a position paper dated May 25, 1983. The most current information I have indicates that there have been no changes since then.

If I can be of any further assistance to the committee, please let me know.

Respectfully,

ALASKA LEGAL SERVICES CORPORATION



Monte Engel
Staff Attorney

ME/ljz



AWPC ALASKA WOMEN'S POLITICAL CAUCUS
P.O. Box 1571 • Anchorage, Alaska 99510 • (907) 337-5109

To: Senator Richard Eliason, Chair Senate Labor and Commerce Committee
From: Jean F. Craciun, Chair-Elect The Alaska Women's Political Caucus
RE: Senate Bill 485

TESTIMONY March 3, 1984

The Alaska Women's Political Caucus appreciates the opportunity to testify before this committee. We would like you to know that we oppose SB485 and HB246.

Whereas we can appreciate the attempt being made philosophically, practically we believe it will negatively impact on women and low income people.

While there are many factors that must be considered while making needed adjustments that reflect the market conditions within Alaska. I want to draw the committee's attention to the issue of "competition." Noting that poorer, and less well educated people in Alaska are locked into borrowing competition-free neighborhoods. It is a known fact that: 1) Competition does not exist in low income markets. Retailers and other lenders do not compete over credit rates because frequently there is only one lender. Banks and finance companies do not have branches in poor neighborhoods. There are no department stores and rarely any used car lots. Grocery stores and clothing stores exist but rarely provide credit. Given the size and poverty of the population, the community generally can support only one furniture store. If another opens up, both may go out of business because people do not have enough spending money to keep both profitable. With only one furniture store, that store can charge whatever it wants. 2) Competition is also inadequate because buyers have insufficient information as to rates and availability. From a consumer perspective, competition in the credit market is not like competition in the supermarket. In both cases an informed consumer is the key to a competitive market. But when pricing goods, the cost to the consumer is usually clearly marked on the item and readily comparable. In buying credit, much more is at stake since consumers could lose their homes and life savings. Moreover, the transaction is infinitely more complicated. This complexity in particular befuddles the low income and unsophisticated borrower. And they will be the target of the unscrupulous lenders. Further, creditors do not advertise rates and many buyers lack the time or stamina to call several different lenders to obtain rate information. Consumers also have false impressions about which institutions will lend to them. Historically, many working class people and minorities were denied credit by banks and so still stay away from banks. Others do not realize that they are eligible for some credit union memberships. Some probably do not think they make enough to qualify for credit cards. Many are probably unaware that savings and loans are now extending consumer credit. A survey by the Federal Reserve Board in 1977, noted that only 30% of potential borrowers shopped around. Most choose lenders based on proximity and familiarity. Familiarity is a very big factor here. So in a small community in Alaska, where there is a limited number of banks and a particular credit card is being offered from a bank who is only taking applications from existing depositors or the applicant does not make enough money to qualify for credit from that card issuer----Competition is meaningless.

"We are the Majority"



AWPC ALASKA WOMEN'S POLITICAL CAUCUS
P.O. Box 1571 • Anchorage, Alaska 99510 • (907) 337-5109

3/23/88

The testimony of Jean Craciun continued:

Where there is a lack of competition such as the brief examples I have mentioned, there needs to be sufficient safeguards for women (who make only 59¢ for every dollar that a man makes) and other low income groups.

The Alaska Women's Political Caucus affirms the need to safeguard the interest of those more vulnerable to unscrupulous lenders. Consequently, we oppose SB485 and HB246, for it will not satisfy this need. Thank you.

A handwritten signature in cursive script, which appears to read "Jean Craciun". The signature is written in dark ink and is positioned to the right of the typed text.



ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

March 2, 1984

Good morning. My name is Maureen Kennedy; I'm the Director of the Alaska Public Interest Research Group. AkPIRG conducts research and advocacy on economic and social issues of importance to our 400 statewide members. I'd like to thank the members of the committee for holding this teleconference on a weekend so working people could attend.

AkPIRG is opposed to HB 246 and SB 485 and the deregulation of interest rates in general. We understand the complexities of the issue, but argue that the bottom line is quite simple: if rates are deregulated or ceilings lifted, rates will go up, consumers will suffer and banks will needlessly increase profits.

Rates will go up. Studies in states around the country that have deregulated or increased ceilings indicate that rates increase an average 3-4% just after deregulation. An American Bankers Assoc. study published early in 1983 examined installment credit increases in Montana, Mississippi, New Jersey and Ohio. Just after deregulation, rates increased between $\frac{1}{2}$ % (Ohio) and 3 $\frac{3}{4}$ % (New Jersey). The bankers argue that rates later came down so it's "not the end of the world for consumers." But by late 1982, rates were still between a $\frac{1}{2}$ % and 2 $\frac{3}{4}$ % above their original levels. As you remember, the prime went from a high of 20.5% in 1981 to an average 10.81% throughout 1982, the term of the ABA study.

Overall interest rates in New Jersey increased between 6 and 7% just after ceilings were lifted in 1981--they hadn't come down by mid-1983. In Maryland, interest rates on credit cards went up and stayed up 3% after the ceiling was lifted in '82. In New York, rates on credit cards increased nearly 6% shortly after deregulation. Rates on other types of loans increased as much as 6 $\frac{1}{2}$ %. A "pack mentality" is at work, and even Alaskan bankers agree that increased ceilings will lead to near-term increases on credit cards from 18% to 21%.

Consumers will suffer. Extrapolating from conservative national figures, Alaskan consumers will pay \$6.4 million more to lenders for each 1% increase in interest rates on installment credit alone. Assuming rates go up 3%, we're talking about a \$19.2 million transfer from Alaskan borrowers to lenders--just on installment credit.

Consumers will not gain greater access to credit through deregulation. The New York State Banking Dept. study found that 93% of commercial banks increased rates substantially after deregulation but did not loosen new-borrower standards. Eighty three percent did not increase access to their OWN customers. The study indicates similar behavior for credit unions, finance companies, S&Ls and retailers.

Banks will needlessly increase their profits. Business Week reported last August that banking nationwide was the 10th best profitmaking industry in the country with a 34% increase in profits over 1982. In December, the magazine reported a 15.2% increase in earnings per share for banks. Consumer installment credit increased by \$1 billion between March of '82 and March of '83. Closer to home, Alaska Business reported that the six largest Alaskan banks had profit-to-earnings ratios ranging from 4.73 to 12.00. All the state's banks increased earnings through 1982; many posted record earnings. Total assets and deposits increased more than 25% according to the June issue; Security National doubled its assets while its deposits increased by 137%. The bankers I've spoken with agree that regulatory relief is not necessary now--they want to hedge their bets against a repetition of 1980's economic conditions. Careful adjustments to interest rate laws ARE appropriate when economic conditions demand them. That is clearly not the case now.

We urge you not to pass either HB 246 or SB 485 out of committee. The legislation is not needed now. The legislature should represent the interests of Alaskan citizens, not those of Outside banks--we've passed that period of our state's history. Thank you.

4 March 1984

Deregulation of interest rates does not make any borrower better off. A stated benefit of the usury bills - increased availability of loans - has not materialized in states that have preceded Alaska in legislation of this sort. Last year the banks testified to you that deregulation "won't increase rates, but will allow a greater flow." The fact is that lenders do not (and should not) lend to high risk borrowers with or without deregulation. In a New York study (December 1982 N.Y. Banking Dept.) 93% of commercial banks raised interest rates but refused to reduce new-borrower qualifications; 83% refused to offer better terms to existing-borrowers. Most savings banks had not liberalized either measure of credit availability. Most of the finance companies had not changed their qualifications though they had raised their rates as far as they legally could. Virtually all of the retailers in the study had kept credit availability unchanged. A preponderance of the auto dealers had also raised interest rates since deregulation, but not changed their credit qualifications. For the most part the higher interest rates have brought almost no new credit. It was suggested at the hearing last spring, however, that we could go ahead and deregulate interest and then have the state pick up the inequities by subsidizing special low-interest loans. In my mind that would mean that the state is subsidizing loans to subsidize the bank's higher interest.

However, the biggest issue I see is not whether or not deregulation takes place, but that strong consumer safeguards precede any attempt at deregulation. Great care must be taken to assure consumer protection when deregulation is contemplated. Alaska does not have a state Truth-In-Lending law nor has any enforcement authority over banks, for example, to protect creditors who are not depositors. Loopholes in the National TILA (Truth-In-Lending Act) allow many lenders to disguise the true cost of consumer credit so that what appears to be low-interest costs is often very expensive credit and comparison shopping is difficult. A car loan today, for example, is legally unlike the car loans of 3 or 4 years ago since provisions which used to be illegal have since been permitted again. Federal and state disclosure laws have simply failed to keep pace in showing many of these differences to borrowers.

Protection is vital against excessive fees and against fees that do not appear in the APR (Annual Percentage Rate) which consumers use to comparison shop. These include unlimited annual fees, transaction fees, and other one-time charges. Protection is vital against abusive creditor remedies on default. Studies have shown that the vast majority of defaults occur due to events beyond the debtor's control due to job loss, illness, and marital trouble. The majority of defaulters default not because they are able to pay and choose not to do so, but because they simply do not have the money.

There are several provisions that should be part of an Alaska TILA before we even consider deregulation:

1. Plain English Requirements need to be assured so that consumers can readily understand the contracts that bind them. They should understand clearly that early payment of the loan incurs a penalty. They need to know up front what creditor remedies may be exercised on default.

2. To enable buyers to rely on the APR, creditors should be prohibited from assessing any charges for the use of credit that do not appear in the APR.
3. The method used to compute the balances to which the APR is applied should be standardized.
4. With variable rate loans, lenders should be required to disclose how much the monthly payment will increase under fixed hypothetical conditions and all lenders should use the same hypotheticals.
5. Contractual language that waives consumers' right to notice or an opportunity to be heard before a judgment is entered against them on default should be prohibited.
6. Lenders should be forbidden to seize a borrower's wages without the basic due-process of a prior notice and a hearing before an impartial decisionmaker.
7. Security interests in household goods also should be prohibited, since interests in household goods are essentially worthless to the creditor. When household goods are actually seized, consumers lives are totally disrupted for minimal or no financial benefits for the creditor. Household goods may have a high psychological or sentimental value to consumers, and be costly to replace, but as used goods they have very low resale value and discharge little, if any, of the debtor's obligation.
8. Some creditors take a blanket security interest in categories of goods rather than specific items which causes confusion or misunderstanding about which possessions may be seized for non-payment. If creditors are allowed to charge unlimited interest rates, they should at a minimum be required to spell out precisely which consumer items may be lost if payments cannot be met.
9. Credit contracts often require borrowers to pay the lender's attorney fees if they default, regardless of whether the borrower has a valid defense to non-payment. Consumers do not bargain for these fees and often are unaware of the liabilities they would assume. Before usury limits are erased, individuals who cannot meet payments should be protected against the assessment of attorneys fees as well.
10. Cosigners often are unaware of the nature and extent of their liability. In order to protect cosignors, who generally receive little if any benefit for assuming substantial liabilities, lenders should be required to furnish them with a statement explaining their potential liabilities before they sign a contract.
11. Individuals who are asked to guarantee debts already in default should be given a three day "cooling off" period to make an unpressured and informed choice to accept or reject cosignor liabilities.*

I urge you to set into place these important consumer protections before you move to deregulate interest rates.

* For a more in depth analysis of TILA additions see the N.Y. Consumers Union testimony before the Committee on Banking, Housing and Urban Affairs of the U.S. Senate. 12 April 1983.



ALASKA PUBLIC INTEREST RESEARCH GROUP

Post Office Box 1093/Anchorage, Alaska 99510/(907) 278 3661

August 31, 1983

Rocky Weller
c/o Sen. Eliason
Pouch V
Juneau, AK 99811

Dear Rocky:

Just to update you on interest rate activity--I'm meeting with Josephson and Rodey next week to talk, and Paula at the Bering Straits Fisherman's Assoc. at the end of this week.

Enclosed is a factsheet I put together today; we'll start circulating it. I have to meet with some labor folks in the next few weeks and will mention it then. My Sackett connection is not back from California yet.

I got the backup testimony on the national deregulation bill from Liz Hickerson, though I have to return it this week. To save us copying costs, is there any way I can formally ask you to include that stuff in the file for the record? Otherwise, I'll make copies sometime and send it off to you. Whatever.

Thanks for stoppin^g by last week and I'll let you know what Josephson and Rodey have to say.

Sincerely,

A handwritten signature in cursive script that reads "Maureen".

Maureen Kennedy



ALASKA PUBLIC INTEREST RESEARCH GROUP

Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

September 20, 1983

Dear Rocky:

Well, I've talked with both Josephson and Rodey and haven't won over any hearts.

Josephson came right up front and said that the Bankers' Assoc. had asked him to intro. the legislation and he felt that it was an OK idea and wanted to broaden his constituency; that he wasn't just a flaming liberal. We had a serious conversation during which I gave him our draft factsheet and talked about conclusions of some of the testimony heard in DC. He hadn't seen any of that stuff (his repertoire consisted of ABA info.) and I told him I'd forward it to him. In general, he said he'd be willing to reconsider if the facts were convincing enough. We talked about minimal regulation for loan companies and furniture store type places and credit cards--he seemed to think that that type of regulation was probably in order. He sounded like he was looking for a little direction from Eliason and the Senate Advisory Council--apparently he asked them for some info. on the effects of deregulation in Alaska specifically, and wasn't happy with the "well, we don't see anything wrong with it with the limited info. we have" response that he received.

Rodey also thinks that you all have some concrete plans going and is waiting for the signal. Our conversation was a little less serious in the information area--he gave me the line of increased rates equals increased access to credit, I gave him my response and we didn't get too far. He didn't focus down on the concrete facts and figures. He and I also discussed regulating certain portions of the industry eg furniture stores and credit cards, and he seemed amenable to that, but wanted to see what Eliason had to say. Jim Kelley and I are supposed to sit down and discuss all this when he comes to town--is that the guy you said had the hard core bankers' attitude? Rodey did say that the banks were only in this to make money and were willing to stretch their economic theory to add an extra half point to their margin. He also said he didn't think there was much competition in the Alaskan banking industry. So much for consistency. I'll follow up with some written material based on logic and see what happens.

over

National
Consumer
Law Center
Inc. Eleven Beacon St
Boston, MA 02108
(617) 523-8010

See page
3

September 13, 1983

Rocky Plotnick Weller
Senate Labor & Commerce Committee
Alaska State Legislature-Sentate
Pouch V
Juneau, AK 99811

~~Juneau~~
Juneau.

Dear Ms. Weller,

This is to acknowledge your letter of July 20, 1983, asking for comment on "a bill which would eliminate Alaska's usury statutes". An answer to your policy questions can only be general because almost all of the impact depends on how usury is "eliminated". As we have discussed previously, restrictions on my office's federal funding require that your Committee's interest be expressed over the signature of an elected official. While we are permitted to respond to oral inquiries should time be short, we nevertheless must by law request a written inquiry or confirmation from an appropriate official. I am providing this initial response in expectation of a return request confirming one or more of the Senators who are interested.

I've
received
the
letter,
that's

As I am sure you are aware, the Alaska legislature has many options concerning usury "deregulation". Most states have retained their criminal usury statutes, while liberalizing civil usury, since to do otherwise gives true loan sharks the right to enforce extortionate contracts. Second, virtually no state has actually eliminated their usury statutes, but rather have redefined the usury ceilings. Progressive states have only raised or altered those ceilings, such as establishing a "floating" rate ceiling linked to a money market index. This is the system in the Alaska Constitution. This approach deserves study, especially where many of your credit markets may lack meaningful competition. I gather, for example, that there is only one finance company licensed for consumer business in your entire state, and that many communities lack outlets for consumer lending.

This is not unlike the problem of market breakdown in inner-city Chicago, where used car rates have stabilized at about 50% per annum after the Illinois consumer usury ceilings were removed. Consumer specialist lawyers serving those borrowers report to us that the earlier problem of over-availability of credit (which lower-income borrowers could not repay) is a problem now, just as it was before the rate ceilings were increased; worse, it appears that some buyer-borrowers who could have managed payments under the old rate ceilings

are unable to repay at these extremely high rates, and so lose both their equity and their transportation. The Uniform Consumer Credit Code, a creditor-sponsored consumer credit statute, presumes extortionate credit (that is, loan-sharking) at rates of 45% per annum and up!

Because of situations like this, some states who fail to realize an indexed rate ceiling is enough have avoided foresaking their borrowers completely, by defining the rate ceiling on a contract-by-contract basis, through legislation which replaces a numerical ceiling with the "interest rate agreed" between the borrower and the creditor. Those states have accompanied such legislation by specific disclosure requirements and other protections in order to be sure that the consumer understands what rate is being imposed (there being no bargain or "agreement" in such contracts of adhesion). The three main requirements that appear in the New Jersey Small Loan Law, which was deregulated in this way, include a prohibition of non-actuarial rebates, the elimination of all prepayment penalties, and the application of the United States Rule on Partial Prepayments. In the New Jersey statute, no charges other than interest are permitted, and advance interest may not be taken; in deregulated statutes, these requirements are crucial because the federal Truth in Lending disclosures do not always describe the actual loan cost patterns properly.

Still other legislation is required if variable-rate consumer credit is planned, though it is rarely necessary to change usury ceilings in order to permit those variable rate transactions created in a competitive market. Interest ceilings hinder the enforcement of unconscionable results where variable-rate consumer credit shifts lender management risks to borrowing families. A study done by the Maine Department of Banking pointed out that a innocent-seeming variable rate mortgage for \$30,000.00, written in June 1978, started with a monthly payment of \$246.81, which had become \$419.33 by December of 1980, an increase of 70%! These kind of transactions are extremely dangerous to most borrowers, in part because they are hard to understand and ill disclosed, since the Truth in Lending law is so weak. Professional bankers might be expected to manage money and adjust their fixed rate portfolios to accommodate future interest rate possibilities, but there is no way that a small householder can make those adjustments like those which a variable rate note forces them to do.

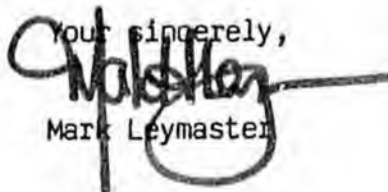
I have enclosed a copy of the Table of Contents from my treatise on Consumer Usury and Credit Overcharges, which can be used as a kind of checklist of legal distinctions and abuses in this area. There is no practical way I can offer particular recommendations without understanding (1) what the problem is specifically that the usury law changes are supposed to meet, and (2) what lender categories are asking for changes. Of those groups whom you mentioned there has historically been no justification for high interest rates in insurance premium finance, few justifications for high retailer interest rates, and only slightly less reasons to grant special usury consideration either to banks or credit card companies. Recent studies by the Federal Reserve Board in their Functional Cost Analysis show that New England bank credit card operations already achieve an effective return of about 27% on

credit card balances, though the stated credit card interest rates in this region are about 18%. (The difference comes from substantial merchant discounts, interchange fees, and from the huge returns generated from annual membership fees.)

Finally, your Committee's expectations that consumer interest rates will rise markedly when your usury ceilings are loosened is essentially correct. What has, to my knowledge, only been studied in New York, is the failure of the usual justification for imposing such costs on your existing borrowers. Lenders had argued in New York, the first state to raise interest rate ceilings to 25%, that increased rates would generate more credit availability in return for the huge cost increases. That did not appear to happen according to a study performed by the Banking Department, and reported in December of 1982. Needless to say, the report understated - and even misstated - this problem, but by and large, credit granting criteria were not liberalized, nor were many new dollars lent to new borrowers though the interest rates went up approximately 6 percentage points. I believe your Committee needs to look very carefully at the different sized groups effected by rate increases: existing borrowers, who already have large balances outstanding, are going to pay the overwhelming majority of new financing costs when rates go up, and very little new borrower debt will be created by comparison. This means that lenders largely increase their returns on people already qualified under earlier, lower interest rates, and perhaps lend them a bit more in the process. The few states that have realized what this problem means have permitted rate increases for entirely new borrowing but not when refinancing old balances.

The major effects of rate "deregulation" will be three: market confusion, reduction in most local purchasing power, because of increased debt-service costs, and increased risk of default with higher rates and variable rate contracts. Unfortunately some states have ignored the problem and only served their lender constituents by legalizing loan-sharking.

Please send me the bill you think is most likely to be heard, and I will attempt to analyze it for you further.

Your sincerely,

Mark Leymaster

cc: Will Ogburn

Mr. Donald Magnusson
Alaska Retail Association
174 South Franklin Street
#205
Juneau, Alaska 99801

Re: Alaska H.B. 246

Dear Don:

Enclosed, pursuant to our recent discussions, is a proposed amendment (with explanation) modelled on the South Carolina deregulation law. The amendment would require filing of retail rates in excess of 21% and posting of such rates by those who are not already required to disclose them in charge account agreements or retail installment contracts.

Perhaps this approach would alleviate some of Senator Eliason's concerns.

Cordially yours,

John H. Andrew
Western Regional Counsel

JHA/mmj

cc: Robert L. Geltzer, Esq. (w/encl.)
Russell H. Pearson "
Robert J. Devine "
Douglass Heikon "
Joseph M. Morales, Esq. "
Charles P. McConney, Esq. "
Larry Snider "

PROPOSED AMENDMENT TO CS FOR ALASKA HOUSE BILL NO. 246:

Sec. __. AS 45.10 is amended to adding a new section to read:

Sec. 45.10.125. FILING AND POSTING OF SERVICE CHARGES.

(a) Every seller intending to impose, pursuant to AS 45.10.120, any service charge in excess of 21% per year shall on or before the effective date of this section, and in the case of a seller not making consumer credit sales in this state on that date, on or before the date the creditor begins to make such credit sales in this state, file with the Department of Commerce & Economic Development and, except as otherwise provided in this section, post in one conspicuous place in each of the seller's places of business in this state a rate schedule meeting the requirements set forth in subsections (b), (c) and (d) of this section.

(b) The rate schedule required to be filed by subsection (a) of this section shall contain a list of the service charges, stated as an annual percentage rate, determined in accordance with the Federal Truth-in-Lending Act and Federal Reserve Board Regulation Z that the seller intends to impose on each type of consumer credit transaction in which the seller intends to engage.

(c) The posted notice required by subsection (a) of this section shall conspicuously and plainly set forth the same information required by subsection (b) hereof.

(d) A seller shall not be required to post the notice required by this section if the seller has complied, as appropriate, with the provisions of AS 45.10.030, 45.10.040, 45.10.050, or 45.10.110.

EXPLANATION OF PROPOSED AMENDMENT TO CS FOR ALASKA HOUSE BILL NO. 246:

Subsection (a) of proposed AS 45.10.125 would apply to retail seller's imposing service charges of 21% per year or more in the state. It would require the seller to file a notice of such service charge with the Department of Commerce & Economic Development and to post a notice of its service charge rates in each of its places of business. The proposed amendment is adapted from the South Carolina retail credit rate deregulation legislation which is now in effect.

The filing of rate schedules with the Department would make them subject to public scrutiny and in the preparation of the report to the Legislature mandated by Section 15 of the CS bill. The posting of rates would allow customers to make informed decisions concerning the assumption of credit burdens, based on accurate information concerning the cost of credit.

Credit grantors who already supply rate information in retail installment contracts, retail charge agreements, revolving charge agreements, etc. would be exempt from the posting requirement since they are already required by both state and federal law to provide rate information to their credit customers.

(1) the contract or agreement must state the nature, purpose, and amount of the insurance, and in connection with the sale of a motor vehicle, the contract must state that the insurance coverage ordered under the terms of this contract does or does not include "bodily injury liability," "public liability," and "property damage liability" coverage, as applicable;

(2) the contract or agreement must state whether the insurance is to be procured by the buyer or the seller;

(3) the amount included for the insurance may not exceed the premiums chargeable in accordance with the rate fixed for the insurance by the insurer except where the amount is less than \$1; and if the insurance is cancelled or terminated for any reason, the refund for unearned insurance premiums received by the seller or his assignee, together with the unearned portion of the service charge applicable to the insurance, shall be credited to the final maturing installment of the retail installment contract or retail charge agreement, and the remaining balance of the unearned insurance premiums shall be refunded to the buyer; however, no cash refund is required if the amount is less than \$1;

(4) if the insurance is to be procured by the seller or holder, he shall, within 45 days after delivery of the goods or furnishing of the services under the contract, deliver, mail, or cause to be mailed to the buyer at his address as specified in the contract a notice that the insurance is procured, a copy of the policy or policies of insurance, or a certificate of the insurance so procured. (§ 14 ch 141 SLA 1962)

Sec. 45.10.140. Agreement not to assert claim. A provision of a retail installment contract or retail charge agreement by which the buyer agrees not to assert a claim or defenses arising out of the sale against the seller or an assignee is invalid. (§ 16 ch 141 SLA 1962)

Sec. 45.10.150. Nonwaiver of chapter. No act or agreement of the retail buyer before or at the time of the making of a retail installment contract, retail charge agreement, or purchases under the contract or agreement constitutes a valid waiver of any of the provisions of this chapter or of any remedies granted to the buyer by law. (§ 16 ch 141 SLA 1962)

Sec. 45.10.160. Contracts and agreements executed before 1963. This chapter does not invalidate or make unlawful a retail installment contract or retail charge agreement executed before January 1, 1963. (§ 22 ch 141 SLA 1962)

Sec. 45.10.170. Action by attorney general. The attorney general may bring an action in the name of the state against a person to restrain and prevent a violation of this chapter. (§ 19 ch 141 SLA 1962)

Sec. 45.10.180. Assurance of discontinuance. (a) In the enforcement of this chapter, the attorney general may accept an

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Penalties
(existing
law) :

assurance of discontinuance of an act or practice considered in violation of this chapter from a person engaging in or who has engaged in the act or practice. The assurance shall be in writing and be filed with and subject to the approval of the superior court of the district in which the alleged violator resides or has his principal place of business.

(b) Failure to perform the terms of the assurance is prima facie proof of a violation of this chapter for the purpose of securing an injunction as provided in AS 45.10.170, and for the purposes of AS 45.10.190. (§ 20 ch 141 SLA 1982)

Sec. 45.10.190. Barring recovery for noncompliance. A seller who enters into a contract or agreement which does not comply with the provisions of this chapter or who violates a provision of this chapter except as a result of an accident or bona fide error may not recover a service charge, official fee, or a delinquency or collection charge under or in connection with the related retail installment contract or purchases under a retail charge agreement. The seller or holder may nevertheless recover from the buyer an amount equal to the cash price of the goods or services and the cost to the seller or holder of insurance included in the transaction. (§ 18 ch 141 SLA 1982)

Sec. 45.10.200. Penalty for violation of order or injunction. A person who violates an order or injunction issued under this chapter is punishable by a fine of not more than \$1,000, or by imprisonment for not more than six months, or by both. (§ 21 ch 141 SLA 1982)

Sec. 45.10.210. Penalty for violation of chapter. A person who wilfully and intentionally violates a provision of this chapter is guilty of a misdemeanor and, upon conviction is punishable by a fine of not more than \$1,000, or by imprisonment for not more than six months, or by both. (§ 17 ch 141 SLA 1982)

Sec. 45.10.215. Scope of chapter. For the purposes of this chapter, a retail installment contract or retail charge agreement is entered into in this state, and is therefore subject to the provisions of this chapter, if either the seller offers or agrees to sell to a resident Alaska buyer in Alaska or if a resident Alaska buyer accepts the offer to sell or makes the offer to buy in Alaska, regardless of any specification in the contract as to its situs. (§ 2 ch 45 SLA 1978)

Sec. 45.10.220. Definitions. In this chapter, unless the context otherwise requires,

(1) "cash sale price" means the price for which the seller would have sold or furnished to the buyer and the buyer would have bought or obtained from the seller the goods or services which are the subject matter of a retail installment transaction if the sale had been a sale for cash. The cash sale price may include taxes and charges for transferring vehicle titles, delivery, installation, servicing, repairs, alterations, or improvements;

JCPenney

January 20, 1984

Senator Richard I. Eliason
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

House Bill No. 246
(Deregulation of Interest Rates)

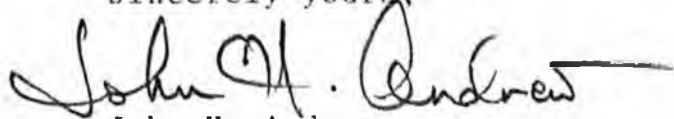
Dear Senator Eliason:

We are writing to express our continuing interest in H.B. 246, which was heard but not voted on in the Senate Labor & Commerce Committee last session.

We hope that you will give early and favorable consideration to this important piece of legislation.

Please let us know (either directly or through Don Magnusson of the Alaska Retail Association) if we can be of assistance in your consideration of this legislation.

Sincerely yours,



John H. Andrew
Western Regional Counsel

JHA/mmj

cc: Donald R. Magnusso
Douglas Heiken
Larry Snider

Legal Department

J.C. Penney Company, Inc., 333 South Hope St., Los Angeles, Ca. 90071, Tel: (213) 620-1740

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-

Provided by Wes Coyner

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 sample of retail stores and automobile dealers throughout the State. Responses were received from more than 72% of the financial institutions but 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 1981, 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	
	<u>Questionnaires Sent Out</u>	<u>Responses Received</u>
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	<u>260</u>	<u>58</u>
Total	<u>898</u>	<u>475</u>

- 5 -

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.

Cmcc/
St. Colman
Ar. 2/27

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 these 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.

ALASKA RETAIL ASSOCIATION
174 S. Franklin St. # 205
Juneau, Alaska 99801
586-6706

Don Magnusson, Executive Director

RETAIL REVOLVING CREDIT RATES

DEREGULATED STATES

States which prior to 1980 did not impose rate ceilings:

1. Kentucky
2. New Hampshire
3. Oregon

States which removed rate ceilings in 1980:

4. Arizona
5. New York (25% criminal usury ceiling)

States which removed rate ceilings in 1981:

6. Delaware
7. Illinois
8. Montana
9. Nevada
10. New Jersey
11. New Mexico
12. Ohio (25%)
13. Utah
14. Wisconsin (effective 1984)

States which removed rate ceilings in 1982:

15. South Carolina
16. South Dakota
17. Virginia (effective April 1, 1983)

States which have removed rate ceilings in 1983:

18. Idaho

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 18.5%. 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.

seller and the buyer, and the dependence of the buyer on the goods supplied (e.g., a bush grocery store) creates a situation which is ripe for abuse. If, in fact, the current laws create an interest limit which is below the costs of these services to the seller, then let them be adjusted upwards by enough percentage points to cover the difference, but there is no need to take these ceilings off completely.

3) If an "experiment" in deregulating interest rates is required, apply it only to businesses which can, through equal bargaining power, protect their interests. Do not pass sections 1, 4 and 5 without having a far better understanding of what effects these sections might have on Alaska consumers.

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.

ARGUMENTS

- 1) The Alaska banking community has not demonstrated the need for this legislation. The prime argument in favor of this bill is that it would increase the availability of credit by allowing money to be attracted to the best return. In fact there is no evidence that there has ever been a consumer credit availability problem in Alaska, even when interest rates were far higher.
- 2) In certain areas the disproportionate power between the

M E M O R A N D U M

July 27, 1983

SUBJECT: Interest rates
(SB 316) *TAS*

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)

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 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 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 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

SB 316

The bill contains no comparable section.

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 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 3 of the bill increases the effective interest chargeable on retail installment contracts by increasing the percentages from five-sixths to

types of agreements typically used by furniture stores.

No comparable provision in the bill for retail charge agreements.

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 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.

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.

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 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.

The bill contains no comparable section.

The bill contains no comparable section.

The bill contains no comparable section.

The bill contains no comparable section.

The bill contains no comparable section.

SCS CSHB 246 (L&C)

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.

TAS:ljb
26/018

SB 316

The bill contains no comparable section.

The bill contains no comparable section.

The bill contains no comparable section.

Section 6 of the bill repeals interest rate ceiling for credit unions.

Section 7 of the bill gives an immediate effective date to the entire bill.

The usury bill before you HB 246/SB 276 may have some serious implications to consumers of this state, and I would respectfully request that the bill be held over until the next session so that a dialog between legislators and the public may have a chance to take place. I feel that only one side of the issue has been presented as the bill has gone through the process, and before the process is completed much more information, discussion and involvement of consumers must be considered.

Possible benefits of this bill - increased availability of loans - have not seemed to materialize in states that have preceded Alaska in legislation of this sort. The fact is that lenders do not lend to high risk borrowers with or without deregulation. In a New York study 93% of commercial banks raised interest rates but refused to reduce new-borrower qualifications; 83% refused to offer better terms to existing-borrowers. Most savings banks had not liberalized either measure of credit availability. Most of the finance companies had not changed their qualifications though they had raised their rates as far as they legally could. Virtually all of the retailers in the New York study had kept credit availability unchanged. A preponderance of the auto dealers had also raised interest rates since deregulation, but not changed their credit qualifications. For the most part the higher interest rates have brought almost no new credit.

higher
The notion of increased credit availability after deregulation may be contrary to a borrower's reality. Higher "prices" may actually deter borrowers who have the option to wait. Since the higher debt-service cost puts a greater strain on disposable borrower income, interest rates should deter borrowers. Increased rates are like increased rents: borrowers have to pay increases just to keep what they already have, and like rent increases, most interest rate increases are a windfall for lenders and do not represent new availability for borrowers.

deregulated states
Deregulation promises competition, but that has not been born out despite the announced theory. Competition over interest rates does not exist in many consumer credit markets. In a place like Alaska - especially in the bush area - there is no possibility of real competition since only a limited choice of lenders exists. Furthermore if there were sufficient interest-rate competition, consumer interest rates would have dropped sharply from their 1982 levels, since the cost of borrowed funds has dropped sharply; however consumer interest rates have not. Rates should, but have not followed the money market. Competition has also not worked in the example of the Chicago used car market as there are now reports of interest rates in excess of 50% APR (annual percentage rate). In addition lenders could charge unlimited annual fees, transaction fees, or other one-time charges that are never factored into the APR which consumers use to comparison shop. Lenders in search of higher profits are using loansharking techniques to prey upon unsophisticated borrowers.

JW
Great care must be taken to assure consumer protections when deregulation comes into effect. Protection against excessive fees,

fees that do not appear in the APR, and against abusive creditor remedies on default are vital. Plain English Requirements are needed so that consumers can readily understand the contracts that bind them. They should be clearly informed of the loss of home if, due to variable or steep interest rates, they cannot meet payments. They should understand clearly that early payment of the loan incurs a penalty. They need to know up front what creditor remedies may be exercised on default. I would ask you to read the N.Y. Consumers Union testimony before the U.S Senate Committee on Banking, Housing and Urban Affairs, for the author goes into great detail concerning the consumer dangers and protections needed to accompany open legislation of the sort before you. *Natl Consumer Union*

Credit markets are not the same as buyer and seller bargains for the sale of goods. Unlike buying soap, credit "sellers" with cash available will not loan to every borrower who is willing to "pay the price". There are always those who are economically objectively unqualified to borrow more than they are currently carrying. Increasing interest charges/directly decreases borrower qualification, for the higher the risk premium, the better qualified the borrower must be to afford it. The possible outcome of this legislation is that fewer people will qualify for loans, the loans will be increasingly expensive to get, loansharking tactics for repayment may ensue, and competition may more reasonably result in price fixing than in lowering risks and rates to the consumer. This hurt most may be the middle and lower income person. 80% of the poor are women.

I would not - you will - me - 2007 - 10/17

This country bans thalidomide and laetrile precisely because people are desperate and under such circumstances will take high risks. It is also appropriate to prevent the high risk consumer who is desperate to pay off other debts or to buy goods from getting further over her or his head. Numerous studies show that the vast majority of defaults occur due to events beyond the debtor's control - job loss, illness, and marital trouble. The majority of defaulters default not because they are able to pay and choose not to do so, but because they simply do not have the money. *These people will*

not benefit - much as they will pay 2 B + in interest.

decreased interest rate of the bank's credit

loans to bank's higher interest

Credit using cashiers get used by

File # 11
377

Win

must be able to assess those
costs to the state due to the
Tribal services being provided.

and ... to ...



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"We do not have a
state Trustee-in-lending laws"
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AkPIRG Legislative Alert

The State Senate is considering several bills dealing with interest rates. House Bill 246, sponsored by Rep. Bob Bettisworth, passed in the House last session and is now before the Senate. The bill deregulates interest rates on consumer loans under \$25,000 in that it allows the rate to be set by contract. (The rates are now 3% a month for loans under \$850 and 2% a month between \$850 and \$10,000.) Service charges, rates on retail installment contracts and charge agreements are similarly deregulated.

Senate Bill 485, introduced this week by Senator Joe Josephson, increases allowable interest rates on credit cards and revolving credit plans from 18 percent to 24 percent per year, and deregulates service charges and other fees.

The Senate Labor and Commerce Committee will be in Anchorage to hold a teleconference hearing on interest rate issues on Saturday, March 3rd. The hearing will start at 10 AM, and Anchorage residents will testify until 11 AM. After that time, residents in other parts of the state can testify. See the list on the other side of the page for the teleconference center nearest you.

If you cannot make the hearing, write the members of the Senate Labor and Commerce Committee: Richard Eliason, Chair; Bob Mulcahy, Vice Chair; Don Bennett; at Rodey; John Sackett; and Fritz Pettyjohn.

The hearing was scheduled on a weekend to encourage consumer participation-- PLEASE ATTEND AND TESTIFY! Call or write us for more detailed information on the issue. Copies of bills are available from the Legislative Information Offices.

INTEREST RATE DEREGULATION FACTSHEET

1. Would deregulation of interest rates increase competition among lenders and thereby keep rates reasonable?

--No. Competition in any market requires that consumers shop for the good or service and compare prices. A 1977 study by the Federal Reserve Board reveals that only 30% of potential borrowers shop for loans. This figure would be much lower for low-income borrowers--those who have the most to lose under deregulation.

--The New York State Banking Dept. found little increase in competition there after rates were deregulated in 1980. Ninety-three percent of New York banks surveyed increased their rates after deregulation.

2. Would deregulation allow lenders to give more people access to credit?

--Again, the New York State Banking Dept. study did not find this to be the case. A very small minority of all lending institutions changed their lending qualifications after deregulation. Consumer Federation of America testimony before the Senate Banking Committee explained that "consumers who are eligible for credit at 25% are the same consumers who were eligible for credit at 18%."

--A 1981 Purdue University study found that Arkansas residents (where the interest rate ceiling is constitutionally set at 10%) held as much consumer debt as residents of neighboring Louisiana (with a 31% APR ceiling). Lower-income Arkansas residents actually held more debt than similar customers in Louisiana.

3. What other adverse effects would usury deregulation cause?

--The inevitable artificial increase in rates would be inflationary.

--The state economy would also suffer as consumers put off major purchases in the face of high interest rates. This impact would be especially noticeable in Alaska, a state of consumers rather than producers.

--A Consumer Federation of America study found that states with high interest rate levels had a higher rate of bankruptcy-- 19% higher--than states with rates below the average.

February 16, 1984

Dear AkPIRG member or friend:

The efforts of consumers across the country to delay imposition of telephone access charges paid off--in a way-- last month. Under heavy political pressure from the US Senate, the Federal Communications Commission agreed to delay the access charges on residential consumers until sometime in 1985 (conveniently after the elections). The Senate then voted to table the Telephone Rate Relief Bill by a close margin.

Consumer groups were urging Senators to take up S. 1660 because it contained other provisions advantageous to consumers. Both Sens. Stevens and Murkowski voted against tabling.

MORE GENERAL INFORMATION

State legislators are strongly influenced by letters and Public Opinion Messages (POMs) from their constituents. As few as four or five letters can persuade a legislator to change his or her mind on an issue. Most people don't bother to write, however.

Write your legislator at State Capitol, Pouch V, Juneau, AK 99811 or send a free POM (50 words or less) by calling or stopping by your closest Legislative Information Office:

Anchorage:	1024 W. 6th Ave. 278-3668	Ketchikan:	111 Stedman St. #100 225-9675
Barrow:	Christian Education Bldg. 852-7111	Kodiak:	Borough Building 486-4881
Bethel:	Kuskokwim Inn Annex 543-3541	Kotzebue:	Eskimo Building 333 Front St. 442-3880
Delta Jct:	Aurelian Building 895-4236	Mat-Su:	Wasilla Village Ctr. 376-3704
Dillingham:	Kangiqutaq Office 842-5319	Nome:	State Bldg., 2nd Floor 443-5555
Fairbanks:	315 Barnette St., #101 452-4448	Petersburg:	309 Main St. 772-3741
Juneau:	Rm. 30, State Capitol 465-4648	Sitka:	210 Lake St. 747-6276
Kenai:	Cordova Bldg, Spur Hwy. 262-9364	Valdez:	State Court and Office Building, #59 835-2111

If a teleconference hearing is scheduled for a bill, you can testify "over the wire" at your nearest teleconference center. The hearings are quite informal; legislators want to hear what the average Alaskan thinks about an issue. Call or write your local Legislative Information Office to get on the mailing list for the weekly schedule of hearings. The Legislature requires only five days' notice for scheduling hearings, so they often come up unexpectedly.

Ambler:	City Hall 445-2151	Kaktovik:	Community Building
Anatuvuk Pass:	Mayor's Office 661-3011	Noorvik:	Council Chamber 636-2213
Cordova:	Library, City Hall 424-5151	Pt. Hope:	Community Building 368-2770
Fort Yukon:	City Conference Room 662-2613	St. Paul:	Council Chambers 546-2351
Galena:	Louden Village Council 656-1367	Sand Point:	City Council Chambers 383-4877
Gambell:	Community Center 985-5433	Savoonga:	City Hall 984-6434
Haines:	Council Chambers, Muni. Bldg. 766-2885	Selawik:	IRA Council 484-2126
Homer:	Hillas Building 235-7878	Seward:	City Council Chambers 224-3713
Hoonah:	City Hall Chambers 945-3332	Shishmaref:	City Office Building 649-3041
Hooper Bay:	Library 758-4329	Unalakleet:	Learning Center 624-3054
Wrangell:	City Council Chambers, 874-3013	Unalaska:	Council Chambers 581-1779
Yakutat:	City Hall Conference Rm., 784-3236	Wainwright:	Telecommunications ctr. 763-2543

ALASKAN INTEREST RATE DEREGULATION FACTSHEET

1. Would deregulation of interest rates increase competition among lenders and thereby keep rates reasonable?
 - No. Competition in any market requires that consumers shop for the good or service and compare prices. A 1977 study by the Federal Reserve Board reveals that only 30% of potential borrowers shop for loans. This figure would be much lower for low-income borrowers--those who have the most to lose under deregulation.
 - The New York State Banking Department found little increase in competition there after rates were deregulated in 1980. Ninety-three percent of New York banks surveyed increased their interest rates after deregulation.
2. Would deregulation allow lenders to give more people access to credit?
 - Again, the New York Banking Department study did not find this to be the case. A very small minority of all lending institutions changed their lending qualifications after deregulation. Consumer Federation of America testimony before the Senate Banking Committee explained that "consumers who are eligible for credit at 25% are the same consumers who were eligible for credit at 18%."
 - A 1981 Purdue University study found that Arkansas residents (where the interest rate ceiling was 10%) held as much consumer debt as residents of neighboring Louisiana (with a 31% APR ceiling). Lower-income Arkansas residents actually held more debt than similar consumers in Louisiana.
3. What adverse effects would usury deregulation cause?
 - The inevitable increase in rates would be inflationary.
 - The state economy would also suffer as consumers put off major purchases in the face of high interest rates. This impact would be especially noticeable in Alaska, a state of consumers rather than producers.
 - A Consumer Federation of America study found that states with high interest rate levels had a higher bankruptcy rate--19% higher--than states with rates below the average.
4. What would the impact be on low-income borrowers?
 - As outlined above, low-income consumers would experience higher rates of interest with no corresponding increase in available credit.
 - Because access to lending institutions is often limited in poorer neighborhoods and in rural areas, residents would not comparison shop for credit.
 - Unscrupulous lenders charging unconscionable rates of interest would operate legally--as long as the borrower could be persuaded to sign a contract.
 - Finance companies, which constitute the primary source of credit for low-income borrowers and which already operate at the legal interest rate limit would ratchet their rates upward, further constricting credit availability and buying power for lower-income borrowers.

Dear AkPIRG member or friend:

The efforts of consumers across the country to delay imposition of telephone access charges paid off--in a way-- last month. Under heavy political pressure from the US Senate, the Federal Communications Commission agreed to delay the access charges on residential consumers until sometime in 1985 (conveniently after the elections). The Senate then voted to table the Telephone Rate Relief Bill by a close margin.

Consumer groups were urging Senators to take up S. 1660 because it contained other provisions advantageous to consumers. Both Sens. Stevens and Murkowski voted against tabling.

MORE GENERAL INFORMATION

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Wrangell:	City Council Chambers, 874-3013	Unalaska:	Council Chambers 581-1779
Yakutat:	City Hall Conference Rm., 784-3236	Wainwright:	Telecommunications ctr. 763-2543

The state senate is considering several bills dealing with interest rates. House Bill 246, sponsored by Rep. Bob Bettisworth, passed in the House last session and is now before the Senate. The bill deregulates interest rates on consumer loans under \$25,000 in that it allows the rate to be set by contract. (The rates are now 3% a month for loans under \$850 and 2% a month between \$850 and \$10,000.) Service charges, rates on retail installment contracts and charge agreements are similarly deregulated.

Senate Bill 485, introduced this week by Senator Joe Josephson, increases allowable interest rates on credit cards and revolving credit plans from 18 percent to 24 percent per year, and deregulates service charges and other fees.

The Senate Labor and Commerce Committee will be in Anchorage to hold a teleconference hearing on interest rate issues on Saturday, March 3rd. The hearing will start at 10 AM, and Anchorage residents will testify until 11 AM. After that time, residents in other parts of the state can testify. See the list on the other side of the page for the teleconference center nearest you.

If you cannot make the hearing, write the members of the Senate Labor and Commerce Committee: Richard Eliason, Chair; Bob Mulcahy, Vice Chair; Don Bennett; at Rodey; John Sackett; and Fritz Pettyjohn.

The hearing was scheduled on a weekend to encourage consumer participation--**PLEASE ATTEND AND TESTIFY!** Call or write us for more detailed information on the issue. Copies of bills are available from the Legislative Information Offices.

INTEREST RATE DEREGULATION FACTSHEET

1. Would deregulation of interest rates increase competition among lenders and thereby keep rates reasonable?

--No. Competition in any market requires that consumers shop for the good or service and compare prices. A 1977 study by the Federal Reserve Board reveals that only 30% of potential borrowers shop for loans. This figure would be much lower for low-income borrowers--those who have the most to lose under deregulation.

--The New York State Banking Dept. found little increase in competition there after rates were deregulated in 1980. Ninety-three percent of New York banks surveyed increased their rates after deregulation.

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NFIB National Federation
of Independent Business

The Guardian of Small Business

February 13, 1984

The Honorable Richard I. Eliason
Alaska State Senate
Pouch V
Juneau, AK 99811

Dear Senator Eliason:

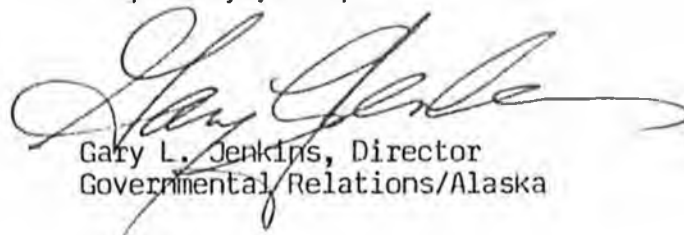
Small business continues to be the largest generator of new jobs in the United States, however, the number of jobs which are created often are significantly effected by state legislative actions. To ensure that legislators have the benefit of knowing how existing law and proposed legislation affects small business, the National Federation of Independent Business has been working with, not only the Alaska Legislature, but state legislatures nationwide for several years.

In Alaska, NFIB currently has a membership in excess of 3,600 which means that we usually represent a significant majority of the retail and service businesses in each city in Alaska. Each year we send a ballot to all of our members requesting their input on issues of current interest in Alaska. This ballot permits each member to express their feelings on these issues and gives me direction regarding which issues should be pursued legislatively. I do not take a position on an issue for NFIB unless the members have voted on it and a majority favor the position being taken.

Enclosed for your information is a copy of our 1983 State Ballot showing the vote of the membership on the various issues. The issues which received strong support are ones which I will be discussing with legislators during this and subsequent legislative sessions.

If I can provide you any additional information on NFIB or if you would like to know our position on a particular issue, feel free to contact me.

Very truly yours,



Gary L. Jenkins, Director
Governmental Relations/Alaska

NFIB/ALASKA
Legislative Office
P.O. Box 194
Auke Bay, AK 99821
907/586-4100

Dear NFIB Member:

This Ballot is solicited by NFIB Research and Education Foundation to gather information pertaining to small business issues in your state.

Your answers are valuable and will enhance the survey.

Please return the entire Ballot. Thank you.

Very truly yours,

John E. Sloan, Jr., President
NFIB Research and Education Foundation

GENERAL BUSINESS

Interest Rates

1. Should interest rate ceilings be repealed on: (vote on each)

a. Bank loans of \$25,000 or less
32% Favor 60% Oppose 8% Undecided

b. Savings and loan association loans of \$25,000 or less
34% Favor 58% Oppose 8% Undecided

c. Retail installment contracts
36% Favor 54% Oppose 10% Undecided

d. Retail open-ended charge accounts
34% Favor 56% Oppose 10% Undecided

e. Credit card revolving accounts
33% Favor 58% Oppose 9% Undecided

f. State chartered credit unions
35% Favor 55% Oppose 10% Undecided

g. Small loan finance company loans of \$10,000 or less
33% Favor 58% Oppose 9% Undecided

BACKGROUND: HB 246, presently in the Senate Labor and Commerce Committee proposes to remove all limitations on all types of credit in Alaska. The measure would permit each financial institution and all businesses extending credit to charge whatever interest rate they wish, subject only to competition of the marketplace and negotiation with each individual customer.

Current law limits banks and savings and loan associations to a maximum interest rate of 5% over the federal discount rate in effect at the time of the loan on any loan of \$25,000 or less. There are no interest rate limitations on loans in excess of \$25,000. During the past few months, the federal discount rate has been 8.5%, thereby setting the maximum allowable interest rate at 13.5%.

A retail business selling merchandise on a retail installment contract is presently limited to a maximum interest rate of 10% per year on the first \$1,000 of credit extended, and 8% on credit in excess of \$1,000. However, for retail businesses as well as credit card companies extending open-ended revolving charge accounts, the maximum interest rate is 18% per year on the first \$1,000 of credit extended and the federal discount rate plus 5% on credit in excess of \$1,000. A state chartered credit union is presently limited to 15% or 5% over the federal discount rate, whichever is higher on loans of any amount. Small loan finance companies can now levy a maximum interest rate of 36% per year on the first \$850 of credit extended and 24% on credit up to \$10,000.

Proponents of the removal of all interest rate limitations argue that many financial institutions and businesses lost money on their credit transactions during the period of very high interest rates and, further, the limits are no longer necessary. If the limitations were removed, the marketplace, i.e., competition for the financing, would set the rates at reasonable levels in line with the risks inherent in the particular credit transaction.

Opponents argue that Alaska does not have a well developed marketplace and there are many communities where no competition exists either for banking or retail credit. The removal of all limits would permit the charging of unreasonably high rates. Further, it has also been pointed out that in the case of consumer loans and small business loans under \$25,000, the marketplace seems to react very slowly when interest rates are falling in general. For example during the first few months in 1983 in California, where there are no interest rate limitations, interest rates being charged on small loans by banks were running at 20% to 25%, while rates in Alaska were about 14%.

Interest Rates

2. Should interest rates on balances of \$1,000 or less that are limited to a maximum, such as the 18% for business credit or credit card companies, be modified so the maximum rate could be increased with the federal discount rate, once the federal discount rate reached a pre-set level?

39% Favor 52% Oppose 9% Undecided

BACKGROUND: Proponents of this concept feel that businesses extending financing and credit should not be so limited in the rates they charge that they lose money; therefore, the limitations should be allowed to rise when interest rates are generally high. It has been proposed that the maximum rate on accounts with balances of \$1,000 or less be set at 18%, or 6% over the federal discount rate, whichever is higher.

Opponents argue that the federal discount rate does not necessarily indicate the cost of funds to financial institutions or businesses. A variety of other factors affect the cost of funds to a particular entity. They argue, therefore, that it is more appropriate to remove all limitations and let market conditions establish the rates.

Bad Check Penalties

3. Do you favor or oppose increased civil and/or criminal penalties as an effective deterrent to the writing of bad checks?

95% Favor 4% Oppose 1% Undecided

BACKGROUND: It is well established that bad checks are a problem that every business must deal with to some degree. However, the question has been raised whether the laws of Alaska are presently adequate to deal with the problem. It has been suggested that either or both the civil or criminal penalties should be made stronger to attempt to reduce the impact of this problem.

Bad Check Civil Penalties

4. Should legislation be adopted to require that bad-check writers repay not only the face value of the check and any court costs incurred by the receiver but also civil damages of \$100 (minimum) or triple the amount of the check?

86% Favor 10% Oppose 4% Undecided

BACKGROUND: Law enforcement officials frequently do not pursue those who write bad checks for small amounts. Thus, the only deterrent to writing a bad check is the receiver's (merchant) collection efforts. Checks written for small amounts, which together may represent a deep cut in a business's profit, frequently cost more to collect than they are worth.

If the merchant was allowed to collect from the bad-check writer a minimum of \$100 or triple the amount of the check as damages, in addition to the base value of the check and any court costs incurred, there would be a real incentive for the merchant to collect and a deterrent to bad-check writing.

Check Information

5. Should financial institutions be required to number checks on new accounts beginning at #101 and display on the face of the check the month and year the account was opened?

41% Favor 49% Oppose 10% Undecided

5A. Should banks be allowed to disclose to merchants the bank account information of those who issue checks which are returned because of insufficient funds? Such information might include account status, current address, phone number, and history of returned checks.

66% Favor 33% Oppose 1% Undecided

BACKGROUND: In the United States, approximately 400,000 worthless checks are written every day. Eighty percent of those checking accounts are six months old or less. Numerical listing and date of account opening would alert merchants to new accounts and to take care in deciding whether to accept those checks. Additionally, several states have given financial institutions permission to disclose account information to either law enforcement officials or merchants who receive a worthless check.

Opponents of the numbering system believe it would create problems for individuals and businesses who for continuity purposes want to continue to number checks from where the old account left off.

LABOR

Mandatory Overtime Wages

6. Should existing law be repealed which requires a business with four or more employees to pay overtime to an employee who works more than 8 hours in one day, but does not work over 40 hours per week?

73% Favor 24% Oppose 3% Undecided

BACKGROUND: Most small businesses require that a particular job be accomplished within a certain period. This may require an employee to work more than 8 hours on a particular day. However, the employee is given time off on other days of the week so as not to work more than 40 hours that particular week. Proponents of a change

say that law is particularly unfair to smaller businesses whose workload is heavy at certain times and slack on other days of the week. This flexibility of worker time should not impose an additional financial burden on smaller businesses.

Opponents to changing the law argue that employees working more than 8 hours in any one day should be given extra compensation in the form of overtime pay, whether they worked voluntarily or were required to do so by their employer. They feel daily overtime pay should be independent of the requirement to pay overtime to an employee who works more than 40 hours a week.

GOVERNMENT

Permanent Fund Income

7. Should the unused portion of the income from the Permanent Fund not allocated to the Dividend Program be authorized for the following?

a. The Longevity Bonus Program for the elderly

41% Favor 51% Oppose 8% Undecided

Municipal Assistance Program

24% Favor 66% Oppose 10% Undecided

BACKGROUND: During the 1983 Legislative Session bills were introduced which would require that part of the income of the Permanent Fund be held to finance the Longevity Bonus program and/or finance the municipal revenue sharing program. In the past, funding for such programs has been from the state's General Fund.

Proponents of using the income from the Permanent Fund to provide funds for these programs contend that this would not violate the intent of the Permanent Fund financing activities to benefit the maximum number of residents of the state. They argue that programs like the municipal assistance program are helping all communities of the state directly and thus benefit the residents of the various communities indirectly by reducing local taxation and providing needed services.

Opponents argue that the Legislature is merely looking for new sources to fund the expensive programs they have created the past few years which they do

not want reduced in levels of funding, now that General Fund revenues are declining. Obviously, the most enticing source for funds is the Permanent Fund. They strongly argue that the income of the Permanent Fund should be kept for the original purposes established when the program was created and not used to fund other programs of the Legislature. They state that the Legislature should be required to fund all programs of the state from General Fund revenues or from revenues other than the Permanent Fund.

Government Competition

8. Does the State of Alaska maintain operations which are in direct competition with your business?

29% YES 56% NO 15% DON'T KNOW

BACKGROUND: Past Alaska State Ballots have asked whether the state should desist from activities which directly compete with private enterprise. The membership has always strongly supported this concept. However, the question has been raised about how much competition there actually is. This question is intended to determine the present level of competition by state agencies.

COMMENTS:

Answer "Yes" only if you are specifically aware of significant areas of state competition in your type of business. Answer "No" if you are reasonably certain that the state does not compete with your business. If you "don't know", please so indicate. If you are aware of specific areas of competition, please list them in the comments section of this Ballot.

Interest Payment On Overdue Bills

9. Do you favor or oppose legislation to require local governments to pay interest on their unpaid bills after 30 days?

92% Favor 5% Oppose 3% Undecided

BACKGROUND: During 1983, legislation was nearly enacted which would mandate state agencies to pay interest on bills not paid within 30 days of receipt of invoice. It has been suggested that the same legislation should have been applicable to local governments as well as state agencies. The problem of local governments not paying bills on time should be addressed in future legislation.

Opponents of prompt pay say that local governments frequently need to have extended periods to pay their bills and should not be penalized with interest that amounts to taxpayer dollars.

Equal Access to Justice

10. Should the state enact legislation authorizing courts to require state agencies to reimburse reasonable attorney fees and court costs to small businesses who prevail over an agency in civil actions relating to alleged violations of governmental regulations?

96% Favor 2% Oppose 2% Undecided

BACKGROUND: Aggressive agency regulatory enforcement frequently result in what is considered unwarranted fines and citations. The intent of the proposed act is to remedy the imbalance of power and legal resources between government and small businesses by giving small business the means to challenge if their position is justified.

Proponents of this legislation believe that making agencies responsible for attorney fees and court costs will discourage unnecessary actions against small businesses and reduce bureaucratic interference with business. Costs and fees would be reimbursed from the agency's operating budget if the courts find an agency acted unreasonably in pressing a claim or punitive action against a small business.

Opponents say such legislation will unduly tie the hands of regulators. (Please use the Comment section to cite instances where you paid a fine in order to avoid the cost of litigation.)

NFIB

**National Federation
of Independent Business**

Research and Education Foundation
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LAW OFFICES OF
ALASKA LEGAL SERVICES CORPORATION
616 "H" STREET, SUITE 100
ANCHORAGE, ALASKA 99501
TELEPHONE (907) 272-9431

POSITION PAPER: House Bill No. 246 - "An Act relating to the deregulation of interest rates; and providing for an effective date."

AT THE REQUEST OF: Senator Richard Eliason, Chairman of Senate Labor and Commerce Committee

FOR MORE INFORMATION CONTACT: Robert Hickerson

DATE: May 25, 1983

HB 246 proposes to deregulate all interest rates and financial charges in the State of Alaska from July 1983 until July 1987. After this five year period, this bill purports to reinstate the current existing regulations.

BRIEF ANALYSIS:

It appears from testimony submitted to U.S. S.B. 730 which proposed preemption of state authority over consumer credit transactions that the proposed Alaska HB 246, which would eliminate state interest regulations would adversely affect the ability of Alaskans to obtain credit, as well as burdening future Alaskan debtors with increased interest rates and repayment plans. Moreover, there has been no apparent empirical data or alternative premises introduced which would justify the deregulation of interest rates. Rather this bill seems aimed at increasing the short term profitability of money lenders at the expense of the consumers.

1) The premise that Alaska is not competitive with other states for ascertainment of credit is misleading.

- a) Only six states (New York, New Jersey, Montana, South Dakota, Delaware and Arizona) have adopted deregulatory bills similar to the proposed HB 246. Additionally, both New York and New Jersey have buffered the consumer impact of deregulation by adopting criminal usury ceiling-statutes of 25% and 30% respectively.
- b) Eleven states (Alabama, Illinois, Michigan, Missouri, New Hampshire, North Dakota, Pennsylvania, Tennessee, and Wisconsin) have floating interest ceilings which are tied to the Federal Reserve Discount Rates.
- c) The UCCC States of Idaho, Indiana, Iowa, Kansas, Maine, Oklahoma, South Carolina, Utah and Wyoming have inflationary provisions written into their regulations.

- d) The remainder of the twenty-two states including Alaska have statutorially increased the maximum interest rates allowable.

It appears that the availability of credit in Alaska is no less competitive than the majority of the states. If studies show that Alaska is uncompetitive, alternative statutory provisions could be substituted rather than adopting the radical approach of complete deregulation.

2) The premise that HB 246 will expand credit to Alaskan consumers is misleading because it appears that the credit market place is not a competitive market.

- a) The proported premise that high risk debtors will be able to obtain credit has been proven fallacious in New York. In New York (a deregulated state) such debtors were still turned down 3 to 1 despite increased interest rates.

- b) ~~There is no evidence that interest rates for lower risk debtors would decrease.~~ Apparently in New York debtors eligible for 18% financing are still required to pay the upper ceiling at 25% rates.

3) Additionally, the effects of the deregulation of interest rates would be unduly burdensome to the consumer because of the following:

- a) Financial charges and interest rates would increase.
- b) Additional "hidden" fees would be added to the financing contract which would make comparison shopping very difficult.

4) The effects of deregulation of interest rates would be burdensome to creditors because of the following:

- a) It would decrease the consumer consumption of goods because an individual could only absorb a certain amount of credit and interest rates; increased interest rates would proportionately reduce the amount of goods purchased.
- b) Incidents of bankruptcy are likely to increase as a result of increased interest rates. Statistics have shown that the rate of bankruptcy increases proportionately to the rate of interest rates.

5) Lastly, it is suggested that if a deregulation bill was to be passed, additional measures should be taken simultaneously which would provide the consumer with full disclosure protections of a financing contract. These include:

- a) A Plain English Statute;

- b) Expansion of the truth in Lending and Fair Debt Collection Statutes;
- c) Prohibition of Wage Assignments;
- d) Prohibition of non purchase money security interests in household goods;
- e) Prohibition of blanket security interests, and increasing the specificity of goods included under a security agreement; and
- f) Expansion of laws protecting co-signers which would include more information and a cooling off period.

CONCLUSION:

It appears from the available material that HB 246 would not achieve the purported purposes and seriously hinder consumer financing. It is suggested that this Bill be reexamined and alternative options be presented which would either provide potential debtors with additional disclosure protections or in the alternative provide less drastic remedies to resolving the purported Alaskan Credit Problem.



ALASKA PUBLIC INTEREST RESEARCH GROUP

Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

May 23, 1983

Richard Eliason, Chair
Senate Labor and Commerce Committee
Pouch V
State Capitol
Juneau, AK 99811

Dear Sen. Eliason:

The Alaska Public Interest Research Group is strongly opposed to HB 246, which would deregulate interest rates in the State. Deregulation of interest rates will not increase competition in lending, will not increase access to credit, or revive the State's economy, and it will most certainly harm consumers seeking credit.

1. Interest ceilings were established to protect consumers from unscrupulous lenders charging unconscionable rates of interest. The present law does just that. The ceilings are above the present market rate, so fair and honest lenders are not adversely affected by the law. In deregulating interest rates, this Legislature would be aiding those lenders who gouge consumers seeking credit. Caveat emptor cannot apply in an industry well-known for misleading statements, fine print and waiver-of-defense clauses.

2. Lifting interest rate ceilings will artificially increase interest rates. Usury ceilings in New Jersey were lifted from 21% to 30% in 1980. The average interest rate increased from 6 to 7% just after the new ceiling went into effect and has not come down. These lenders were not reflecting the market when they increased rates, they were exercising oligopolic control of interest rates. If interest rates were to increase artificially, both consumers' disposable income and consumer demand would constrict, restraining growth in the Alaskan economy.

3. We can't rely on the marketplace forces to set interest rates because the lending industry is not competitive. Many consumers, especially lower-income and less-educated consumers, don't shop for credit. Even with the yardsticks made possible by the Truth in Lending Act, consumers rely on family,

merchants and the lenders themselves for information when making credit decisions. Credit and interest rates are perceived as a "take it or leave it" proposition, with the lender in control.

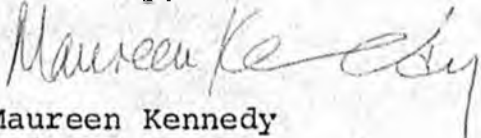
4. The lending industry doesn't need increased rates, and when it does, the Legislature can simply increase the ceiling appropriately. The inflation rate has decreased by two thirds over the last two years, the prime rate has decreased by nearly one half, and the rate at which banks pay for their money-- the money market rate--has declined substantially to around 9%. These pressures have not brought about a corresponding decrease in the consumer loan rates, the banks' profit margins (at least on their loan portfolios) have just increased. The financial pressures to increase rates which we experienced several years ago no longer exist.

5. Lifting the ceilings will not open credit up to borrowers previously unable to obtain credit. A recent New York Banking Department study bears this out, according to testimony presented by the Consumer Federation of America before the Senate Banking Committee earlier this year. In 1980, New York raised its interest ceiling substantially and opened lending up to new classes of institutions. While there is a theoretical argument that lenders then could charge new high risk borrowers a commensurately higher rate of interest, this did not happen. Few lending institutions raised their credit limits and even fewer opened up their loan standards. As the C.F.A. testimony concludes, ". . . consumers who are eligible for credit at 25% are the same consumers who were eligible for credit at 18%." The primary change has been an increased cost of credit to the borrower and increased earnings to the lender.

We urge you to recognize the faults in HB 246, and not pass the bill out of Committee.

Moreover, HB 246 should be of great importance to Alaska's consumers, yet it has received little publicity or attention outside the lending industry. We urge the Committee to hold a teleconference in the evening with plenty of notice on this issue.

Sincerely,



Maureen Kennedy
Director



NFIB® National Federation
of Independent Business

The Guardian of Small Business

FEB 13 1984

February 13, 1984

The Honorable Rick Uehling
Alaska House of Representatives
Pouch V
Juneau, AK 99811

Dear Representative Uehling:

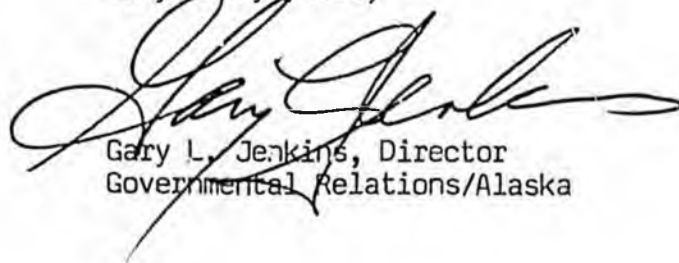
Small business continues to be the largest generator of new jobs in the United States, however, the number of jobs which are created often are significantly effected by state legislative actions. To ensure that legislators have the benefit of knowing how existing law and proposed legislation affects small business, the National Federation of Independent Business has been working with, not only the Alaska Legislature, but state legislatures nationwide for several years.

In Alaska, NFIB currently has a membership in excess of 3,600 which means that we usually represent a significant majority of the retail and service businesses in each city in Alaska. Each year we send a ballot to all of our members requesting their input on issues of current interest in Alaska. This ballot permits each member to express their feelings on these issues and gives me direction regarding which issues should be pursued legislatively. I do not take a position on an issue for NFIB unless the members have voted on it and a majority favor the position being taken.

Enclosed for your information is a copy of our 1983 State Ballot showing the vote of the membership on the various issues. The issues which received strong support are ones which I will be discussing with legislators during this and subsequent legislative sessions.

If I can provide you any additional information on NFIB or if you would like to know our position on a particular issue, feel free to contact me.

Very truly yours,



Gary L. Jenkins, Director
Governmental Relations/Alaska

NFIB/ALASKA
Legislative Office
P.O. Box 194
Auke Bay, AK 99821
907/586-4100

Dear NFIB Member:

This Ballot is solicited by NFIB Research and Education Foundation to gather information pertaining to small business issues in your state.

Your answers are valuable and will enhance the survey.

Please return the entire Ballot. Thank you.

Very truly yours,

John E. Sloan, Jr., President
NFIB Research and Education Foundation

GENERAL BUSINESS

Interest Rates

1. Should interest rate ceilings be repealed on: (vote on each)

a. Bank loans of \$25,000 or less

$\frac{32\%}{1}$ Favor $\frac{60\%}{2}$ Oppose $\frac{8\%}{3}$ Undecided $\frac{11}{11}$

b. Savings and loan association loans of \$25,000 or less

$\frac{34\%}{1}$ Favor $\frac{53\%}{2}$ Oppose $\frac{8\%}{3}$ Undecided $\frac{11}{11}$

c. Retail installment contracts

$\frac{36\%}{1}$ Favor $\frac{54\%}{2}$ Oppose $\frac{10\%}{3}$ Undecided $\frac{11}{11}$

d. Retail open-ended charge accounts

$\frac{34\%}{1}$ Favor $\frac{56\%}{2}$ Oppose $\frac{10\%}{3}$ Undecided $\frac{14}{14}$

e. Credit card revolving accounts

$\frac{33\%}{1}$ Favor $\frac{58\%}{2}$ Oppose $\frac{9\%}{3}$ Undecided $\frac{15}{15}$

f. State chartered credit unions

$\frac{35\%}{1}$ Favor $\frac{55\%}{2}$ Oppose $\frac{10\%}{3}$ Undecided $\frac{16}{16}$

g. Small loan finance company loans of \$10,000 or less

$\frac{33\%}{1}$ Favor $\frac{58\%}{2}$ Oppose $\frac{9\%}{3}$ Undecided $\frac{15}{15}$

BACKGROUND: HB 246, presently in the Senate Labor and Commerce Committee proposes to remove all limitations on all types of credit in Alaska. The measure would permit each financial institution and all businesses extending credit to charge whatever interest rate they wish, subject only to competition of the marketplace and negotiation with each individual customer.

Current law limits banks and savings and loan associations to a maximum interest rate of 5% over the federal discount rate in effect at the time of the loan on any loan of \$25,000 or less. There are no interest rate limitations on loans in excess of \$25,000. During the past few months, the federal discount rate has been 8.5%, thereby setting the maximum allowable interest rate at 13.5%.

A retail business selling merchandise on a retail installment contract is presently limited to a maximum interest rate of 10% per year on the first \$1,000 of credit extended, and 8% on credit in excess of \$1,000. However, for retail businesses as well as credit card companies extending open-ended revolving charge accounts, the maximum interest rate is 18% per year on the first \$1,000 of credit extended and the federal discount rate plus 5% on credit in excess of \$1,000. A state chartered credit union is presently limited to 15% or 5% over the federal discount rate, whichever is higher on loans of any amount. Small loan finance companies can now levy a maximum interest rate of 36% per year on the first \$850 of credit extended and 24% on credit up to \$10,000.

Proponents of the removal of all interest rate limitations argue that many financial institutions and businesses lost money on their credit transactions during the period of very high interest rates and, further, the limits are no longer necessary. If the limitations were removed, the marketplace, i.e., competition for the financing, would set the rates at reasonable levels in line with the risks inherent in the particular credit transaction.

Opponents argue that Alaska does not have a well developed marketplace and there are many communities where no competition exists either for banking or retail credit. The removal of all limits would permit the charging of unreasonably high rates. Further, it has also been pointed out that in the case of consumer loans and small business loans under \$25,000, the marketplace seems to react very slowly when interest rates are falling in general. For example during the first few months in 1983 in California, where there are no interest rate limitations, interest rates being charged on small loans by banks were running at 20% to 25%, while rates in Alaska were about 14%.

Interest Rates

2. Should interest rates on balances of \$1,000 or less that are limited to a maximum, such as the 18% for business credit or credit card companies, be modified so the maximum rate could be increased with the federal discount rate, once the federal discount rate reached a pre-set level?

$\frac{39\%}{1}$ Favor $\frac{52\%}{2}$ Oppose $\frac{9\%}{3}$ Undecided $\frac{11}{11}$

BACKGROUND: Proponents of this concept feel that businesses extending financing and credit should not be so limited in the rates they charge that they lose money; therefore, the limitations should be allowed to rise when interest rates are generally high. It has been proposed that the maximum rate on accounts with balances of \$1,000 or less be set at 18%, or 6% over the federal discount rate, whichever is higher.

Opponents argue that the federal discount rate does not necessarily indicate the cost of funds to financial institutions or businesses. A variety of other factors affect the cost of funds to a particular entity. They argue, therefore, that it is more appropriate to remove all limitations and let market conditions establish the rates.

Bad Check Penalties

3. Do you favor or oppose increased civil and/or criminal penalties as an effective deterrent to the writing of bad checks?

$\frac{95\%}{1}$ Favor $\frac{4\%}{1}$ Oppose $\frac{1\%}{1}$ Undecided $\frac{19}{19}$

BACKGROUND: It is well established that bad checks are a problem that every business must deal with to some degree. However, the question has been raised whether the laws of Alaska are presently adequate to deal with the problem. It has been suggested that either or both the civil or criminal penalties should be made stronger to attempt to reduce the impact of this problem.

Bad Check Civil Penalties

4. Should legislation be adopted to require that bad-check writers repay not only the face value of the check and any court costs incurred by the receiver but also civil damages of \$100 (minimum) or triple the amount of the check?

$\frac{86\%}{1}$ Favor $\frac{10\%}{2}$ Oppose $\frac{4\%}{1}$ Undecided $\frac{10}{10}$

BACKGROUND: Law enforcement officials frequently do not pursue those who write bad checks for small amounts. Thus, the only deterrent to writing a bad check is the receiver's (merchant) collection efforts. Checks written for small amounts, which together may represent a deep cut in a business's profit, frequently cost more to collect than they are worth.

If the merchant was allowed to collect from the bad-check writer a minimum of \$100 or triple the amount of the check as damages, in addition to the base value of the check and any court costs incurred, there would be a real incentive for the merchant to collect and a deterrent to bad-check writing.

Check Information

5. Should financial institutions be required to number checks on new accounts beginning at #101 and display on the face of the check the month and year the account was opened?

$\frac{41\%}{1}$ Favor $\frac{49\%}{2}$ Oppose $\frac{10\%}{3}$ Undecided $\frac{21}{21}$

5A. Should banks be allowed to disclose to merchants the bank account information of those who issue checks which are returned because of insufficient funds? Such information might include account status, current address, phone number, and history of returned checks.

$\frac{66\%}{1}$ Favor $\frac{33\%}{2}$ Oppose $\frac{1\%}{3}$ Undecided $\frac{22}{22}$

BACKGROUND: In the United States, approximately 400,000 worthless checks are written every day. Eighty percent of those checking accounts are six months old or less. Numerical listing and date of account opening would alert merchants to new accounts and to take care in deciding whether to accept those checks. Additionally, several states have given financial institutions permission to disclose account information to either law enforcement officials or merchants who receive a worthless check.

Opponents of the numbering system believe it would create problems for individuals and businesses who for continuity purposes want to continue to number checks from where the old account left off.

LABOR

Mandatory Overtime Wages

6. Should existing law be repealed which requires a business with four or more employees to pay overtime to an employee who works more than 8 hours in one day, but does not work over 40 hours per week?

$\frac{73\%}{1}$ Favor $\frac{24\%}{2}$ Oppose $\frac{3\%}{1}$ Undecided $\frac{23}{23}$

BACKGROUND: Most small businesses require that a particular job be accomplished within a certain period. This may require an employee to work more than 8 hours on a particular day. However, the employee is given time off on other days of the week so as not to work more than 40 hours that particular week. Proponents of a change

say that law is particularly unfair to smaller businesses whose workload is heavy at certain times and slack on other days of the week. This flexibility of worker time should not impose an additional financial burden on smaller businesses.

Opponents to changing the law argue that employees working more than 8 hours in any one day should be given extra compensation in the form of overtime pay, whether they worked voluntarily or were required to do so by their employer. They feel daily overtime pay should be independent of the requirement to pay overtime to an employee who works more than 40 hours a week.

GOVERNMENT

Permanent Fund Income

7. Should the unused portion of the income from the Permanent Fund not allocated to the Dividend Program be authorized for the following?

a. The Longevity Bonus Program for the elderly

$\frac{41\%}{1}$ Favor $\frac{51\%}{1}$ Oppose $\frac{6\%}{1}$ Undecided $\frac{14}{14}$

Municipal Assistance Program

$\frac{24\%}{1}$ Favor $\frac{66\%}{2}$ Oppose $\frac{10\%}{1}$ Undecided $\frac{14}{14}$

BACKGROUND: During the 1983 Legislative Session bills were introduced which would require that part of the income of the Permanent Fund be held to finance the Longevity Bonus program and/or finance the municipal revenue sharing program. In the past, funding for such programs has been from the state's General Fund.

Proponents of using the income from the Permanent Fund to provide funds for these programs contend that this would not violate the intent of the Permanent Fund financing activities to benefit the maximum number of residents of the state. They argue that programs like the municipal assistance program are helping all communities of the state directly and thus benefit the residents of the various communities indirectly by reducing local taxation and providing needed services.

Opponents argue that the Legislature is merely looking for new sources to fund the expensive programs they have created the past few years which they do

May 26, 1983

Senator Richard Eliason
Chairman, L & C Committee
State Capitol
Pouch V
Juneau, AK 99811

Dear Senator Eliason:

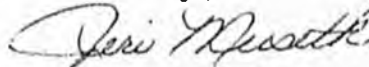
HB 246(L&C) which you will hearing this date, has been brought to my attention. I find that Sections 4 & 5 of this bill has potential to directly affect fishermen and I am concerned.

Credit is a funny situation. Even when you have cash available, you are forced to buy on time or charge an account at a business in order to establish credit just to get a telephone installed in your home. In other words, you are forced to use the system. Unfortunately, in these trying times most fishermen do not have a pocketful of cash. We find ourselves living from "hand-to-mouth".

This bill is experimenting with what is going to happen to interest rates if deregulated for four years. We, the consumer, will be the ones paying the costs. Fishermen can little afford the extra strain. Major purchases such as a diesel engine or auxillary will fall under the catagory of Section 4, and everything else from gear, groceries, ice and bait will fall under Section 5 of this bill. All too often fishermen are trapped by the "company store" situation. This is especially true of areas found along the coast of Alaska, such as Pelican, Elfin Cove, Craig. We are currently struggling with inflated prices (and often inferior products) which the sellor justifies because of "freight" charges. I would hate to see us saddled with inflated interest rates on these accounts also, just because we are forced to do business and have no other choice.

Unless you can see a real need for this legislation that is hidden from me, I urge you to oppose it. I thank you for your time to read this and consider it with other testimony.

Sincerely,



Jeri Museth
Elfin Cove, AK 99825

cc: Labor and Commerce Committee members



UNITED FISHERMEN OF ALASKA

319 Seward Street, Suite #208
Juneau, Alaska 99801-1188
(907) 586-2820

Cass M. Parsons
Executive Director

May 26, 1983

Honorable Dick Eliason
Chairman
Senate Labor and Commerce
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

The Senate Labor and Commerce Committee is scheduled to hear House Bill 246 today. There are a couple of concerns I would like to bring to your attention.

Sections of House Bill 246 deregulate interest rates retail establishments are allowed to charge customers. These sections could have a very negative impact on the fishing communities in Alaska. As you know, fishermen throughout the State buy supplies pre-season on credit. The processors in turn, open charge accounts at lumber companies, groceries and hardware shops for their fishermen and their own necessities. This way of doing business has been going on for decades in Alaska. If the limit is taken off the interest rates these establishments can charge, the entire industry would suffer. Fishermen and processors alike require these pre-season purchases, and in most communities there are no other stores to compete. Most coastal communities support one grocery and one hardware store only.

Thank you for your attention. I urge you and the members of your committee to consider very carefully the effect this legislation will have on rural and coastal communities and the Alaskan consumer.

Sincerely,

Cass M. Parsons
UFA Executive Director

CMP/jb

cc: All members, Senate Labor and Commerce Committee

STATE WILL OAK REORGANIZATION OF DISTRICTS

PROBABLY APPROVED TO BE CALLED IN THE EARLY PART OF

THE YEAR 1911. IT WILL BE A VERY IMPORTANT MATTER

AND WILL BE DISCUSSED AT THE MEETING OF THE BOARD

ON THE 15TH INSTANT.



5/19/83, JUNE, ANC LIO, MSNG 19145

TO: SENATORS ELIASON, MULCAHY, BENNETT, SACKETT, AND RODEY

FROM: LOUISE HUNTER, 223 NORTH HOYT #4, ANCHORAGE, AK 99504
H- 277-3783

CSHB 246 (DEREGULATE INTEREST RATES) CAN BE DETRIMENTAL TO THE FINANCIAL HEALTH OF THE POOR AND OF WOMEN WHO ARE STRUGGLING AS IT IS. PLEASE DON'T SUPPORT IT.

TELEGRAM

ALASCOM, INC.

PHONE: 586-6442

62212 ANCHORAGE AK 25 05 25 4258 488
JUNEAU AK 25 05 25 4258 488

PMS SEN RICHARD ELIASON

POUCH V

4710

JUNEAU AK

WE URGE YOU TO HOLD CSHB 246 IN COMMITTEE AND TAKE NO ACTION
THIS LEGISLATIVE SESSION TO INSURE AMPLE PUBLIC REVIEW AND
COMMENT ON THIS BILL.

GORDON A SMITH, PRESIDENT

ANCHORAGE AREA DEMOCRATIC COUNCIL

MSG 84-00018287 PRTY 1 02/28/84 10:14:14 ORIG: LA17 IN= 0006 OUT= 0043
FROM: KIM / ANCH LIO TO: POM / JNU INFO
TARGET: LJHK SUBJ: PCM 6

TO: SENATORS ELIASON, MULCAHY, PETTYJOHN, SACKETT, AND RODEY

FROM: BOB LIBBEY, SRA BOX 4011, ANCHORAGE 99507
H 345-3083 W 278-9551

HB246 RE: DEREGULATION OF INTEREST RATES

DO NOT PASS LEGISLATION DEREGULATING INTEREST RATES ON CONSUMER LOANS.
RESEARCH CLEARLY SHOWS IT WILL NOT LEAD TO INCREASED COMPETITION AMONG
LENDERS. DEREGULATION WILL LEAD TO HIGHER INTEREST CHARGES TO LOW INCOME
FAMILIES, THUS INFLECTING UNNECESSARY HARDSHIP UPON THEM.

MSG 84-00016706 PRTY 1 02/23/84 11:08:20 ORIG: LA09 IN= 0003 OUT= 0055
FROM: SHIRLEE AND LIO TO: POMS/JUNEAU INFO
TARGET: LJKH SUBJ: P.O.M.

TO: ALL MEMBERS
ALASKA LEGISLATURE

FROM: BYRON MORRIS
BOX 141, CRESTVIEW LANE
EAGLE RIVER, AK 99577
(H) 694-3565 (W) 271-5006

PLEASE REPRESENT THE PUBLIC INTEREST AND VOTE AGAINST SENATE BILL 405
OR HOUSE BILL 246 (DEREGULATION OF INTEREST RATES).

MSG 84-00016734 PRTY 1 02/23/84 11:37:36 ORIG: LD00 IN= 0003 OUT= 0069
FROM: LIZ IN DELTA TO: JUNEAU
TARGET: LJKH SUBJ: POM

TO: ALL LEGISLATORS

FROM: DIANE SHALE
1400.2 ALASKA HIGHWAY
DELTA JCT., AK 99737
895-4675

RE: SENATE BILL 338

SECTION 2 APPROPRIATES MONEY FOR STUDY OF TOURIST FACILITIES OF AREA DESIGNED
TO CONTAIN BUFFALO ONLY DURING WINTER. VERY FEW TOURISTS TRAVEL OR STOP
ALONG ALASKA HIGHWAY DURING WINTER. SAVE PUBLIC FUNDS, DELETE SECTION 2.
SUGGEST DEVELOPING NO FURTHER EAST THAN MILE 1400 ALASKA HIGHWAY EXISTING
RANGE, TO CUT COSTS.

***** EOM *****

TO: ALL LEGISLATORS
FROM: LINDA JACKSON
BOX 164
DOUGLAS, ALASKA 99824 PHONE: 364-3292

PLEASE PASS SB 354 ON PRIVATE SCHOOLS. THANK YOU.

FROM: THOMAS REHARD
PO BOX 871550
WASILLA 99687
376-2377

RE: HB 485
I DON'T THINK THE ANNUAL INTEREST RATE FOR CREDIT CARD USERS SHOULD BE RAISED FROM 19% TO 24%. I CAN UNDERSTAND WHY THE RAINIER CORPORATION WOULD WANT IT RAISED. IT'S THEIR BUSINESS AND THEY'LL MAKE MORE MONEY. BUT THAT'S INFLATION, SPENDING MORE--BUYING LESS.

FR: MELODY DOUGLAS 262-5846 W
P.O. BOX 344
SOLDOTNA, AK 99669

I SUPPORT HB-277 AND SB-236. BOTH ALLOW FOR RETIREMENT CREDIT FOR UNUSED SICK LEAVE FOR EMPLOYEES OF AN ORGANIZATION PARTICIPATING IN PERS. I URGE YOUR SUPPORT AND AID IN GETTING THESE BILLS TO THE FLOOR FOR PASSAGE. THIS BENEFIT WOULD ENCOURAGE EMPLOYEES TO NOT MISUSE THEIR SICK LEAVE.

~~VF~~
BB

MSG 84-00013688 PRTY 1 02/14/84 17:37:31 ORIG: LA17 IN= 0020 OUT= 0145
FROM: KIM / ANCH LIO TO: POM / JNU INFO
TARGET: LJHK SUBJ: P O M 13

TO: ALL MEMBERS OF SENATE FINANCE
SENATORS BENNETT, SACKETT, FERGUSON, V. FISCHER, MULCAHY
FAIKS, JOSEPHSON

ALL MEMBERS OF SENATE JUDICIARY
SENATORS RAY, JOSEPHSON, ELIASON, ZIEGLER, PETTYJOHN

FROM: KATHY MARSHALL, EXECUTIVE DIRECTOR, ALASKA WOMEN'S COMMISSION
3601 C STREET, SUITE 742, ANCHORAGE 99503
W 561-4227

THE ALASKA WOMEN'S COMMISSION URGES THE ADOPTION OF SJR30 WHICH WOULD
AMEND 42 USC664 TO PROVIDE THAT THE PROCEDURES THAT ARE PRESENTLY
AVAILABLE TO AFDC FAMILIES FOR THE COLLECTION OF PAST DUE CHILD SUPPORT
FROM FEDERAL TAX REFUNDS BE AVAILABLE TO ALL CHILDREN IN THE U.S. ON AN
EQUAL BASIS.

FROM: KATHY MARSHALL, EXECUTIVE DIRECTOR, ALASKA WOMEN'S COMMISSION
3601 C STREET, SUITE 742, ANCHORAGE 99503
W 561-4227

THE ALASKA WOMEN'S COMMISSION OPPOSES SB276 WHICH RELATES TO THE
DEREGULATION OF INTEREST RATES. THE COMMISSION BELIEVES THIS BILL
WOULD ADVERSELY AFFECT WOMEN, MINORITIES AND THE POOR.

ALASKAN INTEREST RATE DEREGULATION FACTSHEET

1. Would deregulation of interest rates increase competition among lenders and thereby keep rates reasonable?
 - No. Competition in any market requires that consumers shop for the good or service and compare prices. A 1977 study by the Federal Reserve Board reveals that only 30% of potential borrowers shop for loans. This figure would be much lower for low-income borrowers--those who have the most to lose under deregulation.
 - The New York State Banking Department found little increase in competition there after rates were deregulated in 1980. Ninety-three percent of New York banks surveyed increased their interest rates after deregulation.
2. Would deregulation allow lenders to give more people access to credit?
 - Again, the New York Banking Department study did not find this to be the case. A very small minority of all lending institutions changed their lending qualifications after deregulation. Consumer Federation of America testimony before the Senate Banking Committee explained that "consumers who are eligible for credit at 25% are the same consumers who were eligible for credit at 18%."
 - A 1981 Purdue University study found that Arkansas residents (where the interest rate ceiling was 10%) held as much consumer debt as residents of neighboring Louisiana (with a 31% APR ceiling). Lower-income Arkansas residents actually held more debt than similar consumers in Louisiana.
3. What adverse effects would usury deregulation cause?
 - The inevitable increase in rates would be inflationary.
 - The state economy would also suffer as consumers put off major purchases in the face of high interest rates. This impact would be especially noticeable in Alaska, a state of consumers rather than producers.
 - A Consumer Federation of America study found that states with high interest rate levels had a higher bankruptcy rate--19% higher--than states with rates below the average.
4. What would the impact be on low-income borrowers?
 - As outlined above, low-income consumers would experience higher rates of interest with no corresponding increase in available credit.
 - Because access to lending institutions is often limited in poorer neighborhoods and in rural areas, residents would not comparison shop for credit.
 - Unscrupulous lenders charging unconscionable rates of interest would operate legally--as long as the borrower could be persuaded to sign a contract.
 - Finance companies, which constitute the primary source of credit for low-income borrowers and which already operate at the legal interest rate limit would ratchet their rates upward, further constricting credit availability and buying power for lower-income borrowers.

JCPenney

406 Fifth Avenue Anchorage, AK 99501

June 2, 1983

Senator Richard Eliason
State Capitol Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

H.B. 246 relating to interest rates will give competitive rates to all borrowers, whether they are consumers or businesses. I urge favorable action on this bill in its present form.

The concern that retailers in smaller and isolated communities will charge exorbitant rates is unfounded. Penneys, Nerlands, Sears, Prairie Market and many other retailers in Anchorage and Fairbanks actively solicit business in these more remote communities. Certainly local retailers in Dillingham, Kodiak or other communities are not going to surrender their business to "outsiders" by charging non competitive interest rates.

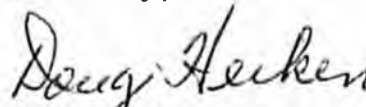
It is unrealistic to establish seperate standards for bank credit and retail credit. Almost all retailers operate on borrowed funds and in turn re lend this money as retail credit.

During the recent period of high interest rates, we all experienced a severe tightening of credit granting. Because of artificial limits on rates, credit was difficult to obtain or unavailable to many consumers and businesses.

H.B. 246 would let rates rise or fall naturally with prevailing interest rates and provide more available credit to everyone. This would improve the stability of the Alaskan economy and help provide more jobs in the future.

Again, I urge passage of H.B. 246 in its present form.

Sincerely,


Doug Heiken

J. C. Penney Company, inc.

Store Manager

Alaska Retail Association

174 S. Franklin St. #205

Juneau, Alaska 99801

(907) 586-6706

To: All Members of the House of Representatives
From: Don Magnusson, Executive Director *DEM*
Subject: HB 246 "An Act relating to the deregulation of
interest rates"

The Alaska Retail Association supports passage of HB 246 which would deregulate interest and service charge 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 1½% 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 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.)

HB 246 does not remove any of the consumer protections contained in the federal Truth-In-Lending Law and regulations or Alaska state statutes. It is fair to retailers and their customers. We urge your support for passage.





WESTERN UNITED STATES

MAXIMUM FINANCE CHARGE RATES

For Retail Revolving Credit
as of April 1, 1983



18% to \$1000 - 5% above Federal Discount Rate above \$1000, but all retail extensions of credit observe the former 12% limit above \$1000.

-  18%
-  19.2%
-  21%
-  No Statutorily Imposed Ceiling

- * Ceiling Removed in 1983
- ** Sunset Provision Removed in 1983



California 19.2% to \$3000 - 12% above
Washington, Hawaii Colorado and Wyoming have no break point
California and Hawaii have deregulation and/or rate increase bills pending

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 collateral 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, 48-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.

Banks	Deposit Rates		Loan Rates		
	MMA	S NOW	Mtg.	Auto loan	Credit card
Bank of America	8.25	7.90	11.25	15.25	19.80
California First Bank	8.25	7.75	NA	14.50	19.80
Crocker	8.00	7.00	11.75	11.75	21.00
First Interstate	8.00	7.00	NA	15.25	21.00
Lloyds Bank California	8.00	7.50	NA	15.25	20.00
Security Pacific	8.00	7.00	11.50	15.00	20.40
Sumitomo Bank of California	8.00	7.00	12.50	14.25	19.80
Wells Fargo	8.02	7.02	14.38	15.75	20.00
S&Ls					
California Federal	8.75	8.00	11.75	14.50	17.00
First Nationwide Savings	8.25	7.75	11.50	NA	18.00
Gibraltar Savings	8.54	8.04	12.50	13.50	21.00
Great Western	8.50	7.75	11.25	NA	19.80
Home Savings of America	8.50	7.50	11.75	NA	18.00
Home Federal Savings	8.82	7.82	11.75	15.25	18.00
Imperial Savings	8.50	7.93	11.75	NA	NA
World Savings	8.84	8.22	11.75	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%.

RETAIL REVOLVING CREDIT RATES

DEREGULATED STATES

States which prior to 1980 did not impose rate ceilings:

1. Kentucky
2. New Hampshire
3. Oregon

States which removed rate ceilings in 1980:

4. Arizona
5. New York (25% criminal usury ceiling)

States which removed rate ceilings in 1981:

6. Delaware
7. Illinois
8. Montana
9. Nevada
10. New Jersey
11. New Mexico
12. Ohio (25%)
13. Utah
14. Wisconsin (effective 1984)

States which removed rate ceilings in 1982:

15. South Carolina
16. South Dakota
17. Virginia (effective April 1, 1983)

States which have removed rate ceilings in 1983:

18. Idaho



Don't Blame the Bankers

MY TURN/IRWIN L. KELLNER

Bankers must be very responsible people. Whenever anything goes wrong in the economy, we seem to be responsible. Don't take my word for it: ask the Reagan administration. Its officials believe that the banks are responsible for high interest rates.

Initially, it does appear that the gap has widened between the rates banks charge on money they lend and the rates they pay for money they attract. In 1977, for example, little more than a single percentage point separated money-market rates from bank lending charges on prime business loans. Today that spread is as high as 3 percentage points.

But it is misleading to look at spreads in absolute terms. A bank, like any other business, sets its prices in accordance with its costs. Between 1977 and 1982, short-term interest rates doubled. Obviously, the same absolute spread in 1982 that existed in 1977 would result in a percentage markup only half as great.

Money Markets: But this is not all. While the prime rate is an important benchmark, it does not accurately represent the rates that banks charge on many short-term business loans. The Federal Reserve Board tells us that today the weighted-average interest rate on these business loans is nearly a whole percentage point below the posted prime. This reflects the ability of large, top-rated corporations to negotiate rates below the prime because they have access to the domestic and international money markets, where rates are lower.

When considering the banks' costs, it is important to remember that the latest interest rate on federal funds, commercial paper or certificates of deposit does not represent the average cost to a bank at a given moment. This is because banks get their money from a variety of sources, with maturities ranging from overnight to several years. It is necessary to combine these sources into a blend to get the true picture of a bank's

costs—and anyone who takes the trouble will find that these costs are above the current money-market rate.

Even this is not the whole story. As a result of both deregulation and a change in corporate deposit habits, banks have seen a recent dramatic decline in interest-free deposits by corporations. Add to this the deregulation of consumer deposits, which replaced interest-free checking accounts and low-interest savings accounts with NOW accounts, money-market accounts and Super NOW's, and you can see that costs are even higher than they look.

Consumer lending rates are high for several other reasons. First, consumer

Yes, consumer interest rates remain high, but there are reasons beyond the banks' control.

loans tend to be smaller than business loans, and therefore involve more paperwork per dollar. Second, such loans tend to be at fixed rates of interest for several years and could become unprofitable if rates rise again. Finally, there are greater risks involved in consumer loans than in loans to businesses, and this too must be factored into the bank's costs.

In the final analysis, banks can squeeze their interest-rate spreads only so far in order to bring down the cost of borrowing. If the level of interest rates in the money markets is high, there's no way bank lending charges can come down enough to satisfy the administration—or anyone else. And market interest rates are high because the markets got scared in the summer of 1981, when Washington revealed that budget deficits were not going to get smaller

and disappear by mid-decade, but were going to get bigger and expand into the 12-digit range.

In the money markets, there is fear of a renewed credit squeeze if the Federal Reserve becomes concerned again over rapid money-supply growth and seeks to slow it down in the face of the huge amount of money that Washington will have to borrow to finance its deficits. Meanwhile, the bond markets are worried about the higher inflation we're likely to see if the Fed does *not* slow the growth of money.

If the administration is serious about lowering interest rates, it must slash these budget deficits. Let me suggest how it should be done.

Tax Base: The Office of Management and Budget estimates that between 1982 and 1986, the Economic Recovery Tax Act (ERTA) of 1981 will cost the government \$609 billion in tax revenues. That's 72 percent of the \$850 billion cumulative deficit that the administration believes it will run during this time! It should be clear from this that the original plan to boost government revenues by cutting taxes has not worked and will not work. It should also be obvious that using lower revenues as a club to force Congress to cut spending has only a limited effect. If you don't believe me, take a look at the record: with only two budget surpluses in the past quarter of a century, when did lack of revenues ever prevent the government from spending? The deficit will not be cut significantly until ERTA is rescinded and the tax base restored.

Bankers like to be considered responsible people. But it's the administration that's responsible for keeping interest rates high, not us. And it's the administration's responsibility to do something about it.

Dr. Irwin L. Kellner is senior vice president and chief economist of Manufacturers Hanover Trust Co.



Bank Instalment Lending Newsletter

MARCH 1983
VOLUME 16, NUMBER 5

In This Issue: Interest Rate Deregulation: New York Bankers Argue for Permanent Extension of the Law • Credit Insurance Is Being Expanded to Cover Unemployment • RV Lending: An Attractive Market for Consumer Bankers • Coast Guard Will Continue to Provide Documentation Services for Pleasure Boats • How Banks Are Filling the Credit Card Gap at Gas Stations • Plus Legal Report

Interest Rate Deregulation: New York Bankers Argue for Permanent Extension of the Law

New York State bankers and other consumer creditors have been busy testifying for permanent deregulation of interest rates at hearings held across the state. Interest rate deregulation provisions were incorporated in the Omnibus Banking Law of 1980, but will expire June 30, 1983 under a sunset provision. The leadership of the Senate and Assembly Banking Committees have endorsed permanent deregulation and the issue is expected to go before the legislature soon.

Surveys show increased competition. The bankers' legislative effort is being aided by surveys that show that consumer loan deregulation has resulted in good price competition and more options for the consumer. A survey of New York State Bankers Association members revealed that in practically every category of loan surveyed, there is a reasonable range of rates or fees being charged, and rates have been decreasing for new and used car loans and home improvement loans. The Association's survey indicates that from November

1, 1982 to January 1, 1983, rates decreased slightly for all loan categories.

The New York State Banking Department also reviewed the effects of the 1980 law and surveyed some 898 banks, savings banks, S&Ls, credit unions, licensed lenders, retailers, and automobile dealers. Responses were received from 475 of these. The results showed:

- A more highly competitive market for consumer loans;
- A broader range of choice for consumers;
- Wide variations in interest rates among lenders in every metropolitan area in the state;
- Reduced interest rates on many types of consumer loans;
- More liberal credit standards and larger credit lines instituted at many banks; and
- Greater lender participation in consumer lending.

"The findings in 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," said Alan R. Cohen, New York's acting bank superintendent. He testified that an extension is a vital element in achieving the goals set by the law.

Keeping banks in New York. There has been some opposition from consumer groups, but politicians seem to be acutely aware that the state once came close to losing consumer banking business to states with more favorable interest rate and tax laws. Citibank moved its credit operations to South Dakota to avoid New

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BANK INSTALMENT LENDING NEWSLETTER

210 SOUTH STREET, BOSTON, MASS. 02111

Provided by Wes Coyner

'Bank Instalment Lending Newsletter

York's unrealistic usury law, and Delaware's 1981 Financial Center Development Act, which removed usury ceilings and did not attach a sunset provision, has attracted banks to that state. When Chase Manhattan Bank chose to locate a subsidiary in Wilmington, Frederick S. Hammer, executive vice-president of Chase commented, "We cannot base long-term business plans on the climate of the New York legislature three years from now."

Apparently the message came through loud and clear because Herman D. Farrell, Jr., the democratic chairman of the Assembly Banking Committee said at hearings held in Albany, the state's capital, "I don't want bankers sitting around in their board rooms getting nervous and saying, 'Let's go to a more receptive state,' I want them to understand that this state knows it needs them."

Other amendments sought. According to James P. Murphy, executive vice president of the New York State Bankers Association, once the extension issue is resolved, bankers will seek amendments to remove inconsistencies in the law, including permitting new products such as simple interest variable rate loans, increased instalment and revolving loan limits, and open-end mortgages.

Alaska Retail Association
Proposed

DEREGULATION OF INTEREST

1. Interest is one of the basic elements of the free enterprise economic system, and it should find a natural level governed by risk, supply, and demand. Unnatural fixed rates cause inequitable distribution of capital and serious distortions in the economy.
2. ~~Five~~ ^{SIX} (6) Western states (Montana, ^{OREGON} Nevada, Utah, Arizona, and New Mexico) have no statutorily imposed ceiling. Idaho, Wyoming, and Colorado have now established a 21% minimum. Illinois, Iowa, Ohio and Louisiana have introduced deregulation bills.
3. The most comprehensive recent study we have indicates that retailers incurred an average of \$1.29 of the expense for each \$100 of finance charge income. It should be remembered that 18% interest generates only \$9.00 in finance charge income on a \$100 purchase paid off over one year because the charge is assessed on the declining balance.
4. Losses from credit operations must be included in the cost of goods and services which are sold. This cost is born of everyone--including those who don't use credit (such as retired persons and those who don't qualify for credit). Retailers believe that only those who choose to use credit services should pay for it.
5. If a retailer is losing money in his credit operation, some applicants who are credit worthy will not receive credit, and those who do will receive less. Many rejected customers will then borrow at small loan rates which are far higher.

Don Magnusson
Executive Director
586-6706

Larry Snider
President
Nerlands
349-1572

Bob Stevenson
Vice President
Montgomery Ward
279-4444



OREGON RETAIL COUNCIL

1149 COURT ST. N.E. / P.O. BOX 12519 / SALEM, OREGON 97309 / 503 588-0050

PORTLAND AREA 503 227-5636

Director
Otto J. Wilson

A Division of Associated Oregon Industries

January 22, 1982



John Andrew, Esq.
J. C. Penney Company, Inc.
333 S. Hope Street, #3720
Los Angeles, California 90071

Dear John:

You will find enclosed a list of 20 stores in Oregon, showing the finance charge rate for their charge accounts and the date the rate became effective, if that information was available. Most of those on the 18% rate have maintained that level for a long period.

The stores include several of the larger chain department stores, some small Oregon chains, and some independents with a mix of jewelry, clothing, furniture and automotive.

We hope this will give you sufficient information.

Sincerely,

Otto J. Wilson
Vice President, Retail
Associated Oregon Industries

paj

Enclosure



FRIDAY FLASH

NATIONAL ASSOCIATION OF INSURANCE BROKERS

311 First Street, N.W. • Suite 700 • Washington, D.C. 20001 • Telephone (202)783-8880

Number 5

March 2, 1984

HOUSE BANKING CHAIRMAN WANTS TO GO SLOW ON NEW BANKING POWERS

Breaking a long silence on how he thinks financial services deregulation should proceed, House Banking Committee Chairman Ferdinand St. Germain (D-RI) has signaled he wants to proceed slowly and assess the impact on the public. In a February 29 Congressional speech, St. Germain, who firmly controls the path of all banking legislation in the House, argued that the Congress owes the public more than "a simple stamp of approval for the financial community's wish list," and announced that he plans to hold hearings this year.

St. Germain sharply criticized banking practices which he says favor the affluent, such as charges for cashing social security checks or cutting back on branches serving low income customers. He suggested that federal deposit insurance be limited to institutions that serve the broad public interest, and seems to believe that federal support of the banking system should hinge on banks staying separate from general commerce.

St. Germain's philosophy directly contrasts with Senate Banking Committee Chairman Jake Garn (R-UT) who is now holding hearings on various bills that would allow bank entry into insurance, securities, and real estate. The House chairman's position casts doubts on whether any legislation can pass this year.

COIL Opposes New Powers for Banks

At a Feb. 29 Senate Banking Committee hearing, the Conference of Insurance Legislators (COIL) announced that it opposes Garn's banking deregulation bill. New York State Senator John Dunne said, "It is the reality of risk, weighed against the public interest in solvency of our financial institutions which is the main basis for COIL's opposition." COIL argued that the risks of each financial services industry vary greatly and "their combination in a single entity could threaten the solvency of the institution."

COIL also charged that none of the financial industries has managed its own risks well enough to justify the expansion and expansion could compound risks, lead to unprecedented concentrations of power, and result in a diminution of the underwriting disciplines.

LENT SPONSORS BASIC SUPERFUND REAUTHORIZATION

Rep. Norman F. Lent (R-NY) has introduced his version of a proposal to reauthorize the Superfund Act. Lent said HR 4915 is a "straightforward legislative package". It avoids highly controversial provisions such as victims compensation and expanded rights for citizens to sue for cleanup. The bill deletes language that subjects insurers to unlimited liability if courts find they are not acting in good faith.



Insurance Overview

March 7, 1984

Volume 6 No. 39

MARATHON BANK DEREG HEARINGS ENTER 2ND WEEK

Legislation which would allow banks to underwrite insurance goes too far, the National Association of Insurance Commissioners (NAIC) told the Senate Banking Committee last week. Testifying for the NAIC, Iowa Comm. Bruce Foudree expressed concern about the safety of depositors' funds if banks underwrite insurance risks. And he said the states aren't convinced integration of financial services will improve competition. "Longstanding solvency safeguards should not be sacrificed for the sake of consumer convenience," Foudree said.

The Conference of Insurance Legislators (COIL) also submitted written testimony opposing the bank deregulation bill (S2181). New York State Sen. John R. Dunne, who presented the testimony, said, "It is the nest eggs of our constituents which may be broken if we let deregulation move too far too fast."

Senate Banking Committee Chairman Jake Garn (R-Utah) commented that insurers are entering the banking business and asserted, "You can't have it both ways." Meanwhile, Rep. Fernand St Germain (D-R.I.), the House Banking Committee chairman, announced he will be holding hearings on banking deregulation later this year. St Germain, who is known to oppose expanded powers for banks, has suggested that if banks are broadly deregulated as proposed, they should lose federal deposit insurance.

SEC PROPOSES CHANGES IN DISCLOSURE RULES FOR INSURERS

The Securities and Exchange Commission, expressing concern about the ability of investors to evaluate the reserve liabilities of property/casualty insurance companies, has proposed rule changes for disclosures by publicly-held insurers. The SEC said the new rules would require "disclosure of past estimating experience, information concerning loss reserving methods currently employed and a discussion of any recent changes in circumstances and reserving methods." The SEC said the changes would provide investors with information on inflation accounting, on the effect of any reserve discounting and on adjustments to reserves. Interested parties have until May 31 to comment.

**We
proudly
enter
our**

50th

**year
with**

**\$130
MILLION**

**in
assets.**

ALASKA FEDERAL SAVINGS

FINANCIAL STATEMENT
December 31, 1983

Semi-Annual Statement of Condition

Assets

First mortgage loans	\$ 94,760,964
Other loans	7,105,881
Real estate owned	4,294,550
Stock in Federal Home Loan Bank	879,000
Cash on hand in banks	443,900
Investment securities	16,979,056
Office building & equipment (net)	2,650,794
Other assets	3,674,938
Total Assets	\$130,789,083

Liabilities

Savings accounts	\$105,215,578
Advances Federal Home Loan Bank	10,940,000
Loans in process	6,229,321
Specific reserves & deferred credits	740,311
Other liabilities	472,307
Reserves & undivided profits	7,191,566
Total Liabilities & Net Worth	\$130,789,083

President's Message:

We are proud to mark the 50th anniversary of Alaska Federal with \$130 million in assets. Our rapid success is also shown in our \$2 million increase in net worth in 1983—an increase unprecedented in our history.

We attribute our recent gains to our customers' growing confidence in using Alaska Federal for all of their banking needs. This attitude is reflected in the dramatic rise in checking accounts in 1983. Our new consumer lending program which has incorporated such offerings as boat and airplane loans, and the addition of credit cards to our list of products, have also been greatly received.

We are presently working toward continued growth and success with the restructuring of our assets and liabilities, a move toward insuring our future prosperity. And the end of 1984 will bring a further example of our rapid growth as we complete our new corporate headquarters building.

We thank you for your response in 1983 to our improved offerings, and hope that you continue to view Alaska Savings as the single source for your financial needs.

And as we look to the future on this, our 50th anniversary, we foresee both increased growth and the continuance of our commitment to giving you, the people of Southeast Alaska, the type of products and level of service you've come to expect from Alaska Federal.

Sincerely,



L.C. Coffman
President

Directors

O. F. Benecke, Chairman
L. C. Coffman
Don Dickey
William Flint
Avrum Gross
Lucile J. Rountree
K. E. Showalter
T. A. Morgan, Chairman Emeritus
Dr. J. O. Rude, Director Emeritus

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Bonita Haines, Secretary
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Wrangell, Alaska 99929
Phone (907) 874-2356



RAISE BREAK POINT TO \$3,000

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;

*3,000

(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;

*3,000

(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;

*3,000

(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;

*3,000

(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.

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).

Effect of amendment. — The 1980 amendment substituted "one-twelfth of

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,

provided by
Don Magnuson

4/18/84

ELIMINATE BREAK POINT

§ 45.10.120

ALASKA STATUTES

§ 45.10.130

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; *provided that*

five-sixths of one percent

~~(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; *provided that*

one and one-half per cent

~~(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. the annual rate permitted under AS 45.45.010(b) for "one per cent" following

Effect of amendment. — The 1980 amendment substituted "one-twelfth of" "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,

New Jersey Commissioner Seeks To Continue Ban on Rate Ceilings

Special to the American Banker

TRENTON, N.J. — The New Jersey banking commissioner has recommended to the legislature that a state ban on interest rate ceilings on all types of consumer loans be continued.

"Based on available evidence, it is my determination that elimination of the interest rate ceilings over the past three years has served to increase the availability of consumer loans and to lower the interest rates charged," the commissioner, Michael M. Horn, said in a report to the legislature. Mr. Horn is leaving office March 20 to become state treasurer.

Ceilings were eliminated by law in 1981 in an attempt to ease the state's tight money market and to make credit more readily available to the consumer, Mr. Horn said. Since then, interest rates have dropped for three consecutive years, he said.

The legislation has required the commissioner to monitor interest rates charged by banks and savings and loan associations and to determine whether the elimination of the interest rate ceilings is in the best interests of the public. The annual surveys that he has conducted include checking rates charged by licensed companies engaging in home repairs, insurance premium financing, secondary mortgages, small loans, and retail installment sales.

Report Shows Sufficient Competition

Mr. Horn, who has been making annual reports to the legislature about consumer credit — another requirement of the 1981 statute — said the latest survey shows:

- That a substantial degree of competition does exist in the state, as indicated by the "reasonable" levels of interest rates charged.

- That interest rates on consumer credit loans in New Jersey have fallen.

In October 1983, for instance, rates were generally 1.3% below comparable levels for October 1982. The decline was greater than the national drop, Mr. Horn said.

- That the elimination of interest rate ceilings serves to increase availability of consumer loans. For the 12 months ending Sept. 30, 1983, consumer credit loans by New Jersey commercial banks rose 14.8%, from \$4.629 billion to \$5.314 billion.

"The last increase cited represented the largest percentage rise during the last five years," Mr. Horn said. "In 1980, a year before statutory rate ceilings on these types of loans were removed, a decline was recorded, even without adjustment for inflation.

- "With the recession and high interest rates of 1981 and 1982, no meaningful gains were made in consumer lending by consumer banks as a whole. However, in the year just passed, all three major types of depository institutions — commercial banks, savings banks, and savings and loan associations — showed markedly increased activity in most areas of consumer lending, while the rates they charged were generally falling."

Offered: 4/28/83
Referred: Rules

Original sponsor: Bettisworth

*Provided by
Connie Sipe*

BY THE LABOR AND
COMMERCE COMMITTEE

1 IN THE HOUSE

2

CS FOR HOUSE BILL NO. 246 (L&C)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the deregulation of interest rates; and providing for an effective date."

7

8

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9

* Section 1. AS 06.20.230(a) is amended to read:

10

(a) A licensee may lend any sum of money not exceeding \$25,000

11

and may charge, contract for, and receive on the loan interest at a

12

rate agreed on by contract [NOT EXCEEDING THREE PERCENT A MONTH ON

13

THAT PART OF THE UNPAID PRINCIPAL BALANCE OF A LOAN NOT IN EXCESS OF

14

\$850; TWO PERCENT A MONTH ON THE UNPAID PRINCIPAL BALANCE EXCEEDING

15

\$850 BUT NOT EXCEEDING \$10,000; AND AT A RATE AGREED BY CONTRACT ON

16

THE REMAINDER OF ANY UNPAID PRINCIPAL BALANCE EXCEEDING \$10,000 BUT

17

NOT EXCEEDING \$25,000].

This group of consumers probably most needs government oversight.

This is the Small Loan Act - covers Household Finance consumer finance companies (like ~~Beneficial~~ Finance) who provide credit, usually, to a lower-income and higher risk group of consumers. These finance companies are compensated (already) for their higher risk by being allowed to charge between 24% - 36% per annum, up to \$10,000 - and by contract over \$10,000. These ~~comp~~ lenders are also allowed and do take security interests in household possessions, etc. as security for loan. (For instance, if consumer borrows \$1000 to buy a refrigerator, consumer may also have to give security interest in all other household appliances as additional collateral.)

18 * Sec. 2. AS 06.40.120(c) is amended to read:

19 (c) The service charge may not exceed interest at a rate agreed
 20 on by contract. A [THE NOMINAL ANNUAL RATE OF 15 PERCENT PLUS AN AD-
 21 DITIONAL CHARGE OF \$10 PER PREMIUM FINANCE AGREEMENT WHICH NEED NOT BE
 22 REFUNDED UPON CANCELLATION OR PREPAYMENT. HOWEVER, ANY] borrower may
 23 prepay the [HIS] premium finance agreement in full at any time before
 24 the due date of the final payment and in that event the unearned
 25 service charge shall be refunded. The amount of any refund shall be
 26 calculated in accordance with regulations adopted by the commissioner.

This is Premium Financing (not on
 consumer insurance or loans). I think
 this mostly affects larger business or
 commercial entities as the borrowers.
 or agents financing premiums for
 such clients.

27 * Sec. 3. AS 09.55.440(a) is amended to read:

28 (a) Upon the filing of the declaration of taking and the deposit
29 with the court of the amount of the estimated compensation stated in

-1-

CSHS 246(L&C)

1 the declaration, title to the estate as specified in the declaration
2 vests in the plaintiff, and that property is condemned and taken for
3 the use of the plaintiff, and the right to just compensation for it
4 vests in the persons entitled to it. The compensation shall be ascer-
5 tained and awarded in the proceeding and established by judgment. The
6 judgment shall include lawful interest [AT THE RATE OF SIX PERCENT PER
7 YEAR] on the amount finally awarded which exceeds the amount paid into
8 court under the declaration of taking. The interest runs from the
9 date title vests to the date of payment of the judgment.

Page
2 of
Bill

This affects the State and all ~~public~~ political subdivisions when they condemn land by "eminent domain." The condemning government unit will pay "lawful" prejudgment interest to the citizen whose land is taken.

10.5%

10 * Sec. 4. AS 45.10.120(b) is amended to read:

11 (b) A seller or holder of a retail installment contract may
12 charge, receive and collect a service charge on the outstanding bal-
13 ance at a rate agreed on by contract [WHICH SHALL NOT EXCEED THE
14 FOLLOWING RATES MULTIPLIED BY THE NUMBER OF MONTHS, INCLUDING A FRAC-
15 TION OF A MONTH IN EXCESS OF 15 DAYS AS ONE MONTH, ELAPSING BETWEEN
16 THE DATE OF THE CONTRACT AND THE DUE DATE OF THE LAST INSTALLMENT,

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Bill

17 (1) ON SO MUCH OF THE UNPAID BALANCE AS DOES NOT EXCEED
18 ~~\$1,000, FIVE SIXTHS OF ONE PERCENT;~~ = 10% per annum *

19 (2) IF THE UNPAID BALANCE EXCEEDS \$1,000, ON SO MUCH OF THE
20 UNPAID BALANCE AS EXCEEDS \$1,000, TWO-THIRDS OF ONE PERCENT; = 8% per annum *

21 (3) IF THE TOTAL SERVICE CHARGE SO COMPUTED IS LESS THAN
22 \$12, BUT IF THE DUE DATE OF THE LAST INSTALLMENT OF THE CONTRACT IS
23 EIGHT MONTHS OR LESS AFTER ITS EFFECTIVE DATE, \$10].

This affects every consumer who purchases
a "good" (like a car or furniture) ^(not real estate) on time
payments and who gives the lender a security
interest (or lien) on the "good" being purchased.
Also, the lender is also the seller of the
good, and has other incentives for making credit available
besides the interest rate.
This includes all consumer car purchases
through Ford Motor Credit, GMAC, etc. and
things like furniture from McMahan's.
The lender gets to charge up to 18%* per
annum under present law, plus lender has
additional protection of being legally
entitled to repossess the item (without
any court costs) if the customer defaults.

24 * Sec. 5. AS 45.10.120(c) is amended to read:

25 (c) A seller or holder of a retail charge agreement, revolving
26 charge agreement or other retail charge agreement may charge, receive
27 and collect a service charge at a rate agreed on by contract [NOT TO
28 EXCEED THE FOLLOWING RATES COMPUTED] on the outstanding balance [BAL-
29 ANCES FROM MONTH TO MONTH,

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of
Bill

1 (1) ON SO MUCH OF THE OUTSTANDING BALANCE AS DOES NOT
2 EXCEED \$1,000, ONE AND ONE-HALF PERCENT PER MONTH;

3 (2) IF THE OUTSTANDING BALANCE IS MORE THAN \$1,000, ONE-
4 TWELFTH OF THE ANNUAL RATE PERMITTED UNDER AS 45.45.010(b) PER MONTH
5 ON THE EXCESS OVER \$1,000 OF THE OUTSTANDING BALANCE;

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Bill

6 (3) IF THE SERVICE CHARGE SO COMPUTED IS LESS THAN \$1 FOR
7 ANY MONTH, \$1;

8 (4) THE SERVICE CHARGE MAY BE COMPUTED ON A SCHEDULE OF
9 FIXED AMOUNTS IF AS SO COMPUTED IT IS APPLIED TO ALL AMOUNTS OF OUT-
10 STANDING BALANCES EQUAL TO THE FIXED AMOUNT MINUS A DIFFERENTIAL OF
11 NOT MORE THAN \$5 PROVIDED THAT IT IS ALSO APPLIED TO ALL AMOUNTS OF
12 OUTSTANDING BALANCES EQUAL TO THE FIXED AMOUNT PLUS AT LEAST THE SAME
13 DIFFERENTIAL].

This affects all consumer charge card accounts and all charge account agreements (like at the Bethel N.C. store for groceries and fishing gear).

14 * Sec. 6. AS 45.45.010(a) is amended to read:
 15 (a) The rate of interest in the state is 10.5 percent a year and
 16 no more on money after it is due except as provided by express agree-
 17 ment of the parties in a contract or loan commitment [IN (b) OF THIS
 18 SECTION].

This is the general, non-specific usury rate. This could be changed without changing other sections, if the legislature so desired.

Credit union

19 * Sec. 7. AS 06.20.230(b) and (c), AS 06.45.060(5)(A)(vi), and AS 45.-
 20 45.010(b) are repealed.
 21 * Sec. 8. This Act takes effect immediately in accordance with AS 01.-
 22 10.070(c).

7-8 to 16 - put them back

1 annual rate of 15 percent plus an additional charge of \$10 per premium
2 finance agreement which need not be refunded upon cancellation or
3 prepayment. However, any [A RATE AGREED ON BY CONTRACT. A] borrower
4 may prepay the premium finance agreement in full at any time before
5 the due date of the final payment and in that event the unearned
6 service charge shall be refunded. The amount of any refund shall be
7 calculated in accordance with regulations adopted by the commissioner.

8 * Sec. 9. AS 45.10.120(b) is amended to read:

9 (b) A seller or holder of a retail installment contract may
10 charge, receive and collect a service charge which shall not exceed
11 the following rates multiplied by the number of months, including a
12 fraction of a month in excess of 15 days as one month, elapsing be-
13 tween the date of the contract and the due date of the last install-
14 ment.

15 (1) on so much of the unpaid balance as does not exceed
16 \$1,000, five-sixths of one percent;

17 (2) if the unpaid balance exceeds \$1,000, on so much of the
18 unpaid balance as exceeds \$1,000, two-thirds of one percent;

19 (3) if the total service charge so computed is less than
20 \$12, but if the due date of the last installment of the contract is
21 eight months or less after its effective date, \$10 [ON THE OUTSTANDING
22 BALANCE AT A RATE AGREED ON BY CONTRACT].

23 * Sec. 10. AS 45.10.120(c) is amended to read:

24 (c) A seller or holder of a retail charge agreement, revolving
25 charge agreement or other retail charge agreement may charge, receive
26 and collect a service charge not to exceed the following rates com-
27 puted [AT A RATE AGREED ON BY CONTRACT] on the outstanding balances
28 from month to month, [BALANCE]

29 (1) on so much of the outstanding balance as does not

1 exceed \$1,000, one and one-half percent per month;

2 (2) if the outstanding balance is more than \$1,000, one-
3 twelfth of the annual rate permitted under AS 45.45.010(b) per month
4 on the excess over \$1,000 of the outstanding balance;

5 (3) if the service charge so computed is less than \$1 for
6 any month, \$1;

7 (4) the service charge may be computed on a schedule of
8 fixed amounts if as so computed it is applied to all amounts of out-
9 standing balances equal to the fixed amount minus a differential of
10 not more than \$5 provided that it is also applied to all amounts of
11 outstanding balances equal to the fixed amount plus at least the same
12 differential.

13 * Sec. 11. AS 45.45.010(a) is amended to read:

14 (a) The rate of interest in the state is 10.5 percent a year and
15 no more on money after it is due except as provided in (i) of this
16 section [BY EXPRESS AGREEMENT OF THE PARTIES IN A CONTRACT OR LOAN
17 COMMITMENT].

18 * Sec. 12. AS 06.20.230 is amended by adding new subsections to read:

19 (b) Notwithstanding the provisions of (a) of this section, a
20 licensee who makes open-end loans under this chapter may charge,
21 contract for, and receive interest at a rate not exceeding three
22 percent a month on that part of the unpaid principal balance of a loan
23 not in excess of \$850; two percent a month on the unpaid principal
24 balance exceeding \$850 but not exceeding \$10,000; and at a rate agreed
25 by contract on the remainder of any unpaid principal balance exceeding
26 \$10,000 but not exceeding \$25,000.

27 (c) Interest on loans under (b) of this section shall be com-
28 puted according to the actuarial method on the entire unpaid principal
29 balance as determined in AS 06.20.285(b).

1 * Sec. 13. AS 06.45.060(5)(A) is amended by adding a new subparagraph
2 to read:

3 (xii) the rate of interest may not exceed the
4 greater of 15 percent a year or the rate specified as
5 AS 45.45.010(b);

6 * Sec. 14. AS 45.45.010 is amended by adding a new subsection to read:

7 (i) No interest may be charged by express agreement of the
8 parties in a contract or loan commitment which is more than five
9 percentage points above the annual rate charged member banks for
10 advances by the 12th Federal Reserve District on the day on which the
11 contract or loan commitment is made. A contract or loan commitment in
12 which the principal amount exceeds \$25,000 is exempt from the limita-
13 tion of this subsection.

14 * Sec. 15. The legislative audit division shall report to the First
15 Session of the Fifteenth Legislature on or before March 15, 1987 concerning
16 the effects of the amendments made in secs. 1 - 6 of this Act on the people
17 of the state and in particular those persons seeking or receiving credit.

18 * Sec. 16. AS 06.20.230(b) and (c), AS 06.45.060(5)(A)(vi), and AS 45.-
19 45.010(b) are repealed.

20 * Sec. 17. Sections 1 - 6 and secs. 15 and 16 of this Act take effect
21 July 1, 1983.

22 * Sec. 18. Sections 7 - 14 of this Act take effect July 1, 1987.

study

credit union

KEY CONSUMER PROTECTION LAWS OF ALASKA

1. SMALL LOANS ACT, Title 6, Banks and Financial Institutions, Chapter 20, §§ 6.20.010-6.20-920. Requires that any person engaged in the business of making loans of money, credit, goods, or things in action in the amount of \$5,000 or less must have a license if he wishes to charge a greater rate of interest than otherwise provided by law. The Act provides for the licensing of lenders of money and sets forth the maximum amount of interest permitted on these loans.

2. ALASKA RETAIL INSTALLMENT SALES ACT, Title 45, Trade and Commerce, Chapter 10, §§ 45.10.010-45.10.230. Sets forth the requirements of the form and content of a retail installment contract, the amount of service charge allowed on the contract and defines the terms used in the contracts (*i.e.* cash sale price, goods, retail buyer, retail installment contract, etc.). Also sets forth penalties for violating the Act.

3. TRADE PRACTICES (Legal Rate of Interest, Usury), Title 45, Trade and Commerce, Chapter 45, §§ 45.45.010-45.45.060. Sets forth the legal rate of interest of 10.5% a year and exceptions to this rate, prohibits a higher rate of interest, and provides for penalties if this Act is violated. Provides for collection of interest in advance.

4. COMPETITIVE PRACTICES AND REGULATION OF COMPETITION (Unfair Trade Practices and Consumer Protection), Title 45, Trade and Commerce, Chapter 50, §§ 45.50.471-45.50.561. Prohibits unfair methods of competition and unfair or deceptive acts or practices, prohibits junk telephone calls without the prior written consent of the person called and provides penalties for violation of this article. If the contract for sale or lease of consumer goods or services on credit between a retail seller and retail buyer requires or involves the execution of a promissory note or instrument, the note or instrument must have printed on its face the words "consumer paper."

FEDERAL LAW

1. TRUTH IN LENDING ACT (including Fair Credit Billing Act), 15 U.S.C. § 1601 et seq., and Regulation Z, 12 C.F.R. § 226.1 et seq. Part of the Federal Consumer Credit Protection Act. Requires extensive disclosure of credit terms in the extension of consumer credit, regulates certain credit advertising, regulates issuance of credit cards with limitation on the cardholder's liability for unauthorized use; and is designed to assist consumers in resolving credit billing disputes. Regulation Z implements the Act by setting forth disclosure requirements. The Fair Credit Billing Act sets forth procedures for billing cycles, imposition of finance charges, and the correction of billing errors.

2. EQUAL CREDIT OPPORTUNITY ACT, 15 U.S.C. § 1691 et seq., and Regulation B, 12 C.F.R. § 202.1 et seq. Designed to prevent discrimination in the extension of credit on the basis of race, religion, national origin, sex, marital status, or age, or derivation of income. Sets forth penalties for violation of Act. Regulation B implements the Act by setting forth rules concerning applications and extensions of credit.

3. ELECTRONIC FUND TRANSFER ACT, 15 U.S.C. § 1693 et seq., and Regulation E, 12 C.F.R. § 205.1 et seq. Establishes the rights, liabilities, and responsibilities of participants in electronic fund transfer systems. Designed to protect individual consumer rights. Sets forth requirements and procedures in the terms and conditions of transfers, documentation of transfers, and periodic statements, and for the resolution of errors. Regulation E implements the Act.

4. FAIR CREDIT REPORTING ACT, 15 U.S.C. § 1681. Governs the procedures that consumer reporting agencies must follow in the use and disclosure of consumer credit reports. Sets forth procedures in resolving disputes of the reports.

5. FAIR DEBT COLLECTION PRACTICES ACT, 15 U.S.C. § 1692 et seq. Designed to protect consumers from abusive, deceptive and unfair debt collection practices by debt collectors. Provides procedures for redressing collection abuses.

6. MAGNUSON-MOSS WARRANTY ACT, 15 U.S.C. § 2301 et seq. Sets forth rules governing the content of consumer product warranties. Designed to improve the adequacy of information available to consumers and to prevent deception. Designed to explain to consumer in simple language the terms and conditions of the warranty.

7. EXTORTIONATE CREDIT TRANSACTIONS, 18 U.S.C. § 891 et seq. Sets forth penalties for extortionate extensions of credit (extension of credit with understanding that a delay in making repayment could result in use of violence or other criminal means to cause harm to the person, reputation, or property of any person), financing extortionate extensions of credit, and extortionate collections of extensions of credit.

8. FEDERAL TRADE COMMISSION TRADE REGULATIONS RULES

(a) Door-To-Door Sales, 16 C.F.R. § 429.1.
Regulates practices of door-to-door salespersons.

(b) Preservation of Consumers' Claims and Defenses, 16 C.F.R. §433.1 et seq. Protects buyers in consumer transactions against application of holder-in-due-course rule; similar to Alaska law in the Unfair Trade Practices and Consumer Protection Act.

undertaking a reasonable search.
Dietrich-Post Co. v. Alaska Nat'l Bank,
638 F.2d 117 (9th Cir. 1981).

Where a financing statement and its

the corporation. Dietrich-Post Co. v.
Alaska Nat'l Bank, 638 F.2d 117 (9th Cir.
1981).

Article 5. Default.

Sec. 45.09.504. Secured party's right to dispose of collateral after default; effect of disposition.

NOTES TO DECISIONS

Noncompliance with subsection (c).

In accord with 1st paragraph in original. See Hoch v. Ellis, Sup. Ct. Op. No. 2346 (File No. 4475), 627 P.2d 1060 (1981).

If a sale was deficient with respect to either notice or commercial reasonableness, then a burden is placed upon the secured party to rebut the presumption that the fair market value of the collateral was at least equal to the amount of the outstanding debt. Hoch v. Ellis, Sup. Ct. Op. No. 2346 (File No. 4475), 627 P.2d 1060 (1981).

The burden is on the secured party to prove by clear and convincing evidence the value of the collateral. Hoch v. Ellis, Sup.

Ct. Op. No. 2346 (File No. 4475), 627 P.2d 1060 (1981).

If the secured party fails to rebut the presumption that the fair market value of the collateral was at least equal to the amount of the outstanding debt, then the presumption leads to the conclusion that the entire debt is discharged. Hoch v. Ellis, Sup. Ct. Op. No. 2346 (File No. 4475), 627 P.2d 1060 (1981).

Factors in determining value of collateral. — The local economic market at the time of sale is a recognized factor in determining the value of the collateral. Hoch v. Ellis, Sup. Ct. Op. No. 2346 (File No. 4475), 627 P.2d 1060 (1981).

Chapter 45. Trade Practices.

Article

1. Interest (§ 45.45.010)

Article 1. Interest.

Section

10. Legal rate of interest

Sec. 45.45.010. Legal rate of interest. (a) The rate of interest in the state is 10.5 percent a year and no more on money after it is due except as provided in (b) of this section.

(b) No interest may be charged by express agreement of the parties in a contract or loan commitment which is more than five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District on the day on which the contract or loan commitment is made. A contract or loan commitment in which the principal amount exceeds \$25,000 is exempt from the limitation of this subsection.

Sec. 45.02.301. General obligations of parties. The obligation of the seller is to transfer and deliver, and that of the buyer to accept and pay, in accordance with the contract. (§ 2.301 ch 114 SLA 1962)

Applied in *A & G Constr. Co. v. Reid* (File Nos. 2360, 2388), 547 P.2d 1207
Bros. Logging Co., Sup. Ct. Op. No. 1244 (1976).

Sec. 45.02.302. Unconscionable contract or clause. (a) If the court as a matter of law finds the contract or a clause of the contract was unconscionable at the time it was made, the court may refuse to enforce the contract, enforce the remainder of the contract without the unconscionable clause, or so limit the application of an unconscionable clause as to avoid an unconscionable result.

(b) If it is claimed or appears to the court that the contract or any clause of the contract may be unconscionable, the parties shall be given a reasonable opportunity to present evidence as to its commercial setting, purpose, and effect to aid the court in making the determination. (§ 2.302 ch 114 SLA 1962)

Applied in *Morrow v. New Moon Homes, Sup. Ct. Op. No. 1253* (File No. 2206), 548 P.2d 279 (1976).

Sec. 45.02.303. Allocation or division of risks. Where AS 45.02.101 — 45.02.725 allocate a risk or a burden as between the parties "unless otherwise agreed," the agreement may not only shift the allocation but may also divide the risk or burden. (§ 2.303 ch 114 SLA 1962)

Am. Jur. 2d reference. — 67 Am. Jur. 2d, Sales, §§ 248-254.

Sec. 45.02.304. Price payable in money, goods, realty, or otherwise. (a) The price can be made payable in money or otherwise. If it is payable in whole or in part in goods, each party is a seller of the goods which he is to transfer.

(b) Even though all or part of the price is payable in an interest in realty, the transfer of the goods and the seller's obligations with reference to them are subject to AS 45.02.101 — 45.02.725 but not the transfer of the interest in realty or the transferor's obligations in connection with the transfer of the real interest. (§ 2.304 ch 114 SLA 1962)

Am. Jur. 2d reference. — 67 Am. Jur. 2d, Sales, § 405.

Title 45
Trade and Commerce

Original sponsor: Special Committee on
Banking by request

Offered: 4/8/82
Referred: Finance

1 IN THE SENATE

BY THE LABOR AND
COMMERCE COMMITTEE

2

CS FOR SENATE BILL NO. 750 (L&C)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

TWELFTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act relating to interest rates; and providing for
7 an effective date."

8

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9

* Section 1. AS 06.40.120(c) is amended to read:

10

(c) The service charge may not exceed interest at a rate of two
11 percent a month on that part of the balance of premiums due as does not
12 exceed \$10,000 and at a rate agreed by contract on the balance of pre-
13 miums due exceeding \$10,000. A [THE NOMINAL ANNUAL RATE OF 15 PERCENT
14 PLUS AN ADDITIONAL CHARGE OF \$10 PER PREMIUM FINANCE AGREEMENT WHICH
15 NEED NOT BE REFUNDED UPON CANCELLATION OR PREPAYMENT. HOWEVER, ANY]
16 borrower may prepay his premium finance agreement in full at any time
17 before the due date of the final payment and in that event the unearned
18 service charge shall be refunded. The amount of any refund shall be
19 calculated in accordance with regulations adopted by the commissioner.

20

* Sec. 2. AS 09.55.440(a) is amended to read:

21

(a) Upon the filing of the declaration of taking and the deposit
22 with the court of the amount of the estimated compensation stated in the
23 declaration, title to the estate as specified in the declaration vests
24 in the plaintiff, and that property is condemned and taken for the use
25 of the plaintiff, and the right to just compensation for it vests in the
26 persons entitled to it. The compensation shall be ascertained and
27 awarded in the proceeding and established by judgment. The judgment
28 shall include lawful interest [AT THE RATE OF SIX PERCENT PER YEAR] on
29 the amount finally awarded which exceeds the amount paid into court

1 under the declaration of taking. The interest runs from the date title
2 vests to the date of payment of the judgment.

3 * Sec. 3. AS 45.10.120(b) is amended to read:

4 (b) A seller or holder of a retail installment contract may charge,
5 receive and collect a service charge which shall not exceed the follow-
6 ing rates multiplied by the number of months, including a fraction of a
7 month in excess of 15 days as one month, elapsing between the date of
8 the contract and the due date of the last installment,

9 (1) on so much of the unpaid balance as does not exceed
10 \$10,000, ^{1 3/4}~~two~~ [\$1,000, FIVE-SIXTHS OF ONE] percent;

11 (2) [IF THE UNPAID BALANCE EXCEEDS \$1,000,] on so much of the
12 unpaid balance as exceeds \$10,000 at a rate agreed by contract [\$1,000,
13 TWO-THIRDS OF ONE PERCENT];

14 (3) if the total service charge so computed is less than \$12,
15 but if the due date of the last installment of the contract is eight
16 months or less after its effective date, \$10.

17 * Sec. 4. AS 45.10.120(c) is amended to read:

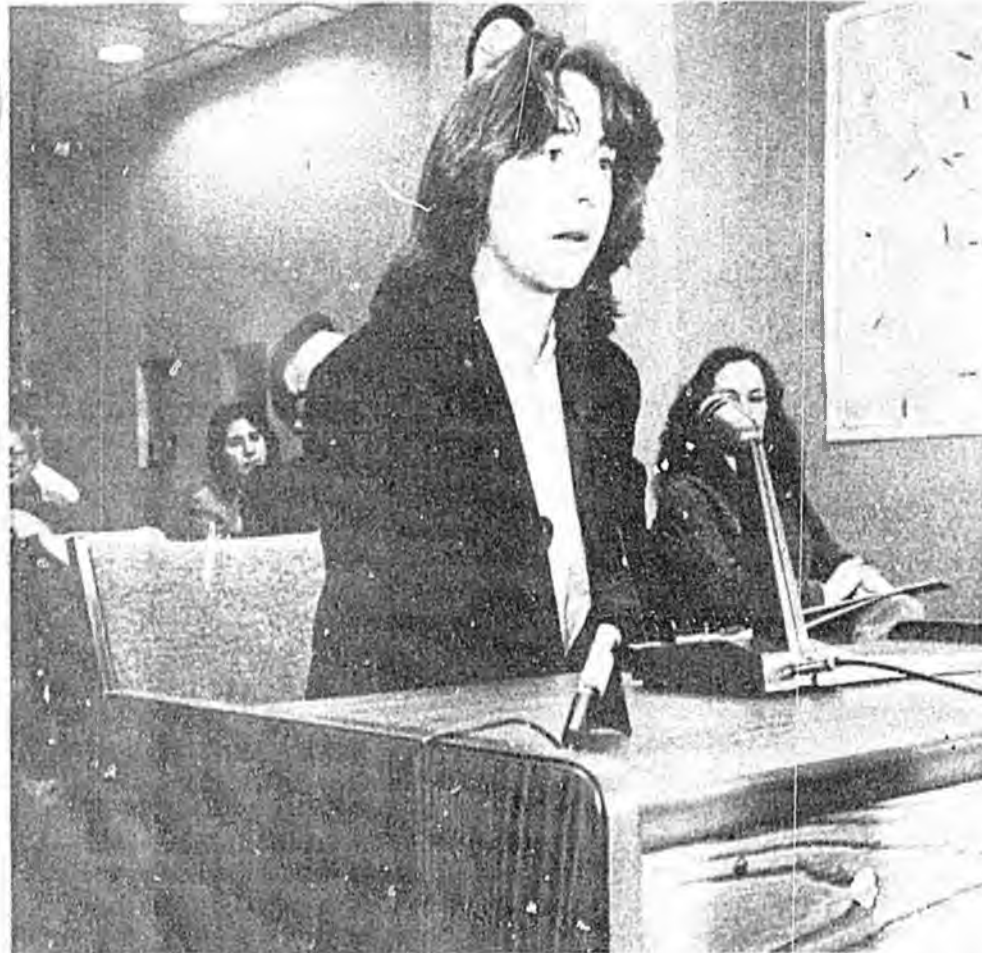
18 (c) A seller or holder of a retail charge agreement, revolving
19 charge agreement or other retail charge agreement may charge, receive
20 and collect a service charge not to exceed the following rates computed
21 on the outstanding balances from month to month,

22 (1) on so much of the outstanding balance as does not exceed
23 \$10,000, ^{1 3/4}~~two~~ [\$1,000, ONE AND ONE-HALF] percent per month;

24 (2) at a rate agreed by contract [IF THE OUTSTANDING BALANCE
25 IS MORE THAN \$1,000, ONE-TWELFTH OF THE ANNUAL RATE PERMITTED UNDER
26 AS 45.45.010(b) PER MONTH] on the excess over \$10,000 [\$1,000] of the
27 outstanding balance;

28 (3) if the service charge so computed is less than \$1 for any
29 month, \$1;

Proposal to deregulate interest rates draws fire



Tom Alvarez/Anchorage Daily News

Maureen Kennedy, of the Alaska Public Interest Group, testifies.

By JIM ERICKSON

Daily News business reporter

A bill that would deregulate interest rates for virtually all forms of lending in Alaska encountered stiff opposition Saturday when representatives from Alaska consumer groups, business associations, labor unions and womens' organizations testified against the legislation at a Senate Labor and Commerce Committee hearing.

"Frankly, there seems to be little evidence of need (for the legislation) on the part of the banking community and the large retailers," said Gary Jenkins of the National Federation of Independent Business.

Jenkins said those institutions have managed to post healthy profits for the past several years. He also cited a survey of 3,700 Alaska member businesses which he said demonstrates overwhelming opposition to House Bill 246, which passed the House last session. Small businessmen feared that removal of interest-rate ceilings on loans less than \$25,000 could stifle their borrowing ability and hence business expansion.

The legislation also calls for removal of interest rate ceilings on credit-card transactions, currently set at 18 percent annually

"I think consumers have enough

burdens to bear without increasing profits for lenders," said Bennie Barker, business representative for Teamsters Local 959.

Sen. Richard Eliason, a Republican from Sitka and chairman of the Labor and Commerce committee, said after the statewide teleconference that further hearings on the bill were not likely.

"There's not a great deal of support in the Senate to move it out of committee," he said.

The banking industry backed the bill, arguing that the cost of obtaining funds to lend had risen markedly since federal deregulation, yet those increases could not be made up because of state usury laws. In addition, bankers said, regulation actually decreased the money supply to smaller borrowers when interest rates are high. In that case, he said, money is diverted from the regulated to the deregulated market — in Alaska, loans more than \$25,000.

Win Gruening, president of the Alaska Bankers Association, said lawmakers should not wait for a crisis in the lending industry to make changes.

"This is an issue that needs to be examined now," he said.

Larry Snider, president of the Alaska Retail Association, said his organization, made up of small busi-

nesses as well as large department stores, supported HB 246.

"The statutory ceilings on rates is a form of governmental price-fixing, a practice which recent history shows inevitably leads to unintended harmful consequences."

Snider said credit lending is costly to stores, and that cost is spread to all consumers in the form of higher prices when lenders cannot adequately cover credit operation expenses.

The possibility that Ranier Bancorporation would move credit operations from Seattle to Alaska was raised with the introduction in February of Senate Bill 485, which would raise the interest rate ceiling on bank-administered credit cards from 18 to 24 percent annually. The bill's sponsor, Sen. Joe Josephson, D-Anchorage, said he did not necessarily support the legislation, but that he had been told by Ranier representatives that as many as 1,400 jobs would be created if the bill passed.

Nancy Groszek, testifying at the hearing for the Alaska Women's Lobby, said it would be "absurd to justify passage of this legislation on the basis of a credit-card company moving its services to Alaska." Groszek maintained that the high cost of doing business in Alaska would mitigate against such action.

Credit system based on points

By MARY H.J. FARRELL

A new credit-rating system is being adopted by more and more banks and large stores around the country. While the system has many pluses, it sometimes produces surprising ratings.

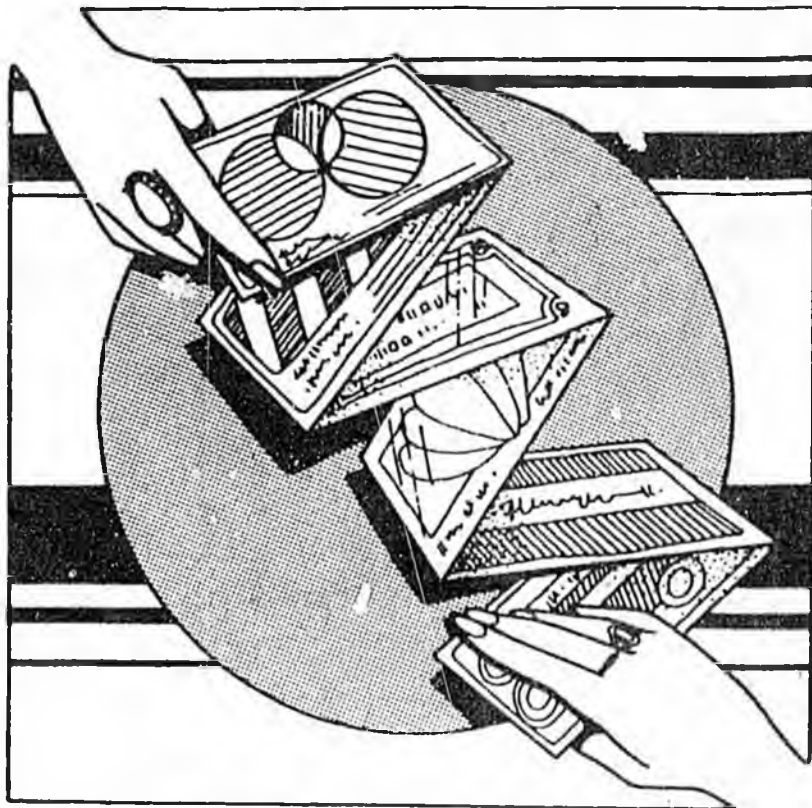
For example, two 46-year-old men, one a doctor, the other a mailman, applied for a loan from a major bank. Although the doctor had a higher income and the same ratio of debt to income, his loan application was rejected while the mailman's was accepted. The bank said the doctor was a poor credit risk because he had lived at his present address for only 2½ years. The mailman had lived at his current address for 15 years.

Stability (length of time at a job or address) is one characteristic considered by large creditors in a new credit-rating method called "credit scoring." The major bank required its applicants to score at least 105 points to qualify for a loan. The mailman scored 107; the doctor 88.

Occupation, income, financial history, and age are other factors considered in credit scoring. Each characteristic is assigned a numerical value, then all are totaled according to a formula used by the creditor.

The scoring system differs with each creditor because each bases its decisions on its own lending experience. A large department store may place more importance on income, while a bank may feel stability is more significant.

One major difference between the new credit-scoring system and the widely used credit-rating bureau is that it considers other factors besides an applicant's credit history. Credit-rating bureaus often automatically disqualify applicants who have failed to



consumer

pay back loans; creditors who use the scoring system may or may not.

Other benefits to the consumer: The applicant is less likely to be discriminated against on the basis of race and, if turned down for credit, is entitled to know the reasons why.

"If a credit applicant is refused credit by a scoring system, the lender must notify the applicant in writing," said Bruce Hall, a consumer economist for Cornell University's extension service.

The Federal Equal Credit Opportunity Act gives rejected applicants the right to object to the creditor's decision within 60 days and to ask on what grounds the rejection was based. Although creditors rarely reverse a decision based on the scoring

system, an applicant may be able to point out a mistake or provide new, favorable information by discussing the application with the creditor.

One major credit-card issuer actually adds points to the score of an applicant who complains about being turned down.

□ From King Features Syndicate

SUI
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Expert foresees rising interest rates that could slow recovery

The Associated Press

A prominent Wall Street economist says interest rates are headed upward, but he discounted the possibility of a major increase that would stall the economic recovery.

Henry Kaufman, whose forecasts are widely watched in the financial community, said Thursday that he saw little chance of avoiding an upward trend in rates.

Kaufman, chief economist at Salomon Brothers Inc., repeated earlier predictions that interest rates would rise between 1 and 1½ percentage points in 1984. He added that he expected interest rates to keep rising in 1985, but indicated the increases would not be enough to halt the economy's growth in 1984.

Asked by reporters what would change the outlook for interest rates, he said:

"One, a basic reversal of economic activity from expansion to topping out and economic decline. Two, a massive change in fiscal policy, from one of substantial expansion to clear-cut indication that the budget deficit is going down very sharply over the next year or two. I believe neither of those two events are about to materialize."

However, a more optimistic outlook was offered Thursday by Treasury Secretary Donald Regan.

While indicating he was concerned about a too-rapid expansion of the nation's money supply, Regan told the Joint Economic Committee that the economy "is poised for a long period of expansion without a return to high and rising rates of inflation."

Regan reiterated the administration's forecast that the expansion would remain solid this year, with the economy growing at a rate of 4.5 percent after adjustment for inflation. It expanded at a rate of 6.1 percent in 1983, when measured by the gross national product between the fourth quarters of 1982 and 1983.

Regan also predicted that the unemployment rate, which stood at 8.2 percent of the civilian labor force in December, would drop to 7.7 percent by the end of 1984.

In other economic developments Thursday:

—The National Association of Realtors said sales of single-family homes jumped 8.5 percent in December because of slightly lower prices and buyers' greater willingness to accept adjustable-rate mortgages.

—The Investment Company Institute said assets of money market mutual funds rose \$603 million in the week ended Wednesday to \$165.42 billion. The seven-day average yield on the money funds fell to 8.75 percent from 8.78 percent the previous week.

Juneau Empire 1/27/84

Bills propose raising interest limits

By JIM ERICKSON

Daily News business reporter

The monthly bills Alaskans pay for a variety of loans and credit, including revolving charge accounts, could increase if proposals before the Alaska Legislature to deregulate interest rates become law.

Four bills awaiting action in the Senate Labor and Commerce committee would either increase or eliminate interest rate ceilings now regulated by a complex set of Alaska's so-called "usury" laws.

Charge card holders by law cannot be assessed more than 18 percent interest annually on credit balances of less than \$1,000.

For accounts with balances exceeding \$1,000, the interest rate

"floats" five percentage points above the discount rate set by the Federal Reserve Bank, currently 8.5 percent annually.

Under Senate Bill 485, introduced Feb. 13 by Sen. Joe Josephson, D-Anchorage, banks and other financial institutions would be allowed to charge credit card users up to 24 percent annually.

Josephson said that he had introduced his bill at the request of Ranier Bancorporation, and that he did not necessarily advocate passage at this time.

"But I think it merits consideration," he said, because an increase in rates could allow higher-risk borrowers access to credit.

House Bill 246, sponsored by Bob Bettisworth, R-College, would

deregulate virtually all forms of lending and credit in the state.

Interest rate ceilings on bank-administered credit plans (such as Visa or MasterCard), department store charge accounts, retail installment contracts and loans of less than \$25,000 would be repealed under HB 246, which passed the house in 1983. It is now before the Senate.

The bill has been earmarked as the vehicle for possible changes in state lending and credit laws this session. A public hearing on the legislation is scheduled for March 3 at the Anchorage Legislative Information Office.

Alaska retailers and bankers have been lobbying for some form of deregulation since 1980, during

a period when the federal prime rate went through the roof and lenders were hard pressed to finance credit programs.

More than 40 states have in the past four years passed legislation raising usury ceilings. Of those states, 18 have done away with caps entirely through varying forms of deregulation.

"From the retailer's standpoint, basically what were trying to do is just come closer to covering the cost of extending credit," said Don Magnusson, executive director of the Alaska Retail Association, a state trade organization whose membership includes major department stores.



Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

Bank failures could increase as federal regulations eased

By ROBERT FURLOW
Associated Press Writer

WASHINGTON — Bank failures, already at the highest rate in four decades, could increase as the government further eases rules on what banks can or can't do, says the head of the federal agency that insures deposits.

"You give people more leeway to go out and do new and different things, and it stands to reason they won't all do them well," said William Isaac, chairman of the Federal Deposit Insurance Corp.

But while the failure total may rise, he said, "I don't expect it to be unreasonably high."

Isaac made his comments to reporters Wednesday at a bank-deregulation conference sponsored by the Washington Journalism Center.

Speaking at the same conference, Federal Reserve Governor Charles Partee seemed a bit more concerned about bank failures, suggesting

a parallel between the current deregulating of banking activities and the hard times that have followed deregulation of airlines.

"We can't stand many large bankruptcies" in banking, he said. Nor could the nation easily stand to see banks concentrate their services only in large cities or the most profitable areas, he said, again using the example of airlines that cut back service to many small cities after routes were partly deregulated.

By all accounts, traditional barriers that once separated banks, savings and loans, insurance companies and securities dealers are collapsing, with many of them taking on or hoping to take on at least some activities of the others. Government regulatory agencies, including Isaac's and Partee's, have helped or tried to slow them to varying degrees, but there is wide agreement that broad deregulation is only a matter of time.

Juneau Empire
10-6-83

Interest

Continued from Page D-1

Current interest level ceilings were established at a time the prime rate was less than 5 percent, Magnusson said. But in recent years the prime rate has exceeded 20 percent — above the interest rate retailers can charge for credit purchases.

Although the prime has dropped to 11 percent, retailers often cannot recoup the costs of extending credit even by charging the maximum, he said.

"In effect, what you have is the credit customer, usually the middle class, being subsidized by those who must pay cash," he said.

Magnusson said it would be difficult to predict how much rates would rise if deregulation were instituted, but nationally the level appears to be about 21 percent.

"That's proven to be the practical cap, even in those states that allow more than 21 percent," he said.

HB 246 would also remove the interest ceiling on consumer and business loans of less than \$25,000.

Currently, banks cannot charge more than 13.5 percent for loans of less than that amount.

Win Gruening, president of the Alaska Bankers Association, said federal deregulation has increased the cost of obtaining funds to lend by allowing higher rates of interest to be paid to depositors.

Yet at the same time, bankers have been unable to counteract the increase by raising interest rates on consumer and small business loans because of interest rate caps.

The most likely result, Gruening and others say, is that during periods of high interest rates bankers will be less inclined to lend money in amounts of less than \$25,000, preferring to lend only to those who need financing in amounts above the ceiling.

Maureen Kennedy, director of the Alaska Public Interest Research Group, said deregulation would fuel inflation, and adversely affect the state's economy as consumers put off major purchases in the face of higher interest rates. Low-income borrowers would be hardest hit by the increase, she said.

Competition alone would not provide a sufficient brake to rising interest rates, she said, because the credit and lending industries are not truly competitive.

"If you look at states where the lid has been taken off, the banks automatically raise the rates," Kennedy said. "The theoretical argument is on the bankers' side, but that's not what happens in actual practice. In order for that logic to carry, you have to assume banking is a competitive industry, and that people will shop for credit."

Kennedy said a 1977 study by the Federal Reserve Board showed only 30 percent of potential borrowers shop for loans, and that figure would be much lower for low-income borrowers.

Deregulation could also have a severe impact on rural Alaskans living in communities where there is only one store, she maintained.

Credit in Bush areas is essential because of the seasonal nature of local economies, she said. But without regulatory or competitive control, retailers could charge interest rates far above what might be considered fair market rates.

MSG 84-00022238 PRTY 1 03/08/84 11:09:33 ORIG: LF00 IN= 0005 OUT= 0062
FROM: PAULA/FKS TO: JNU INFO
TARGET: LJHK SUBJ: FOM

TO: SEN LABOR & COMM
SENS ELIASON, MULCAHY, PETTYJOHN, SACKETT, RODEY

INTERIOR DEL
REPS DAVIS, BETTISWORTH, KOPONEN, RINGSTAD, M.W. MILLER
SENS BENNETT FAHRENKAMP, MOSS

FROM: CHAIA ROSS-BOOKER
726-A CHANDALAR
FAIRBANKS, AK, 99701
479-3788-H 452-2059-W

RE: HB 246 & SB 276, DEREGULATION OF INTEREST RATES

MSG: PLEASE WORK TOWARD DEFEATING THIS UNNECESSARY AND UNFAIR LEGISLATION.
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Facts and Figures about Revolving Credit



(why does it cost so much...or does it?)



There's a lot of talk today about the finance charges department store customers are asked to pay on their Revolving Charge Accounts.

Most people agree that revolving charge credit is a good thing for people — but they think it costs too much. They think the stores are making huge profits on credit.

Well, it just isn't so.

For many years now, retail stores have charged an 18% annual percentage rate on Revolving Charge Accounts. And we don't get rich on it—all of the finance charge revenue at 18% and then some goes to pay for the cost of providing the service.

But to the customer, 18% sounds like a great deal of money. This is because very few people really understand it correctly; it isn't what it appears to be at all.

Then where does the 18% figure come from? That's easy. If you pay 1½% each month for twelve months, twelve one-and-a-half per cents add up to 18%. The Federal Truth-in-Lending Law requires that we state the full annual rate clearly, to every credit customer.

But an 18% annual rate does not mean the customer is paying \$18 a year for every \$100-worth of merchandise he buys!

Actually, the customer pays far less, since he pays only 1½% a month on his monthly balance.

Retailers use many methods to compute the finance charge. Here's one popular method, and a chart which shows you what would happen with a customer who made a \$100 purchase and paid for it in monthly payments of \$10.00 each.

	Initial Purchase	Monthly Payment	1½% Finance Charge on Average Daily Balance *	Customer's Balance after Payment
1.	\$100.00	\$00.00	\$0.00	\$100.00
2.		10.00	1.43	91.43
3.		10.00	1.28	82.71
4.		10.00	1.16	73.87
5.		10.00	1.02	64.89
6.		10.00	.89	55.78
7.		10.00	.75	46.53
8.		10.00	.62	37.15
9.		10.00	.50	27.65
10.		10.00	.50	18.15
11.		10.00	.50	8.65
12.		8.65	.00	.00

Total Finance Charge \$8.65

* Assumes payment received on the 15th day of the month.

As you can see, the account would be cleared within a year, and the customer would have paid a total actual finance charge of only \$8.65! Other methods could produce an even lower finance charge!

But even \$8.65 is a long way from the \$18 most people naturally think of when you tell them they are paying *at the rate of 18%* a year! But the Federal Truth-in-Lending Law requires us to make this disclosure clear to every customer. It's safe to assume that few, if any of them, realize the modest amount of money actually involved: 18% just sounds like a great deal more.

Why does credit cost as much as it does?

Even though revolving credit doesn't cost as much as most people think, it's still fair to ask why it costs as much as it does.

The answer is that running a credit operation is an extremely involved, complex undertaking. It requires a great many specially-trained people, a good deal of special equipment, and a great deal of expensive time.

It is important to remember that a credit operation is financed in large part by borrowed funds, which the creditor obtains in the marketplace at a cost close to the prevailing prime rate charged by major banks.

First of all, there are start-up costs of opening a new account.

It takes time and money to interview a new credit applicant and take down all the necessary information the customer gives us.

There's the cost of verifying credit information, to be sure the customer really can pay for the things the customer will buy without getting in too deep. (That wouldn't be good for either of us.)

And when you consider that hundreds of thousands of new revolving charge accounts are opened at stores each year, you can see that just the start-up costs come to a considerable amount of money.

Once an account is open, there are operating costs.

Each time a customer makes a new purchase, new records have to be made. An accurate running account of the transactions must be kept. If the account stays active throughout the year, there are twelve bills to be prepared and mailed. In addition to the work, that comes to \$2.16 in postage alone.

In response to the bills, the customer makes payments — all of which must be processed quickly and accurately to be sure the account is credited for them.

All of this complex effort, which goes on continuously, takes time and money. A substantial cost to stores providing credit is incurred in just the day-to-day operation of millions of active accounts and literally billions of separate transactions.



Here's one cost that really hurts everyone.

Unfortunately, not every customer pays on time, and we have to do some collection follow-up.

Maybe the customer just forgot. Or maybe there's been an accident or illness and payment cannot be made right now.

Whatever the reason, if a credit customer starts falling behind in payments, we have to find out why.

In a few cases -- fortunately, very few -- we find some accounts are simply uncollectible.

Unfortunately, no merchant has ever found a way to avoid some account collection costs, and they have to be shared by everyone who uses the credit services. Because of the efficiency with which our credit professionals handle new account interviews, and the skill with which those first credit checks are made, we have been able to hold collection costs to the lowest possible minimum.

Here's another cost of providing credit that few of our customers have ever thought about.

Although we trust our customer and are willing to wait for his payments, our suppliers can't wait. They have to be paid right away.

And because most stores maintain a good record of prompt payment to suppliers, we are able to buy advantageously, and keep our prices down where customers like to see them.

But how can we pay our suppliers promptly if the customer himself isn't going to pay us back until later -- sometimes months later?

The merchant does the only thing he can do -- borrows from the banks. And banks, as you know, charge interest on loans.

So the cost of borrowing money to pay our suppliers adds significantly to the cost of providing credit to our customers.

As everyone knows, the cost of borrowed funds has risen steadily in recent years. In 1960, for example, the cost to retailers of borrowing money was at a cost close to the 4 1/2% prime rate charged by major banks. At the end of 1980, the prime rate was at 21 1/2%.

There are other costs, too.

Cost for space and equipment and for the facilities required by a complex business operation.

More and more, the high speed techniques of data processing are used as an aid in handling transactions. But even though the speed of advanced technology has enabled more customers to be serviced, the high cost of energy has made costs sky rocket.

And since it takes a salesperson longer to complete a credit sale than it does a cash sale, the extra sales time has to be figured in.

And, there are management costs, to keep the whole complex operation flowing smoothly.

As an example, look at the following chart. In 1967, the Consumer Price Index was established. The base year of 1967 was given a value of 100. With this as a reference point let's see how prices and expenses have increased,

COMPARISON OF SELECTED FACTORS AFFECTING THE COST OF CREDIT¹

	1967	1980	% Increase
Consumer Price Index	100%	234%	134%
Average Prime Rate ²	6%	21.5%	258%
Postage ³	\$.05	\$.15	200%
Minimum Wage	\$ 1.25	\$ 3.10	148%
Social Security Tax ⁴	4.40%	6.13%	39%
Wages Subject to Social Security Tax ⁵	\$6,600.00	\$25,900.00	292%
Energy Cost Index	100%	162%	62%
Prevailing Finance Charge Rate	18%	18%	None

¹Source: Consumer Price Index, U.S. Department of Labor

²Source: Federal Reserve System

³1981—.18, 260% Increase

⁴1981—6.68%, 51% Increase

⁵1981—29,500, 44% Increase

All of these things cost money, and all of them have to be paid for by someone. Should the retailer pay?

The only way we could do it would be to raise prices on everything, to get enough money to pay for the cost of operating credit.

But that way, cash customers, too, would be paying for part of the cost of credit, whether they wanted to buy on credit or not. And most retailers think that's a bad idea.

We believe that the customer who chooses to buy on credit — and only those customers who choose it — should pay for the cost of credit.

Does the 18% annual rate produce enough to cover these costs?

The answer in most cases is no. It usually takes *all* of the finance charge revenue at 18% and then some to cover the cost of the service itself. In fact, in one study the cost of providing revolving credit was found to be \$1.29 for every dollar of finance charge revenue paid in by the customers and the study was done in 1969!*

*SOURCE: Robert W. Johnson and Touche, Ross, Bailey and Smar, *ECONOMIC CHARACTERISTICS OF DEPARTMENT STORE CREDIT*, (New York: National Retail Merchants Association, 1969) p. 53.

As a result, department stores are losing money on credit operations at an 18% annual percentage rate. Let's see why. We have looked at a \$100 purchase and have seen that it yields \$8.65 in finance charges if the purchase is paid off at \$10.00 per month. What this really means is that the gross finance charge yield when viewed as a percentage is 16%. A study of one national retailer's 1979 operating costs⁶ showed that the operating expenses for the processing of a \$100 credit purchase was \$6.79. The study also showed that when the cost to the retailer of borrowed funds is 14%, the annual cost to the retailer to finance this \$100 credit purchase is \$7.55. So we see that the total expenses to the retailer are:

\$7.55	—	Cost of borrowed funds
\$6.79	—	Expenses
<u>\$14.34</u>		

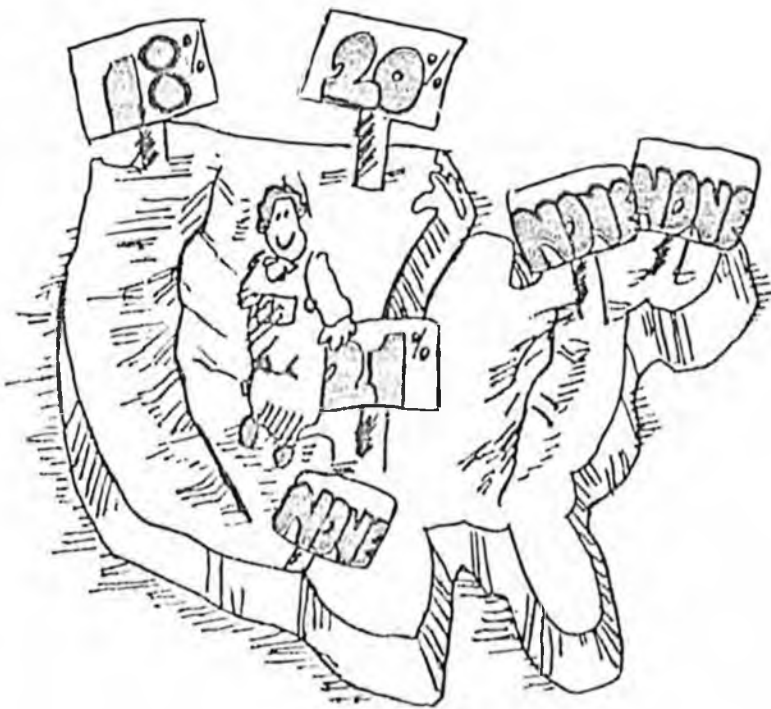
and the income is only \$8.65. This is a *loss* of \$5.69. To break even on the \$100 credit purchase, the creditor would need to be able to charge an annual percentage rate of at least 30%.⁶

We're sure you wonder what the prime rate would have to be for the creditor to break even with an income of \$8.65. Well, the prime rate would have to be at 3½%! that rate last occurred in 1955!⁷



⁶Ray McAlister Ph.D., North Texas State University, March 1980.

⁷SOURCE: Federal Reserve System



For these reasons, we badly need laws which permit us to come somewhere close to covering our costs of offering revolving credit service.

And not only the stores need it — the consumer needs it, too.

Other states have begun to recognize that unless laws are changed to allow retailers to increase finance charge rates to pay for the cost of credit, disastrous things can happen, both to the stores and to the customers.

The states of Arizona, Delaware, Kentucky, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, Oregon and Utah, have deregulated credit by removing all legal limits upon maximum finance charge rates. Eight of these states have deregulated credit since 1980. Rate deregulation allows marketplace competition to determine finance charge rates. Simply, credit deregulation substitutes proven free market economic principles for arbitrary competitive restraints.

As of July 1981, other states with laws that permit retail merchants to charge more than 18% nominal annual percentage rate include Alabama, California, Illinois, Kansas, Michigan, Mississippi, Nebraska, Oklahoma, Colorado, Georgia, Idaho, South Carolina, Texas, and Wyoming.

Research shows that cash prices for merchandise and services in states with low rates are higher than cash prices of the same items in neighboring states.

Cash prices of appliances in Arkansas are from three to seven percent higher than cash prices of the same items in neighboring states.⁸ In Washington, many prices jumped immediately after rates were reduced.⁹

This is because the cost of providing credit is still there, though the amount of money generated to pay for it is restricted by law. The retailer has little recourse but to cover this deficit by increasing prices.

And when prices have to be increased to pay for the cost of credit, the cash customer automatically has to pay more, whether he wants to or not.

Unless he decides to buy in a neighboring state where prices are not affected.

It's happening in Arkansas right now.¹⁰ People are actually going out of their way to do their shopping out of state at the borders. Stores in Arkansas border towns are suffering — and merchants across the borders, where prices are lower, are getting extra business.

⁸SOURCE: Gene C. Lynch, "Consumer Credit at Ten Per Cent Simple: The Arkansas Case," *University of Illinois LAW FORUM, Tax Fraud Vol. 1968, Winter Number*, pp. 592-620.

⁹SOURCE: Guy G. Gordon, and others, *THE IMPACT OF A CONSUMER CREDIT LIMITATION LAW, WASHINGTON STATE: INITIATIVE 245*, (Seattle: Graduate School of Business Administration, University of Washington, 1970).

¹⁰SOURCE: Roland Stucki, *UTAH CONSUMER CREDIT REPORT* Supplement to the Report by the Utah State Commissioner of Financial Institutions to the Governor and Legislature of the State of Utah on the Use of Consumer Credit in Utah, (Salt Lake City: State of Utah Department of Financial Institutions, 1970)

And if a merchant finds himself in a money-losing situation over which he has no control, it isn't good for anyone. New developers are reluctant to come into such an area, while others flock to the other side of the state line. In Arkansas, for example, studies show that outlets of national firms have not expanded at the same rate as outlets in other states which do not have restrictive legislation.¹¹

Also, at lower rates, deserving, responsible customers will be denied credit.

Because if the retailer can only recover part of his cost of providing credit, he has to limit the number of new credit customers he can accept. Many others who want it, and who would normally qualify for credit, just can't get it when the rates are restricted.

And if they can't get legitimate credit, it's easier for loan sharks to move in. Sure they're illegal — but studies show they thrive where people are denied legitimate credit.¹² Many people can't pay for unexpected needs out of pocket — they must have credit.

Lower rates just don't work to anyone's advantage, either the retailer or the customer!

The facts of the matter, then, are these: The merchants need more than an 18% annual percentage rate in order to come somewhere close to breaking even on their credit operations. In states where low annual rates have been legislated, both stores and customers have suffered.

We support laws which protect both the customer and the retailer in every state!

¹¹SOURCE: Jan Robert Williams, "The credit deficiency of retailers in Arkansas," *ARKANSAS BUSINESS AND ECONOMIC REVIEW*, August, 1976, page 14-19.

¹²SOURCE: Paul A. Samuelson, "Statement Before the Committee of the Judiciary of the General Court of Massachusetts in Support of the Uniform Consumer Credit Code," January 29, 1969, pp. 3-4.



Why have revolving credit at all? Because consumers want it! 88% of all consumers have chosen at some time to buy on credit!¹³

Newlyweds, for instance — just starting out, with lots of dreams but not much pocket money.

New parents, who suddenly have new needs, like layetts, playpens, toys and furniture. We know they're good for the money, and we want to help.

Customers who want to take advantage of sales, when prices are especially attractive. Credit lets it happen.

Anyone who wants to enjoy some of life's pleasures now, and pay for them over a comfortable period of time. With credit, they can — in return for a modest charge for the service,

Most people understand this, and agree that the bargain is fair. Credit is a matter of *choice* — a service that comes with a price tag which pays for the convenience of being able to buy now and pay later.

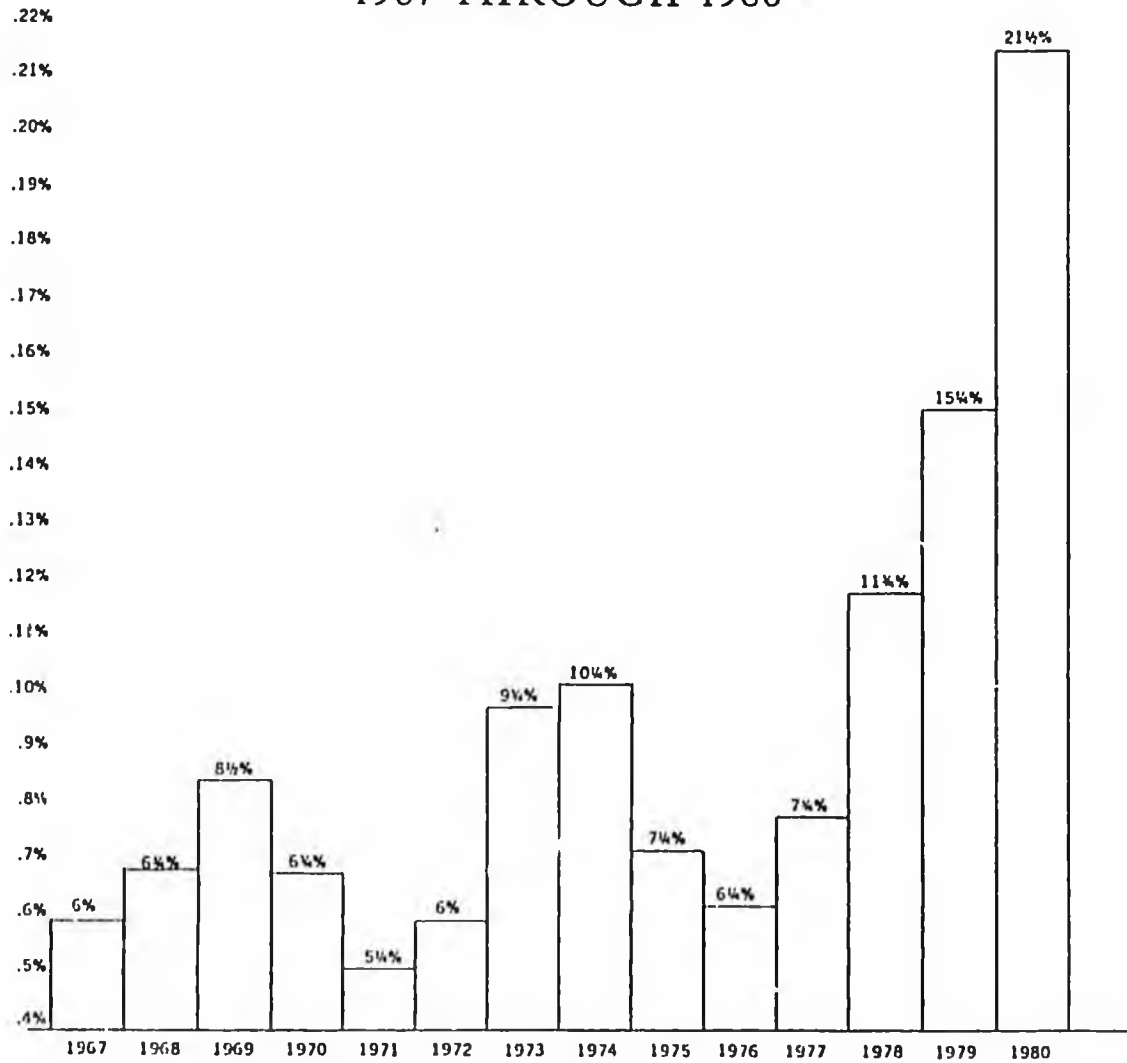
We sincerely believe that credit, properly used, is a vital part of the American way of life.

And we are proud of our part in making it available to those who want it and need it.

But it *must* be on a reasonable basis — at the customer's own choice, and at a rate which assures us we can come reasonably close to meeting the cost of providing the service.

¹³SOURCE: George Katona, and others, 1967 SURVEY OF CONSUMER FINANCES (Ann Arbor, Mich.: Survey Research Center, The University of Michigan, 1968), pp. 38-39.

PRIME RATE AT END
OF EACH CALENDAR YEAR
1967 THROUGH 1980¹⁴



¹⁴SOURCE: Federal Reserve System

New Jersey Bankers Association

499 North Harrison Street, Post Office Box 573, Princeton, New Jersey 08540 609/924-5550

ROBERT C. FORREY
PRESIDENT

June 3, 1983

Honorable Richard Eliason
State Senator
State Capitol, Room 417
Pouch V
Juneau, Alaska 99811

Dear Honorable Richard Eliason:

New Jersey Banking Department's latest report, October 1982 shows average rate on bank credit card loans is Eighteen Point One Percent. Range is from less than eighteen to less than twenty. Under New Jersey Law most loans by licensed lenders including credit cards have no interest ceiling. The rate is agreed between lender and borrower. Maximum loan dollar amount depends on type of lender, with same for banks, savings banks, savings and loans and less for small loan companies, credit unions and retailers. But none have rate ceiling.

New Jersey Criminal Statute does have maximum of 30% for loans to individuals and 50% for loans to corporations, commonly known as loan shark law. Any loan over those figures is criminal usury.

Under law setting market rates without ceiling, our Bank Commissioner files annual report with Legislature on loan funds available to consumers, and rates. Copy of this follows, with copy of Commissioner's January 1983 report.

Sincerely,



RCF:slb
enc.

STATE OF NEW JERSEY
DEPARTMENT OF BANKING

A REPORT OF THE COMMISSIONER OF BANKING CONCERNING
INTEREST RATES ON LOANS AFFECTED BY P.L.1981, c. 103



STATE OF NEW JERSEY
DEPARTMENT OF BANKING
TRENTON 08623

MICHAEL M. HORN
COMMISSIONER

January 11, 1983

To the Members of the Senate and General Assembly:

In compliance with P.L. 1981, c. 103, I submit the Report of the Commissioner of Banking concerning interest rates on loans affected by this law.

This report is based upon a mail survey conducted by the Department of Banking of New Jersey institutions engaged in consumer credit lending. Among those responding to the Department's questionnaire were more than three-fourths of the State's commercial banks, savings banks and savings and loan associations and more than two-thirds of the insurance premium finance, secondary mortgage, and small loan companies licensed by the Department's Consumer Credit Bureau.

Respectfully submitted,

A handwritten signature in cursive script that reads "Michael M. Horn".

Michael M. Horn
Commissioner

MH: no

enc.

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Introduction

This is the second report issued by the New Jersey Department of Banking in compliance with P.L. 1981, c. 103, which removed the interest rate limits on virtually all types of consumer credit. The law requires the Commissioner of Banking to monitor the interest rates on loans thereby affected and to report annually to the Legislature "whether or not the elimination of statutory interest rate ceilings as provided herein shall continue or whether or not... (they) shall be reimposed."

In making his report the Commissioner must consider whether:

- . a substantial degree of competition exists among lenders with respect to the making of the loans;
- . the interest rates being charged on the loans reasonably reflect market conditions; and
- . the elimination of the interest rate ceilings has served to increase the availability of consumer loans in this State.

Following the same procedure as when the first report was prepared, this Department conducted a mail survey of the State's commercial banks, savings banks, savings and loan associations, plus companies licensed by the Department's Consumer Credit Bureau to engage in home repair contracting, insurance premium finance, secondary mortgage, small loan, or retail installment sales operations.

The survey questionnaire inquired about the interest rates and dollar volume of loans extended in June and October of 1982 for the various types of consumer credit addressed in the above law. These two months were specified because of the fact that interest rates have generally been on the decline since June. By inquiring about both months the questionnaire was intended to reveal the extent to which New Jersey consumer credit rates were in keeping with overall market patterns. October was considered the latest month for which data could be obtained and still permit completion of the report in

in a timely manner.

The results of this second survey indicate, as was the case a year ago, that the interest rate ceilings should not be reimposed at this time. There are several reasons for this determination.

Virtually all interest rates are at least 200 basis points and in some cases more than 300 basis points (100 basis points = 1.00 percent) below their respective levels at year end 1981. From June through October of 1982 the average consumer credit loan rate dropped by more than 160 basis points among those New Jersey commercial banks responding to the Department's survey. While it is not widely believed that significant rate increases will occur in the year ahead, the extent of any possible decreases remains a matter of conjecture. This point will be further discussed in the following section.

In any event, there seems little merit in reimposing ceilings comparable to currently prevailing levels. The rates being charged by the large majority of consumer credit lenders are reasonably reflective of market conditions, in accordance with the second statutory criterion listed above. Any creditworthy resident of this State should, with a minimum of "shopping around," be able to obtain a loan at reasonable cost. Furthermore, at mid-year 1982, the most recent period for which such a statistic is available, the aggregate net income of all New Jersey commercial banks measured .83 percent of total assets. This figure is highly similar to the overall mean and median levels for the prior fifteen years of .84 and .86 percent, respectively. The similarity suggests that banks on the whole are not realizing excessive profits to the detriment of the public interest. Moreover, the latest net income ratios of most thrift institutions are far below normal, with many registering deficits.

It should also be noted that the majority of commercial banks offer six of the eight types of bank consumer credit affected by the statute in question. Therefore, a substantial degree of competition exists among lenders with respect to the making of these loans, in accordance with the first criterion by which the Commissioner of Banking must evaluate the effectiveness of P.L. 1981, c. 103. The two types of consumer credit denoted in the statute and not offered by a majority of banks are education loans, which are generally provided under another statutory loan program supervised by the New Jersey Department of Education, and credit card purchasing. Only a small number of thrift institutions and approximately a fourth of the commercial banks in the state issue credit cards such as Mastercard and VISA. However, it is neither difficult nor inconvenient for creditworthy individuals to obtain such cards from an issuing bank, even if they have no other dealings with that bank.

In the following sections of this report the results of the monitoring survey are examined in terms of the aforementioned statutory provisions which the survey was designed to implement.

Do the interest rates being charged on consumer credit loans reasonably reflect market conditions?

As stated in last year's report, the amount of a given interest rate depends, in addition to the duration of the loan, the creditworthiness of the borrower, and the collateral, upon the general availability of money relative to the demand for credit. It was related in that report that one indicator of the availability of money relative to demand was the ratio of total commercial bank loans nationwide as a percentage of the nation's money supply. In this instance the M3 monetary aggregate, which consists mainly of currency plus the deposits of commercial banks, savings banks, savings

and loan associations, and credit unions, was used as the measure of the money supply.

It was further shown that over the years whenever this ratio exceeded 45 percent interest rates would be higher than normal. The fact that this ratio has been above 45 percent for more than four years undoubtedly explains to some extent why interest rates, although below the peak levels of December 1980 and January 1981, are still quite high by any modern standards excluding those of the past ten years.

The commercial bank loan/M3 ratio has dropped marginally from 46.0 percent during December 1981 to 45.7 percent in November 1982. This reflects the slightly more rapid growth of M3 compared with bank loans through November of '82. The former has risen at an annualized rate of 10.2 percent and the latter by 8.8 percent. This small decline in the loan to money supply ratio plus a generally lower level of inflation in 1982, as contrasted with the prior year, apparently served to bring about the overall decrease in interest rates during the past several months. However, the best working assumption for the coming year appears to be that the loan/money supply ratio, inflation, and interest rates will remain fairly much as they are.

The Federal Reserve reported to Congress in July of 1982 that it intended to maintain for 1983 the same monetary growth targets of the past two years. Given the extraordinarily protracted bottoming out phase of the current recession, the large amount of unused industrial capacity, and the reduction in manufacturers' capital programs, it does not appear likely that commercial bank loan volume will significantly exceed the 1982 rate of expansion. While there are some fears that the Federal budget deficit will absorb an undue amount of the 1983 increase in the money supply, it is premature to anticipate such an event as a certainty. Accordingly, from the

current vantage point the bank loan/money supply ratio and certain basic short term rates such as that of the 3-month U.S. Treasury bill may fluctuate very little from present levels, nor might they be expected to.

For instance, from 1963 through 1965, when inflation measured less than 2 percent annually and real increases in the gross national product were at least 4 percent each year, the 3-month "T-bill" interest rate tended to be some 200 to 225 basis points above the consumer price index growth rate. During the extended period of high inflation that followed, interest rates often reflected negative values when those high rates of inflation were deducted. If, however, it is assumed that current inflation is approximately 5 percent, then the three-month T-bill might be expected to carry an interest rate of about 7.25 percent. .Currently this instrument is trading at about 7.85 percent, which does not appear unreasonable in light of the high bank loan/money supply ratio. In other words, money is still relatively tight.

Because depository institutions are still paying relatively high interest on certain instruments issued several months ago, such as the 2½-year certificate, the rates on some loans, such as the prime, may decrease a bit more as such certificates mature and there is further moderation in deposit costs. However, this tendency will be negatively affected by the newly introduced money market accounts, which have no rate limit, and which are already being offered to the public by some institutions at rates of over 11 percent. Those institutions have generally announced that such rates are subject to change after the first month, an indication that the rates may be less out of line with those of most short term instruments as the new year progresses and dollars are "repatriated" from money market mutual funds.

As concerns longer term instruments, maturing in a year or more, an inflation premium currently appears to exist. That is, because of the rapid price

increases of the last several years, lingering fears about renewed double digit inflation are apparently causing these longer term issues to carry higher than normal interest rate differentials relative to short term instruments. Therefore, the longer that the nation can maintain an inflation rate comparable to the pattern since March of 1981, when fuel prices began to decline, the more likely that rates on multiple year instruments will diminish somewhat.

In the monitoring survey commercial banks, savings banks, and savings and loan associations were questioned about the seven types of credit listed below. Virtually all responses from savings banks and savings and loan associations were limited to the first four items. For banking institutions N.J.S.A. 17:9A-53 et seq., containing the Article 12 provisions, controls all but the last item, which is governed by the Retail Installment Sales Act, N.J.S.A. 17:16C-1 et seq. For savings and loan associations the authority to engage in the first four types of consumer credit lending derives from N.J.S.A. 17:12B-155 et seq.

1. Personal loan, unsecured
- 2, 3. Direct loan for new and used automobiles
4. Home improvement/secondary mortgage loan
5. Cash advance through credit card/overdraft checking loan
6. Small business loan
7. Purchases with credit card

Most depository institutions making education loans do so under other statutory provisions than those embraced in P.L. 1961, c. 103. Therefore, the Department's survey did not obtain data on this type of loan.

In order to determine what constitutes a reasonable interest rate under present money conditions, an examination was made of interest rate levels just prior to the passage of the April 1976 legislation which established a 12 percent

limit on Article 12 loans. It is believed that this ceiling rate was subsequently utilized on most loans of this type.

In the current analysis, U.S. Treasury issues having a three to five year maturity served as the basis for the past versus present comparison. During the first four months of 1976 these Treasury instruments revealed an average interest rate of 7.15 percent, while the monthly average for October 1982 was almost exactly 50 percent higher. If the 12 percent statutory limit which prevailed at the time on Article 12 loans was raised by a magnitude of one half, the result, obviously, would be 18 percent. According to this rationale, the consumer credit interest rates being charged by New Jersey's depository institutions are not excessive when judged by the rate patterns prevailing in October of 1982.

Commercial Banks

As demonstrated in Table 1, 18 percent was the most common overall interest rate charged by commercial banks in October '82 for unsecured personal loans, this figure being both the median (mid point) and mode (most frequently reported). The average rate charged for loans of this type was 17.93 percent. The lowest rate distribution for any kind of consumer credit extended by commercial banks was reflected in new automobile loans, where the average October rate was 15.54 percent, the median 15.38, and the mode 15. The fact that the bank holds title to a tangible asset - the automobile itself - is presumably one reason for the lower rate levels on this type of loan.

Those types of consumer credit reflecting the highest interest rate distributions for commercial banks were Article 12A loans (cash advance through credit card/overdraft checking) and credit card purchases. In the first instance the average reported rate was 18.18 percent, the median and mode both 18 percent. Among the 22 percent of reporting commercial banks which issue

credit cards, 18.10 percent was the average rate charged, the median and mode being 18 percent. Moreover, three fourths of the banks issuing credit cards charged no more than 18 percent, although all but one bank required a fee. In every instance except one the fee matched the statutory limit of \$15, while the lone exception was \$12. A \$15 fee could be considered to add up to 200 basis points to the effective annual interest rate on an average outstanding credit card loan balance.

Savings Banks and Savings and Loan Associations

As related above, the kinds of consumer credit offered by savings banks and savings and loan associations are confined essentially to unsecured personal, new and used car, and home improvement/secondary mortgage loans. It can be seen from Table 1 that there is a high degree of similarity among the three types of depository institutions in terms of the interest rate distribution for each of these four kinds of loans.

The degree of difference in interest rates shown by commercial banks, for example, on a given type of loan tends to be larger than the degree by which commercial banks loan rates, on the whole, differ from savings bank rates or S&L rates with respect to the same kind of loan. To illustrate this point it can be noted in Table 1 that the October '82 savings bank mean rate for new automobile loans, 14.90 percent, is 92 basis points below the comparable mean of 15.82 percent reflected by savings and loan associations. This is the widest amount of discrepancy between the mean rate of one type of institution and that of another type involving the same kind of loan.

However, when an examination is made of the levels of standard deviation from the mean reflected by any single type of depository institution for any of the four kinds of loans in question, the smallest level is found to be 118 basis points, which occurs in the case of commercial bank new car loans.

In other words, the interest rate on a new car loan issued by one commercial bank tends to differ from that of another commercial bank by a greater margin than commercial bank new car loan rates in general differ from the new car loan rates of savings banks or savings and loan associations as a whole. Accordingly, as has been stated in the case of commercial banks, the interest rates being charged by thrift institutions reasonably reflect existing market conditions.

Lenders licensed by the Department of Banking Consumer Credit Bureau

In Table 2 the October '82 interest rate patterns are shown for licensees engaged in one or more of the following types of lending: retail installment sales, home repair, and insurance premium finance contracts, plus secondary mortgage and small loans. Retail installment sales contracts written in October of 1982 reflected mean and median interest rates of 22.01 and 22.41 respectively, and a mode of 24 percent. In order to compare these rates with those statutory ceilings formerly in effect, it can be noted that rates on the three to five year Treasury instruments in October of '82 were some 168 percent higher than they had been in 1960, when the statutory ceilings in question were established. If those ceilings were expressed as annual percentage rates and raised by 168 percent, then the maximum permissible interest rates on all types of retail installment sales contracts would be in excess of 30 percent.

Home repair contracts and secondary mortgage loans, whose former statutory interest rate ceilings also date from 1960, would, likewise, have reflected hypothetical interest rate limits in October '82 of more than 30 percent if those ceilings were increased by the aforesaid 168 percent. The mean levels obtained in the survey were 18.5 percent and 20.16 percent, respectively, for home repair contracts and secondary mortgage loans extended in October of 1982.

Similarly, small loans and insurance premium finance contracts, whose former statutory interest rate ceilings were established in 1967, would have

reflected ceilings of 36 and 25 percent, respectively, if these 1967 statutory limits had kept pace with interest rate rises through October of '82 in the three to five year Treasury instruments. In this context, the October '82 mean levels revealed by the survey of 26.84 percent in the case of small loans and 19.87 percent for insurance premium finance contracts are not inconsistent with the prior ceilings.

Department Store Retailers

Ten of the larger department stores operating in New Jersey were contacted by telephone on January 7, 1983 for the purpose of recording their existing charge account interest rates. The distribution pattern of these rates is related in Table 6, with the respective mean and median being 19.9 and 19.8 percent. On the whole these rates show very little change from a year ago, when the respective mean and median were 19.6 and 19.8 percent. The high and low rates remain the same, these being 21.6 and 18 percent. The former statutory ceilings on this type of retail installment credit permitted a maximum interest rate of 18 percent on balances up to \$700 and 12 percent on higher amounts. These rate limits were enacted in 1971, when three to five year U.S. Treasury instruments reflected an average annual rate only slightly more than half the comparable current level.

Does a substantial degree of competition exist?

As shown in Table 3, over 95 percent of the responding commercial banks are offering unsecured personal loans, new and used car loans, and home improvement/secondary mortgage loans. More than three fourths are offering Article 12A credit (cash advance through credit card/overdraft checking). More than half, 59 percent, engage in small business loans. Given this degree of credit availability, the distribution of interest rates, and the generally reasonable levels of these rates, a substantial degree of competition could be said to exist with respect to the making of the above types of loans.

As indicated in Table 4, among a majority of commercial banks responding to the survey, automobile and business loans as well as credit card purchases all show higher volumes of activity in October 1982 as contrasted with August of '81, the month examined in the prior year's survey. However, a majority of commercial banks also reflected lower volume with respect to unsecured personal loans, home improvement/secondary mortgage and Article 12A loans.

Nationwide commercial bank data published by the Federal Reserve for these same two months reveal a greater level of extensions in October '82 for credit purchases and automobile loans, and a decrease in all other types of consumer credit as a whole. Therefore, the patterns of increase and decline suggested in Table 4 appear to be in keeping with national trends.

Retail installment credit paper and home improvement paper were issued by less than half of the responding commercial banks (Table 5).

New Jersey savings banks reveal approximately the same dollar levels of loan extensions in October '82 as in August of '81 for unsecured personal loans, new and used car loans, and home improvement/secondary mortgage loans. With respect to savings and loan associations the major change between these two periods appears to be that a greater number of associations are now making automobile loans. In August of '81 24 associations were writing new car loans and only 13 showed any used car activity. In October '82 32 associations extended new car loans and 26 were underwriting used car purchases. Home improvement/secondary mortgage loans represented the most prevalent type of consumer credit lending for S&Ls, with 83 of the 114 responding associations providing such credit in October of '82.

Has elimination of the interest rate ceilings served to increase the availability of consumer loans?

In June of 1982 New Jersey commercial banks in the aggregate reflected an 11.1 percent ratio of total expenses to liabilities and notes. Had total

expenses been expressed as a ratio of earnings assets, the result would have been in excess of 12 percent. Accordingly, it seems reasonable to assume that banks would, to a significant extent, have sought other lending and investment possibilities if limited to a 12 percent return on consumer credit loans.

Total expenses of savings banks at mid-year 1982 measured more than 11 percent of assets, while state chartered savings and loan associations reflected total expenses equalling 11.8 percent as of October 1982. Therefore, it is likely that thrift institutions would not generally have offered 12 percent consumer loans given the prevailing interest rate climate.

TABLE 6

PREVAILING INTEREST RATES ON CHARGE ACCOUNTS
AMONG 10 SELECTED DEPARTMENT STORE RETAILERS
WITH OUTLETS IN NEW JERSEY

JANUARY 7, 1983

(Abraham and Straus, Bamberger's, Bloomingdale's, Clover,
J.C. Penney Company, Jefferson Ward, Lord & Taylor,
Ohrbach's, Sears, Roebuck and Co., Sterns)

21.6%	- 1
21.5	- 1
21	- 1
19.9/19.8	- 5
18	2

TABLE 1

MOST COMMON INTEREST RATE
JUNE/OCTOBER 1982
COMMERCIAL BANKS, SAVINGS
BANKS, S&L ASSOCIATIONS

	<u>Personal Loan, Unsecured</u>		<u>Direct Loan, New Automobile</u>		<u>Direct Loan, Used Automobile</u>		<u>Home Improvement/ Secondary Mortgage Loan</u>	
	June	October	June	October	June	October	June	October
<u>Mean</u>								
Commercial Banks	19.32	17.93	17.77	15.54	18.80	16.91	18.33	16.43
Savings Banks	19.75	18.15	17.80	14.90	18.70	16.05	18.20	15.98
S&Ls	19.47	18.30	17.55	15.82	18.48	16.78	18.05	16.49
<u>Mode</u>								
Commercial Banks	19	18	18	15	18	17	18	16
Savings Banks	19	19	18	14	19	15	18	14
S&Ls	20	18	18	15	18	15	18	15
<u>Lowest</u>								
Commercial Banks	16	15	15	13.50	16	14	16	14
Savings Banks	18	15	16	13.50	17.50	14	16.50	14
S&Ls	17	15	16	14.50	16	14.50	15	14
<u>First Quartile</u>								
Commercial Banks	18	17	17	14.88	18	16	18	15.50
Savings Banks	19	17.25	17.50	13.88	18	14.88	17.88	14.56
S&Ls	18	17.63	16.75	15	17.50	15.13	17.50	16
<u>Median</u>								
Commercial Banks	19	18	18	15.30	19	17	18	16
Savings Banks	20	18.75	18	14.35	19	16.25	18.25	16.25
S&Ls	18	19	18	15.50	18	16.13	18	16
<u>Third Quartile</u>								
Commercial Banks	20	19	18	16	19	18	19	17.50
Savings Banks	20.63	19	18	16	19	17	19	17.50
S&Ls	20	19.50	18	16.13	19	17.50	18.50	17.50
<u>Highest</u>								
Commercial Banks	25	21	21	19	22	21	22	19
Savings Banks	21	21	19	18	20	19	19	18
S&Ls	25	21	21	21	28	26.50	21	21

TABLE 2

MOST COMMON INTEREST RATE
OCTOBER 1982
CONSUMER CREDIT LICENSEES

	Retail Installment Sales Contracts	Home Repair Contracts	Small Loans	Secondary Mtg. Loans	Insurance Premium Finance Contracts
	26*	14*	27*	51*	42*
Mean	22.01	18.5	26.84	20.16	19.87
Mode	24	19	30	18	18
Lowest	16.5	13	15	17	10.24
First Quartile	18	17.75	24	18	15.19
Median	22.41	19	29	19.25	18
Third Quartile	24.65	19.13	30	22	21.81
Highest	30	24	30	29	30

* Number of licensees answering question

TABLE 3

Tabulation of responses to main questions among commercial banks
responding to Department's consumer credit survey

	Most common interest rate (average)		Amount extended (\$1,000)
	6-82	10-82	10-82
(Article 12, Class I) Personal loans, unsecured	98* 19.32	99* 17.93	98* 20,174
(Article 12, Class I) Direct loan, new automobile	98* 17.77	99* 15.54	98* 27,295
(Article 12, Class I) Direct loan, used automobile	97* 18.80	98* 16.91	71* 5,594**
(Article 12, Class II) Home imp./secondary mortgage	95* 18.83	96* 16.43	94* 14,872
(Article 12A) Cash advance thru credit card/overdraft checking loan	78* 18.34	79* 18.18	73* 27,937
(Article 12B) Small business loan	57* 18.80	59* 16.72	61* 6,548
Credit card purchases	22* 16.02	21* 18.10	20* 35,487

* Percentage of commercial banks answering question

** Most used car loan volume is reflected in new car data

TABLE 4

Tabulation of loan volume responses among commercial banks
responding to Department's consumer credit survey

	<u>Higher Loan Volume Reported</u>	
	<u>October '82</u>	<u>August '81</u>
(Article 12, Class I) Personal loans, unsecured	38%	62%
(Article 12, Class I) Direct loan, new automobile	68	32
(Article 12, Class I) Direct loan, used automobile	71	29
(Article 12, Class II) Home imp./secondary mortgage	40	60
(Article 12A) Cash advance thru credit card/overdraft checking loan	44	56
(Article 12B) Small business loan	74	26
Credit card purchases	67	33

TABLE 5

Tabulation of responses to questions concerning retail installment credit paper and home improvement paper among commercial banks responding to Department's consumer credit survey

	Most Common Interest Rate (average)		Amount Purchased (\$1,000)
	6-82	10-82	10-82
Retail installment credit paper for new automobiles	44* 17.76	44* 16.10	44* 33,537
Retail installment credit paper for used automobiles**	48* 19.94	49* 18.38	36* 6,919
Retail installment credit paper for purchases other than automobiles	35* 18.78	36* 17.72	35* 4,575
Home improvement paper	11* 18.77	10* 18.11	10* 2,818

* Percentage of commercial banks answering question

** Some used automobile paper purchases reflected in new automobile data

State Credit Union Loan Rate Ceilings

SUMMARY

- o As of January 1, 1983 all states had authorized credit unions to charge a loan interest rate in excess of 12% per year. Most of these rate changes were effected legislatively within the last five years.
- o Thirteen states within the past two years have moved to an essentially deregulated loan rate structure, California, South Carolina, and Louisiana having done so in 1982 and Idaho in 1983. This generally means the parties concerned are free to determine loan rates.
- o Some of the state rate changes are temporary in nature, due to expire within the next two or three years. Thus far in 1983, Montana and New Mexico have made permanent the removal of usury ceilings of regulated lenders--legislation that was to expire July 1.

No interest rate ceiling in credit union act; rate determined by credit union through method indicated:

Arizona -- Board of Directors. [\$6-513(B) (2)]

California -- Board of Directors. [\$15000]

Connecticut -- Set by board of directors, but requires prior approval of Bank Commissioner. Commissioner may not approve rates exceeding those allowed a federal credit union or federally insured credit union. Under "most favored lender" doctrine, federally insured credit unions in Connecticut ruled to be not subject to any interest rate limitations. Non-federally insured credit unions also ruled to be unlimited as to rates. [\$36-206(a), §37-9; Declaratory Ruling of Bank Commissioner, 8/10/81]

Illinois -- Board of Directors. [\$4447(1)]

Louisiana -- Board of Directors, subject to Commissioner approval. [\$6:654(A)]

New Hampshire -- By the bylaws or vote of the members. [\$394-B:35(VI)]

Oregon -- Board of Directors. [\$723.296]

Puerto Rico -- Board of Directors. [\$16]

South Carolina -- May charge 18% or any rate it files with the Department of Consumer Affairs and posts at its places of business. [\$37-3-201(2)]

Rate determined by agreement of parties; subject to indicated restrictions:

- Idaho -- Subject to disclosure requirements of Consumer Credit Code. [§28-42-201]
- Montana -- Credit unions exempt from interest rate limit in credit union act. [§31-1-106]
- Nevada -- No restrictions in act. [§678.710]
- New Jersey -- 30% ceiling in criminal usury statute. [§17:13-42, §2c:21-19]
- New Mexico -- Certain disclosures to borrowers must be made. [§58-11-17]
- New York -- Until June 30, 1987 subject only to 25% ceiling in state's criminal usury statute. [§453(5a), §190.40]
- Virginia -- Installment loans not limited. Rate on non-installment loans not to exceed 1-1/2% per month. [§6.1-330.18]

Interest rate indexed to specified market rate indicator:

- Alabama -- May charge rates under Consumer Code, or 2% above prime rate of three largest New York banks. If open-end credit, the maximum finance charge is 1-3/4% per month on first \$750 and 1-1/2% per month on excess. A surcharge of 2% of amount financed, not to exceed \$20, also allowed. Another alternate allows a financial institution to charge the same rate authorized any other financial institution in state. [L. 1982, Act 82-271]
- Minnesota -- 12%, or 4-1/2% above the Federal Reserve discount rate, whichever is greater. [§52.14, §48.195]
- Rhode Island -- 21%, or the Treasury bill index for preceding week, plus 9 percentage points, whichever is greater. [§6-26-2]
- Tennessee -- 18%, or 5% above the Federal Reserve discount rate or the rate federal credit unions are authorized, whichever is greater. [§45-4-602]
- Texas -- Interest charged may equal twice the average rate for 26-week treasury bills during the preceding week, not to exceed 24%. [§7.01]
- Washington -- Credit unions may charge interest rates up to 4% above the rate on Treasury bills during the preceding month. [Laws of 1981, R. 143]

Interest rate not to exceed 1-1/4% per month (15% per annum) on unpaid balance:

- Alaska -- Unless higher rate provided by regulation. [§06.45.060A]

Georgia -- Or rates allowed federal credit unions, whichever is greater. [§§41A-3109(a), 41A-162]

Michigan -- 16-1/2% on motor vehicle loans. [§490.14]

Pennsylvania -- [§15-12319]

Interest rate not to exceed 1-1/2% per month (18% per annum) on unpaid balance:

Florida	[§657.038(1)]	Mississippi	[§81-13-39]
Hawaii	[§410-15(a)]	Nebraska	[§21-1773(6)]
Kentucky	[§290.200]	West Virginia	[§31-10-16]

Interest rate in statute is applicable unless a higher rate is approved by regulatory authority:

North Carolina -- Statutory rate is 18%. Commission may set rate up to that of federal credit unions. [§54-109.65]

Vermont -- Statutory rate is 12%. Supervisor set rate at 18 to 24%. [§8-2078(a)]

Interest rate subject to indicated maximum in state's consumer credit code:

Alabama -- May charge rates under Alabama Consumer Credit Code or alternate rate indexed to prime rate. (See page 2)

Colorado -- For closed-end credit, either 36% on unpaid balance up to \$630 and 21% on part of unpaid balance over \$630 up to \$2,100, or 21% on total unpaid balance. For open-end credit, 21% on total unpaid balance of principal. [§11-30-114; §5-3-508(2), (3)]

Indiana -- For both open and closed-end credit, either 36% on part of unpaid balance up to \$660; 21% on part over \$660 up to \$2,200, and 15% on part of unpaid balance over \$2,200, or 21% on entire unpaid balance, whichever is greater. [§§24-4.5-3-508, 28-7-1-16(b)]

Iowa -- Rate ceilings are: For closed-end credit, 21% per year on the unpaid balance. For new car loans, 21% and for loans on used cars over 2 years old, 24%. For open-end credit, 18% on part of unpaid balance up to \$500 and 15% on remainder. On real estate loans entirely lifted. [§537.240i, 240j]

Kansas -- Code allows 18% on balances under \$1,000 and 14.45% on amounts exceeding \$1,000. For any consumer loan an alternative 21% interest ceiling on the entire outstanding balance is in effect until July 1, 1985. Credit unions

with a small lenders license may alternatively charge: 36% on the unpaid balance up to \$300, 21% on the unpaid balance over \$300 up to \$1,000, and 14.45% on the unpaid balance over \$1,000. The dollar amounts for licensed lenders (above) have been indexed upward by regulation to be \$540 and \$1,800 respectively. [K.S.A. 16a-2-401; 16a 2-401a; K.A.R. 75-6-24.]

Maine -- For both open and closed-end credit, either 30% on part of unpaid balance up to \$300, 21% on part of unpaid balance over \$300 up to \$1,000, and 15% on part of unpaid balance over \$1,000, or 18% on the unpaid balance, whichever is greater. [9-A, 2.401(2), 9-B-842(2) (R)]

Oklahoma -- For both open and closed-end credit, either 30% on part of unpaid balance up to \$600, 21% on part of unpaid balance over \$600 up to \$2,000, and 15% on part of unpaid balance over \$2,000, or 21% of unpaid balance, whichever is greater.
For loans involving a cash advance of \$400 or less, in lieu of above rates, a lender may charge specified dollar amounts scaled to size of loan. [13A-3-508(A)]

Utah -- For closed-end credit, either 36% on part of unpaid balance up to \$840, 21% on part of unpaid balance over \$840 up to \$2,800; and 15% on unpaid balance over \$2,800, or 18% on entire unpaid balance, whichever is greater. Upon a finding that these charges are below the prevailing market rates and unduly restrict the availability of credit to consumers, the commissioner may increase the maximum finance charge to a rate not over 10% above the average yield on 2-year U.S. securities during the prior 5 weeks. (Until July 1, 1985, there are no rate maximums on open-end credit.) [70B-3-508, 7-9-20(e), 7-1-306]

Wisconsin -- The greater of 18% per year or 6% in excess of interest rate on 6-month U.S. Treasury bills. On open-end consumer loans, parties may agree to higher rate if yield on 2-year U.S. government securities exceeds 15% per year on 5 successive Thursdays. For loans and renewals made on or after November 1, 1981 and before November 1, 1984 or after October 31, 1987, state-chartered credit unions charge the same rate of interest as federal credit unions. [\$422.201, 138.041(2)]

Interest rate subject to state's usury law:

Massachusetts -- The rate on loans of \$6,000 or less cannot exceed the limit established by the small loans regulatory board pursuant to Ch. 140, §100. The maximum rate of charge for any loan of \$6,000 or less is 23% per annum on the unpaid balance, according to the actuarial method, plus an administrative fee of \$20 upon the granting of the loan. [Ch. 140.100, 114A, 114B; Ruling Deputy Commissioner of Banks, Re: Order of Small Loans Regulatory Board, eff. 10/17/80]

Missouri -- On "small loans" (i.e., loans of \$2,500 or less, not made as permitted by other statutes, and not secured by a lien on real estate, non-processed farm products, livestock, farm machinery or crops) the maximum interest rate is: 26.6% per annum on the first \$800; 15% per annum on the next \$1,700. The maximum rate is 10% per annum on the balance over \$2,500. [\$408.10G, 408.190]

Other Acts:

Arkansas -- Interest rate may not exceed that permitted by the state constitution (17% on consumer loans). [\$67-913(c), \$67-916(1)]

Maryland -- The permanent rate is 1-1/2% per month on the unpaid balance. But until July 1, 1985, a credit union may charge up to 2% per month on the unpaid balance. If the rate exceeds 1-1/2% per month, certain restrictions apply in the Commercial Law Article of a consumer protection nature. [\$6-507]

North Dakota -- Statute authorizes State Credit Union Board to approve a maximum loan rate in excess of 18% per annum. The Attorney General ruled, July 8, 1981, that the State Board may establish an unlimited loan rate. The State Board issued a regulation, November 1, 1981, declaring the credit union loan rate may not exceed the lawful rate of other state regulated lenders. Such lenders have no maximum loan rate. [\$6-06-18; Reg. 13-03-09-01; OAG 81-71]

Ohio -- Maximum rate is 1-1/2% per month on unpaid balance. But until January 1, 1985, a credit union may charge an annual percentage rate up to 25%. [\$1733.251]

Federal pre-emption of state rate ceilings:

A 1980 Federal law provides for pre-emption of any state constitutional or statutory usury rate provision. A credit union insured by the National CU Administration may charge an interest rate up to 1% in excess of the discount rate on 90-day commercial paper at the Federal Reserve bank in its district or the rate allowed by its state law, whichever is greater. [12USC 205(g)]

Federal Credit Unions -- Federal act provides a maximum rate of 15% per annum on the unpaid balance. However, the NCUA Board may authorize a higher rate for periods up to 18 months under certain conditions. The Board has set 21% per annum as the maximum rate until November 12, 1984. [12USC§107(5), 12CFR§701.21-1A]

Usury: Going legitimate?

As interest-rate ceilings rise or disappear, consumers may lose some hard-won protections.

Borrowers and lenders both have important needs, described by Sir Francis Bacon as "the one, that the tooth of usury be grinded that it bite not too much; the other, that there be left open the means to invite moneyed men to lend for the continuing and quickening of trade."

The delicate balance of those two needs now seems to be shifting. Driven by eager lenders, many state legislators and members of Congress appear intent on wiping the concept of usury off the books. If they succeed, consumers will be doubly hurt: Borrowing costs, already extraordinarily high, could soar higher still; vital consumer protections, painfully won over recent years, could be eroded or lost altogether.

Over the last 50 years or so, the states have stitched together a complex patchwork of laws and regulations governing consumer credit. Until recently, one common thread has been the existence of a usury ceiling—a rate of interest, set by law, that a lender cannot exceed.

Within each state, lenders are subject to different usury ceilings depending on the kind of credit activity they engage in—auto installment sales, retail installment sales, revolving credit sales, bank loans, and finance company loans, for example. (The table opposite illustrates how state rate ceilings vary for two types of credit transactions.)

The usury ceiling tied to a particular kind of credit activity is linked—strongly in some states, less so in others—to the degree of consumer protection that creditors engaging in that activity must provide. In general, the higher the usury ceiling, the greater the protection.

For example, most states allow creditors to charge a higher Annual Percentage Rate (APR)* on small loans than on large loans, provided that borrowers also get more protection. The creditors can choose whether to charge higher rates and offer more protection, or to settle for lower ceilings that carry less protection.

Michigan lenders, for instance, can charge up to 31 percent on loans up to \$500 (13 percent above \$500). In return, such lenders must calculate the interest rate in a prescribed fashion; can lend no more than \$3000; must refrain from cer-

* The Annual Percentage Rate most accurately expresses the interest rate charged.

tain advertising claims; and must not require "wage assignments," under which borrowers agree in advance that their pay will go directly to the lender if they default. Alternatively, lenders can abide by a 18.5 percent ceiling and ignore those protections.

In states that tie usury ceilings and consumer protections together, high-interest loans often carry controls on such provisions as permissible fees and charges, balloon payments, refinancing terms, and the method of calculating the interest rate.

Bumping the ceiling

As interest rates rose and stayed high, state lawmakers began hearing complaints from creditors that the rates they wanted to charge for consumer credit were bumping up against the usury ceilings. If the ceilings weren't raised (or, more to the lenders' liking, eliminated), the lenders claimed, they would have no choice but to curtail consumer credit.

There was a grain of truth to the claim; loans to consumers have been curtailed. During the 19 months from the end of 1979 to August 1981, the amount of outstanding consumer installment debt—total short-term loans (excluding mortgages)—grew from \$312-billion to \$321-billion, an annual increase of less than 2 percent. During the 1970's, by comparison, outstanding installment debt grew almost 12 percent annually.

The current credit slowdown can be blamed, in part, on a drop in demand, a natural result of high interest rates. But many lenders have restricted the supply of consumer credit. Many banks, for example, have become fussier about their loan customers. In Wisconsin, where an 18 percent APR is the limit on consumer loans, bankers are generally making loans primarily to existing customers.

Other banks use another technique. In March of last year, Bankers Trust of South Carolina tightened the statistical profile it uses to screen credit applicants, dropping the percentage of approvals from 78 percent to 70 percent.

But lenders who argue that they must curtail consumer credit to avoid losses protest too much. Banks that have reduced their level of consumer-credit activity have done so mainly because com-

mercial lending is more profitable, not because they can't make money on consumer credit.

Complaints from retailers and credit-card issuers about low usury ceilings should be viewed with the same skeptical eye. In practice, retailers have been reluctant to raise their charges for revolving credit, even when allowed to, for fear of driving customers away. New York State furnishes an illuminating example of why credit-card issuers cannot be taken literally. When New York removed all restrictions on credit-card finance charges late in 1980, one would have assumed, from the card issuers' repeated claim that the old 18 percent limit was oppressive, that they would immediately hike their finance charges to a much higher level. In fact, most still charge 18 percent.

Instead of raising rates, credit-card issuers in many states are charging fees not in the APR calculation. Many now charge an annual fee of \$10 to \$20.

And an increasing number of card issuers are charging a transaction fee every time the card is used. Crocker Bank in California, for example, already levies a 12-cent fee. Other issuers are changing the terms even for users who have avoided finance charges by paying promptly. The approach varies. Several New Jersey banks have begun charging interest from the date of billing to the date of payment. Banks elsewhere are charging interest from the date a purchase is posted to the merchant's account. Tennessee, Alabama, and Missouri residents who hold a Visa or MasterCard from First Tennessee Bank in Memphis will have to pay a monthly "maintenance fee" between 50¢ and \$1.50 if they pay off the outstanding balance when billed.

What's behind the drive

Creditors are pushing to do away with usury ceilings for several reasons:

- Creditors would like to eliminate any future threat that usury ceilings will interfere with credit activity. If ceilings are simply lifted to some intermediate level consistent with current market rates, creditors fear that they would have to return to state legislators, hat in hand, to ask for another increase if interest rates climb still higher. From the credi-

including purchases by credit

Second, Arkansas retailers have raised their prices to offset the effect of the 10 percent ceiling. If an Arkansas and a West Virginia retailer each sell a \$1000 video recorder with 24-month financing, the West Virginia retailer will probably charge an 18 percent APR, the highest allowed in that state. The Arkansas retailer, limited to 10 percent, is likely to raise the price of the recorder by about \$82. So both retailers receive about the same amount each month.

Third, most credit-card issuers located outside Arkansas can levy charges controlled by the state where they are based, not by the state where the holder lives. Thus a card issuer based in New York could charge Arkansas residents 20 percent or even more. Even Arkansas-based card issuers have continued to do business, making up for the 15 percent limit by raising the fee charged to merchants.

Beyond those specifics, the general picture in Arkansas differs little from other states. A 1981 study by the Credit Research Center of Purdue University analyzed the effects of the 10 percent ceiling on credit use and availability, comparing credit patterns in Little Rock with those in similar cities in Illinois, Louisiana, and Wisconsin. The study concluded that, "overall, the data . . . do not support the hypothesis that credit is less readily available in Arkansas than in other credit markets—and they are particularly inconsistent with the hypothesis that low-income borrowers receive less credit in Arkansas." The central reason, the researchers found, is that Arkansas has shifted their credit use away from banks and thrifts, where credit has become more difficult to obtain, to "point of sale" sources—retailers, bank cards, and, in some cases, pawn shops.

The Arkansas experience was confirmed to some degree in West Virginia where, until last spring, the APR ceiling for consumer loans from banks was 12 percent. Yet an officer of the West Virginia Bankers Association affirmed that many banks had active loan programs before the APR went to 18 percent.

The dark side of the coin

In states where usury ceilings have been removed, abuses have appeared—particularly if the state did not beef up its consumer-protection provisions.

Arizona, for example, removed its ceilings for most kinds of loans in April of 1980. Never known as a state with vigorous consumer protections ("We're laissez-faire, otherwise known as anything goes," says state banking official Roy Schuetze, his tone ironic), Arizona has become a haven for "carpetbagger" mortgage brokers from California.

These brokers are arranging second trust deeds (which are like second mort-

gages) secured by the borrower's home. The second trusts carry interest rates of 30 to 40 percent or more; the finance charges include excessive loan-origination fees that usually amount to 15 to 20 percent of the loan. The loans are generally written so that payments are for interest only; a balloon payment for the entire loan comes due in as little as seven months. If a borrower can't make the balloon payment, the usual practice is for the broker to "flip" the loan—refinance the whole thing—and include a new origination fee. Borrowers who may want to pay off the loan early must pay a heavy prepayment penalty—a requirement that many states flatly forbid.

Elsewhere, some small loan companies in Texas are charging 200 percent on certain loans. In Oklahoma, creditors can charge more than 170 percent on one kind of small loan. By any standard, such rates and practices are unconscionable.

What should be done?

Removing usury ceilings can easily lead to the kind of serious abuses now current in Arizona. Not only would interest rates be free to soar, but, in the opinion of some state consumer-protection officials, it might encourage wage assignments and other such unsavory loan practices. What's more, it's unnecessary. Where economic conditions clearly restrict lenders' ability to make loans at a reasonable profit, the remedy is to raise ceilings, not abolish them. Wiping them out without strengthening existing consumer protections is doubly objectionable.

The Interagency Task Force on Thrift Institutions, a team of Federal banking officials assigned to study the future of thrifts, last year concluded that eliminating "restrictive [emphasis ours] usury limits would be in the public interest." But the task force warned: ". . . it is important that unwary borrowers be protected from unscrupulous lenders. This is a major reason that usury laws have persisted—to protect the consumer when disclosure requirements are not a sufficient safeguard."

Reconciling the needs of borrowers and lender is entirely practicable. Maine, for example, allows most creditors to charge 30 percent on loans up to \$540, but less for loans above that amount. That's more generous than many other states allow. But an additional provision stipulates that if a loan with an APR of more than 18 percent has a balance remaining after 37 months, the interest rate must then drop to 8 percent, even if the loan is refinanced. Why? "To prevent consumers from getting locked into high-interest, long-term loans," says Barbara Alexander, superintendent of the Maine Bureau of Consumer Protection. Without such a provision, the borrowers

might end up being "flipped," as happens in Arizona.

The table on the previous page suggests that creditors may be far better off than their piteous cries would lead lawmakers to believe.

The dangers of pre-emption

Federal pre-emption of state usury ceilings, as proposed in the Lugar-LaFalce bill, would abolish even those state ceilings that are above current market rates, remove the ability of each state to set ceilings tailored to its residents, expose consumers to increased risk of default and bankruptcy because of high credit costs, and wipe out a host of strong state consumer-protection laws.

The bill, as drafted, would apparently do away with state controls on maximum finance charges, prepayment penalties, the way that interest rates are calculated, late fees, and balloon payments. The bill's supporters say the measure would have such a sweeping effect, claiming that various credit provisions would be exempted from Federal pre-emption. The language of the bill, however, is very broad. "Their intent is to make the language look like something other than what it is," charges Maine's Barbara Alexander.

The bill is widely opposed by consumer groups. Another opponent is the American Conference of Uniform Consumer Credit Code States, a group of 11 states that have adopted all or part of the Uniform Consumer Credit Code (UCCC). The UCCC's framework of suggested rate ceilings and consumer protections, while balancing the needs of both consumers and lenders, tends to tip in favor of lenders. Even so, Kathleen Goodpasture Smith, a South Carolina state consumer-affairs official, speaking for the conference, told Congress in July that the bill would wipe out most borrower protections in UCCC states.

"Federal pre-emption of the UCCC would be disastrous for consumers and would not be the quick fix for creditors that some may believe," she cautioned. "State rate and charge limitations are so completely intertwined with consumer-protection provisions that the two concepts cannot be separated. . . . with higher rate ceilings, more consumer-protection provisions are necessary."

CU agrees. In their rush to accommodate creditors, many Federal lawmakers seem to be overlooking the basic consumer protections often provided by the same consumer-credit laws that govern usury ceilings. If state ceilings are abolished, as they would be under the Lugar-LaFalce bill, is it likely that the states will take positive action to reinstate those protections? Or are the people's representatives prepared to let the tooth of usury bite too much?

tors' viewpoint, that's uncertain and inefficient. Tomorrow's politicians may be less pliant than today's, and relief in the form of a new law can take weeks or months to pass.

● Ceilings are an obstacle to the introduction and success of variable-rate loans, in which the interest rate charged moves up or down during the term of the loan in step with a prearranged index. Variable-rate loans shift the burden of rising interest rates from the lender to the borrower, so creditors are enthusiastic about the idea. But usury ceilings prevent loan rates from rising without limit.

● Banks—especially large banks—want to operate across state lines. Interstate consumer banking is now restricted to credit cards. If interstate banking is allowed at some point, it would be much easier if the crazy quilt of state usury ceilings didn't exist, since banks could charge what they wanted, anywhere.

Timing is also significant. The current economic climate lends some support to the creditors' case for eliminating ceilings; if interest rates fall significantly, the lawmakers' interest in granting relief to creditors will fall, too.

So, besides lobbying in the states, creditors are pressing their case in Congress. A bill pending in both the House and Senate would wipe out all state usury ceilings on consumer credit, though a state would have three years in which to override sections of the law by passing its own limits. The bill has little chance of approval on its own in the House, but its sponsors—Representative John J. LaFalce (D., N.Y.) and Senator Richard G. Lugar (R., Ind.)—contemplate attaching it to another banking bill that has garnered broad support.

What the states have done

In 1980, as the prime rate moved past 20 percent, 42 states lifted or eliminated their usury ceilings; this year some of them went even further. 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, to all intent, no longer limit the interest rate that 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. Most states, however, have elected to lift rather than abolish their ceilings, and to apply the higher rates only to certain classes of creditors.

Many states are still grappling with the usury question. New York lawmakers, for example, are likely to face a proposal to raise or abolish the state's criminal usury ceiling of 25 percent. (Consumer-credit interest rates aren't specifically regulated in New York but charging any rate above

25 percent is a criminal act.) Alaska's legislature will also be making a decision whether to remove interest-rate ceilings on all types of retail credit. South Carolina is likely to rewrite its consumer-credit laws extensively next year, with a good chance that some consumer-credit ceilings will be raised. And Arkansas voters will decide in November of next year, in the fourth such referendum since 1968, whether the state's constitutional usury ceiling of 10 percent should be lifted to 17 percent.

"The pressure is on to raise ceilings in those states that have not done so," says Robert E. Gibson, president of the National Foundation for Consumer Credit, sponsor of more than 200 nonprofit credit counseling centers around the country. "I think those states will act quickly."

The arguments of creditors for higher ceilings are shaky, since usury ceilings,

even admittedly low ones, don't necessarily dry up consumer credit. Moreover, states that have eliminated rate ceilings, or raised them significantly, have attracted lenders engaging in borderline practices.

The case of Arkansas

When lenders complain that low ceilings force them to restrict consumer credit, they invariably bring up Arkansas as an example. With a 10 percent usury ceiling written into the state constitution, Arkansas is hardly a lender's paradise—that's true. But it needs a closer look.

First, most banks and thrift institutions (savings-and-loan associations, primarily) in Arkansas are permitted by Federal law to lend at one percentage point above the Federal discount rate—giving them the right (in September, as this is written) to charge a 15 percent APR on loans,

How state ceilings vary

The table below illustrates state-to-state differences in the maximum Annual Percentage Rate (APR) for two kinds of credit transactions—bank personal loans and retail installment purchases. The first column shows the highest legal APR for a hypothetical personal loan of \$2000, repaid over 24 months, taken from a bank. The second column shows the highest legal APR for a hypothetical purchase of \$500, financed for 12 months, from a retail store. The table was compiled with the help of Financial Publishing Co., a supplier of consumer credit information to the financial trade. All terms were current as of late September.

State	Bank personal loan	Retail installment purchase	State	Bank personal loan	Retail installment purchase
Alabama	21.35%	26.60%	Montana	No limit	No limit
Alaska	19	19	Nebraska	19%	18%
Arizona	No limit	No limit	Nevada	No limit	No limit
Arkansas	15 (1)	10	New Hampshire	No limit	No limit
California	22.76	19.72	New Jersey (2)	30	30
Colorado	22.95	24.03	New Mexico (2)	45	45
Connecticut	No limit	21	New York (3)	25	25
Delaware	No limit	No limit	North Carolina	22.05 (1)	24
District of Columbia	15 (1)	No limit	North Dakota	No limit	No limit
Florida	20.05	21.46	Ohio	22.42	21.80
Georgia	16.43	23.19	Oklahoma	24.67	30
Hawaii	31.13	28.80	Oregon	No limit	No limit
Idaho	28.43	36	Pennsylvania	15	24
Illinois	No limit	No limit	Rhode Island	21	21
Indiana	27.15	36	South Carolina	24.76	34.91
Iowa	21	21	South Dakota	18	21.46
Kansas	17.73	20.43	Tennessee	15 (1)	17.96
Kentucky	18.02	No limit	Texas	24 (4)	24 (4)
Louisiana	34.84	24	Utah (2)	45	45
Maine	24.67	30	Vermont	20.53	18
Maryland	23.35	22	Virginia	No limit	24
Massachusetts	23	21.46	Washington	20.05 (3)	22.05 (4)
Michigan	15 (1)	21.43	West Virginia	18	18
Minnesota	18.5	No limit	Wisconsin	14.4	18
Mississippi	21.57	24	Wyoming	22.95	33.03
Missouri	21.76	26.62			

(1) Federally insured banks, thrifts, and credit unions can charge an APR of 15% (1% above the "Federal discount rate"), although the state ceiling is lower.

(2) No specific regulation of consumer-credit interest rates, but charging any APR above amount indicated constitutes criminal usury.

(3) Rate on 6-month Treasury bills (16.05%, as of September 14) plus 6%, or 16%, whichever is more.

(4) Twice the rate on 6-month Treasury bills, but no less than 18% or more than 24%.

(5) Rate on 6-month Treasury bills plus 4%.

(6) Rate on 6-month Treasury bills plus 6%.

**American Financial Services Association
Summary of Consumer
Credit Laws and Rates**

January 1983



National Conference of State Legislatures
1125 Seventeenth Street, Suite 1500
Denver, Colorado 80202

AMERICAN FINANCIAL SERVICES ASSOCIATION
SUMMARY OF CONSUMER CREDIT LAWS AND RATES

Addendum June 1, 1983

<u>Arizona</u>	Disability (14-day retro.): \$1.82 - 12 mos.; \$2.57 - 24 mos.; \$3.23 - 36 mos.
<u>California</u>	Consumer Finance Lender and Personal Property Broker: rates deregulated over \$5,000. Effective Jan. 1, 1984.
<u>Georgia</u>	Loans deregulated over \$3,000; Second Mortgage Loan Act repealed. \$10 NSF charge.
<u>Hawaii</u>	Industrial Loan Act: points allowed but APR may not exceed maximum permitted rate.
<u>Idaho</u>	U3C: All rates deregulated.
<u>Kansas</u>	21% alternate rate extended to 7/1/85.
<u>Maryland</u>	New sales and loan laws: 24% per annum for installment and open-end credit.
<u>Michigan</u>	Deregulated rates for home mortgages extended to 4/1/85.
<u>Minnesota</u>	Regulated Loan and Industrial Loan Acts: points allowed but APR may not exceed maximum permitted rate.
<u>Mississippi</u>	Alternate usury rate: 5% over FRB discount rate.
<u>Montana</u>	Consumer Finance: APR rebates over 61 mos. No max. ceiling. Sales and Other Regula- ted Lenders: "Sunset" on deregulated rates deleted. Loans and Sales: APR rebates over 61 months. Usury Rate (New): 5% over Prime Rate.
<u>New Mexico</u>	"Sunset" on deregulated rates deleted. Small Loan Law: No precomp.
<u>New York</u>	Rate deregulation and other "sunsets" extended to 5/30/87.

* Addendum to be inserted in the American Financial Services Association's Summary of Consumer Credit Laws and Rates, dated January 1983.

North Carolina

Consumer Finance Act: Rate "sunset" deleted. Alternate rate (84 mos. max.): APR equivalent of 30-18% per year @ \$1,000 to \$7,500 and 18% per year to \$10,000. \$10 NSF charge.

Ohio

Consumer Finance Act (correction): No max. maturity; no C & A; max. \$5,000.

Oklahoma

U3C: Dollar amounts increased 10% (7/1/83).

Rhode Island

Small loan law ceiling increased to \$5,000, maximum maturity 60 months. Second Mortgage Loan Law: points allowed but APR may not exceed maximum permitted rate.

South Dakota

Consumer Finance Act: Ceiling deleted.

Texas

Dollar amounts increased effective July 1, 1983: (a) add-on loan rates 18% to \$840, 8% to \$7,000; (b) other goods 12-10-8% @ \$1,400 and \$2,800; (c) revolving sales 1 1/2-1% @ \$1,400.

Utah

U3C: Alternate rate 19.6% until 60 days after 1985 session adjourns.

American Financial Services Association Summary of Consumer Credit Laws and Rates

January 1983

Compiled by

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Finance Laws, AFSA Law Forum

EXPLANATORY NOTE

This chart is compiled on the basis of (1) the laws, (2) official administrative interpretations, (3) legal opinions of attorneys who are personally familiar with the laws in the different states, and (4) personal knowledge of operating routines. It was necessary to oversimplify and generalize to present the information in this abbreviated chart form. Local counsel may be consulted for further information as to each state statute and details shown on this chart. There are statutory and official administrative rules as to advertising, other and related businesses, security, other charges (such as security recording fees), record-keeping, disclosures to customers and similar matters.

The maximum rate shown in the second column from the left under **CONSUMER FINANCE AND RELATED LOAN LAWS** is the monthly or yearly rate on unpaid principal balances unless otherwise stated. "Precomputation" means that the unpaid balance rate or rates may be precomputed on scheduled monthly balances instead of actual balances, subject to rebate for prepayment in full. "Add-on" and "Discount" rates are for the contract period without regard to installment payments. Add-on is computed on and added to the original amount lent. Discount is computed on and deducted from the face amount of the note. When there are two sets of rates stated in the second column, the first is the statutory maximum fixed by the consumer finance (small loan) law; and the second is the maximum established by another law under which consumer finance licensees frequently operate.

Default, Deferment, Conversion. One-time default charges (commonly 5% of installment or based on Rule of 78) are generally permitted after a grace period (commonly 10 days). Deferment charges (instead of default charges, to bring an account up to date) generally are based on the Rule of 78 or the equivalent Finance Charge for the deferment period. "Conversion" allows charging the contract rate or Federal APR on the original or net balance (instead of default or deferment charges). The general method for rebating unearned Finance Charges upon prepayment in full is shown; some states require additional rebates for prepayment before first due date or for substantial partial prepayment. Fees are usually not rebated. "APR" rebates are based on the Truth in Lending Annual Percentage Rate.

In the Credit Insurance column, "NAIC" refers to statutes which give Insurance Commissioners some control of credit insurance premiums and which are based on a model bill of the National Association of Insurance Commissioners. Unless otherwise stated, the life rate is charged per \$100 per year and the total amount repayable; the disability rate is charged per \$100 of the total amount repayable (not per year). The credit insurance rates which are stated are the highest rate generally charged by the insurance companies which provide insurance to consumer finance licensees. Generally speaking, these credit insurance rates are also the prevailing rates for other consumer installment credit.

In the first column under **OTHER CONSUMER LOAN LAWS**, "Revolving Loan and Credit Card Law" refers to laws which permit lenders to charge monthly rates on unpaid balances for cash advances and for credit sales. This chart does not include the various state laws which permit or involve special rates for credit unions, savings banks, savings and loan associations, pawnbrokers, and similar types of special cases. It does include the recent state laws authorizing or limiting insurance premium financing and loans secured by second mortgage on dwellings. The junior mortgage lending laws are designated "Second Mortgage Loan Law."

SALES FINANCE AND REVOLVING CREDIT RATES

Unless otherwise indicated:

- (1) Sales finance rates are annual dollar add-on rates. The term "unpaid balance rate" refers to the same method of computing rates on unpaid balances as under consumer finance laws.
- (2) Two or more motor vehicle rates show first the new car rate followed by the higher rates for older models. Each rate is a flat (not graduated) rate that applies to the entire contract.
- (3) The rates for all goods or other goods are graduated @ the size states, with the highest rate applicable to any amount financed up to the first amount stated and the lower rate or rates applicable to any portion or portions of the amount financed in excess thereof.
- (4) The revolving credit rate is computed on monthly unpaid balances graduated @ the size stated.
- (5) A bracketed figure following the maximum rate is the minimum (min.) or the acquisition (acq.) charge or both as may be indicated.
- (6) In the case of revolving credit, the bracketed figure is the minimum monthly charge.
- (7) "All goods" refers to a law which applies to automobiles and other consumer goods. "Other goods" refers to a law which does not apply to automobiles.

The summary of **USURY LAWS** omits many exceptions, such as business loans or loans to corporations. Rates are yearly, unpaid balance rates, unless otherwise stated. The new Federal "usury law" (effective April 1, 1980) is summarized on page 22.

State Disclosure Laws which seek to conform state requirements to federal requirements are indicated in boldface on the left hand page.

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
ALABAMA Supervisor, Bureau of Loans, State Banking Dept.	3% to \$200, 2% to \$749. On loans of \$75 or less \$1 for each \$5 loaned.	25 mos.	Precomp.	Default Deferment Conversion	Rule of 78	Yes	\$749	Life, \$1.00. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
	Consumer Credit Act: 15% per year add-on to \$750, 10% to \$2000, and 8% over \$2000; or 18% per year on unpaid balances. Revolving Credit: 1 1/4%-1 1/2% @ \$750.	24 1/2 mos. to \$300. 36 1/2 mos. to \$1000. None over \$1000.	Add-on	Default Deferment	Rule of 78	No	None	
	Interest Surcharge: 2% (max. \$20) for all loans.							
ALASKA Department of Commerce	3% to \$850 and 2% to \$10,000; or APR equivalent. Over \$10,000, no limit.	24 1/2 mos. to \$1000, 48 1/2 mos. to \$2500, 60 1/2 mos. to \$5000. None over \$5000.	No	Default		Yes	\$25,000	Life, 60c. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
ARIZONA Superin- tendent of Banks	3% to \$300, 2% to \$600, 1 1/2% to \$1000. Over \$1000: 2 1/2% to \$300, 2% to \$1000, 1 1/2% to \$1500, 1% to \$10,000; or 1.625%. To \$1500, 1% document preparation fee.	24 1/2 mos. to \$1000, 36 1/2 mos. to \$2500, 48 1/2 mos. to \$4000, 60 1/2 mos. to \$6000. None over \$6000.	Precomp.	Default Deferment Conversion	APR	No	\$10,000	Life, 44c. Disability (14-day retro.): \$2.43-12 mos. \$3.43-24 mos. \$4.30-36 mos. NAIC
ARKANSAS	See Usury Law							Life, 75c. Disability (14-day retro.): \$2.39-12 mos. \$3.16-24 mos. \$3.69-36 mos.
CALIFORNIA Commis- sioner of Corporations	Consumer Finance Lender: 2 1/2% to \$225, 2% to \$900, 1 1/2% to \$1650, 1%, APR equivalent; or 1.6%. Variable rate based on FRB discount rate to \$10,000; 5% fee (max. \$50) to \$2500 until 1/1/84. Revolving credit not permitted. No max. above \$10,000. Companion "Small Loan Law" is inoperative.	24 1/2 mos. to \$1500, 36 1/2 mos. to \$2500, 48 1/2 mos. to \$4000, 60 1/2 mos. to \$6000, 84 1/2 mos. to \$10,000.	Yes	Default Deferment Conversion	Recom- putation	No	None	Life, 40c-50c depending on insurance volume. Disability (14-day retro.): \$2.42-12 mos. \$3.43-24 mos. \$4.30-36 mos. (higher rates for real estate loans)

Compliance with Regulation Z satisfies sales finance disclosure provisions.

APR =
annual
percentage
rate.

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND
REVOLVING CREDIT LAWSUSURY
LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Consumer Credit Act	[Bank and other financial institutions may charge rates on opposite page.]	None	All Goods (Consumer Credit Act)	\$15-10-8 @ \$750, \$2000 (min. \$4-6 @ \$25)	ALABAMA 8%; No limit over \$5,000 (after 7/1/87, over \$25,000).
Insurance Premium	\$10 plus 9% per year add-on (\$20 max.)	None	Revolving Credit (Consumer Credit Act)	1 1/4%-1 1/2% @ \$750 (min. 50¢/mo.)	
Revolving Loan	1 1/4% per month to \$750 and 1 1/2% on any remainder plus \$15 annual credit card fee.	None			
Installment Loan	8% per year discount (max. 11.8% per year on unpaid balances). (Applies to banks and others).	\$10,000	All Goods	\$10-9 @ \$1000 (min. \$12-10 @ 6 mos.) (acq. \$25 motor veh., \$10 other goods)	ALASKA 5% above Federal Reserve discount rate; \$25,000 or more, no limit.
Bank Credit Card	1 1/2% per month on first \$1000, 1% on any remainder (\$1 per month min.) plus fee of the lesser of 3% of cash advance or \$12 (min. \$3).	None	Revolving Credit	1 1/2, 1% (or variable) @ \$1000 (min. \$1/month)	
Insurance Premium	\$10 plus 15% per year on unpaid balances.	None			
Industrial Bank	10% per year (discount for one year)	\$1000	Motor Vehicle	No limit.	ARIZONA No limit
Installment Loan	No limit. APR rebate.	\$5000	Other Goods	No limit.	
Revolving Loan	No limit.	None	Revolving Credit	No limit.	
Insurance Premium	\$15 plus any agreed rate	None			
See Usury Law					ARKANSAS 5% over FRB discount rate; 17% per year for consumer loans and sales.
Industrial Loan	2% per month to \$1000 and 1% on any remainder, on unpaid balances; 1.6% on unpaid balances; or variable rate based on FRB discount rate to 1/1/85. Fee of 5% (max. \$50) to \$2500 from 1/1/83 to 1/1/85. Revolving credit permitted.	5% of capital and surplus except 20% for secured loans	Motor Vehicle	1.2% per mo. add-on to \$3,000 and 1.1% on entire balance over \$3,000 to 1/1/84; or 1.6% per mo. on unpaid balances to 1/1/84.	CALIFORNIA 18%; 10% for consumer loans, except real estate. Banks and other are exempt by Constitution.
Insurance Premium	2% per month to \$1000, 1% on remainder (\$25 min.).	None			
Personal Property Brokers	Same as Consumer Finance Lenders, except for fee and variable rate.	None	Other Goods	\$11 (after 1/1/84, \$10)-8 @ \$3000 (after 1/1/84, \$1000) (min. \$12-10 @ 8 mos.)	
Commercial Finance Lenders	No limit for commercial loans of \$5000 or more.	None	Revolving Credit	1.6% (after 1/1/84, 1.5%), 1% @ \$3000 (after 1/1/84, \$1000) (min. \$1/month)	

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Uniform Consumer Credit Code	[Banks, industrial loan corporations, and other supervised financial organizations may charge the maximum rates stated on opposite page.]	\$25,000 No Limit if secured by real estate.	All Goods (UCCC)	Unpaid balances rate: 25% per year to \$630, 20% to \$2100, 15% to \$25,000; or 21% per year. (min. \$5, 7.50, 15 @ \$75 & \$500)	COLORADO 45% except supervised loan rates for "consumer related" loans to \$30,000.
			Revolving Credit (UCCC)	21% per year (min. 50¢/mo.)	
Industrial Bank	(1) 6% per year discount, (2) \$1 for each \$50 or fraction thereof levied but not more than \$10.	\$10,000 (or based on capital or deposits)	Motor Vehicle	Precomputed on unpaid balances: 18%-19%-21½% after 10/1/83, (16-16½-21½% per year)	CONNECTICUT 12% Banks and S&L associations are exempt; no limit over \$5,000 for real estate loans.
Savings Banks	No limit	\$15,000			
Insurance Premium	16% per year (after 1/1/84, 12% per year) plus \$10 per agreement.	None	Other Goods	Precomputed on unpaid balances; 21% per year (after 10/1/83, 18% per year) (min., acq. \$15)	
Revolving Credit	18% (after 3/1/83, 15%) per year on unpaid balances.	None	Revolving Credit	1½% (after 10/1/83, 1¼%)	
*Same rate for motor vehicle purchase loans.					
Bank Consumer Loan	No limit.	None	Motor Vehicle	No limit.	DELAWARE 5% over Federal Reserve discount rate; no limit over \$100,000 except for home mortgages.
Second Mortgage Loan	No limit.	None	Other Goods	No limit.	
Bank Revolving Credit	No limit.	None	Revolving Credit	No limit. (min. \$1/mo.)	
Installment Loan	21% per year on unpaid balances; 15% for real estate loans (applied to banks and S & L's).	None	Motor Vehicle (unpaid balance rates)	21.5-23.5-27-28.33% (min. \$25)	DISTRICT OF COLUMBIA 8%; 15% for real estate mortgages.
Insurance Premium	6% per year add-on plus \$10.	None	Revolving Credit	1½%	
Industrial Bank	(1) 18% per year on unpaid balances, (2) 2% of loan (\$50 max.)	Secured loans—25% of capital and surplus; unsecured loans—10% same	Motor Vehicle	\$10-11-15-17 (min. \$25)	FLORIDA 18%; 25% over \$500,000.
			Other Goods	\$12 (min. \$12-7.50-5 @ \$50 & \$25; acq. \$15)	
Bank Consumer Loan	(1) 18% per year on unpaid balances, (2) 2% of loan (\$50 max.) (3) min. \$15; \$10 for single payment.	\$50,000	Home Repair	\$10 (\$25 min.)	
			Revolving Credit	1½% (min. \$1/mo.)	
Bank Revolving Loan and Credit Card	1½% per month on unpaid balances.	\$10,000			
Insurance Premium	\$20 plus 12% per year add-on (Special rates for financing by insurance companies and agents).	None			

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
GEORGIA Industrial Loan Commissioner	Industrial Loan Act: 10% a year discount for 18 months, add-on for longer maturities; fee of 8% of first \$600 and 4% of excess plus \$2 per month; 5% for default of 5 days.	36½ months	Discount and fee	Default	Rule of 78. Not over 5% per month	Yes	\$3000	Life, 75c decreasing term, \$1.70 level term. Disability (3-day retro.): \$3.05 per year per \$5 monthly benefit; (7-day retro.): \$2.10 per year per \$5 monthly benefit.
HAWAII Director of Regulatory Agencies, Deputy Bank Examiner	Industrial Loan Act: 14% per year discount for first 18 months, 10.5% for next 12 months, 7% for next 12 months, 4% for remaining months to 48 months; transfer of equity fee; or 24% per year on unpaid balances. Revolving credit: 24% per year. (Temporary rate increase to 7/1/85.)	20 mos. to 72 mos. to \$5000 (unsecured) and \$7500 (pers. prop.); 15 yrs. for real estate and other secured loans.	No Discount	Default Deferment	Contract Rate	Yes Yes	\$300 None	Life, 60c. Disability (14-day retro.): \$2.61-12 mos. \$3.53-24 mos. \$4.18-36 mos.

Regulation Z made controlling over state disclosure laws.

IDAHO Commissioner of Finance	UCCC 36% per year to \$840 24% to \$2800, 18% to \$70,000; or 21% per year. Revolving credit: 21% per year.	25 mos. to \$840. 37 mos. to \$2800. None over \$2800.	Yes	Default Deferment Conversion	Rule of 78 to 61 mos.; APR over 61 mos.	No	\$70,000 No limit if secured by real estate.	Life, 60c. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC
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UCCC requires same disclosures as Regulation Z. Regulation Z disclosures deemed compliance with state disclosures.

ILLINOIS Department of Financial Institutions	Consumer Finance Act: no limit.	None	Precomp.	Default Deferment Conversion	Rule of 78	Yes	\$3000	Life, 65c. Disability (14-day retro.): \$2.20-12 mos. \$2.80-24 mos. \$3.35-36 mos. \$3.90-48 mos. NAIC
	Consumer Installment Loan Act: no limit. (Applies to banks)	121 mos.	Precomp.	Default Deferment Conversion	Rule of 78	No	\$10,000	NAIC

Compliance with Regulation Z satisfies comparable provisions of consumer credit laws.

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Installment Loan	9% per year add-on. (Applies to banks and others.)	None	Motor Vehicle	\$10-13-15-17 (min. \$25)	GEORGIA 10½%, 2½% over long term U.S. bond rate for real estate loans; \$100,000 or more, no limit.
Bank Credit Card	(1) 1½% per month on unpaid balances. (2) \$5 per advance or 5% thereof up to \$25. (3) Collection suit expenses. (4) \$12 annual fee.	None	Other Goods	13¢ per \$1 (min. @ \$12, 7.50, 5 @ \$50 & \$25; acq. \$15)	
Second Mortgage Loan	(1) 9% per year add-on. (2) 10% of loan or \$50 to \$1500 for expenses. (3) no limit over \$5000.	None	Revolving Credit	1.75% (min. \$1/mo.)	
Insurance Premium	\$20 plus 12% per annum add-on.	None			
Bank Consumer Loan	Industrial Loan Act rates.	See Sec. 308 -14.7	All Goods	Industrial loan rates (min. \$10 on balances under \$100, acq. \$10) 72 mos. max. maturity.	HAWAII 12%; no limit over \$750,000 or for purchase money home mortgages.
Credit Card	1½% per month on unpaid balances until 7/1/85.	None	Revolving Credit	2% (1½% for credit cards), until 7/1/85.	
Installment Loan	6% per year discount. (Applies to banks and others.)	\$3500	All Goods (UCCC)	Unpaid balance rate: 36% per year to \$840, 24% to \$2800, 18% to \$70,000; or 21% per year. (min. \$5-7.50 @ \$75)	IDAHO Unless covered to UCCC, 13% for home mortgages; 21% for "consumer related" loans to \$70,000.
Uniform Consumer Credit Code	[Banks and other supervised financial organizations may charge the maximum rates stated on the opposite page. Others may charge 18% per year simple interest for loans and revolving credit.]	\$70,000 No limit if secured by real estate.	Revolving Credit (UCCC)	21% per year (min. 50¢/mo.)	
Installment Loan	(1) 9% per year add-on* or APR equivalents (\$15 min. on loans of \$300 or more repayable in 6 to 181 months.) (2) \$5 on loans up to \$800.	\$25,000	Motor Vehicle	No limit. (acq. \$25)	ILLINOIS 9%; no limit on residential real estate loans and installment sales; max. 3% points if rate over 8%.
			Other Goods	No limit. (acq. \$12)	
			Revolving Credit	No limit.	
Revolving Loan	(1) 1½% per month.* (2) 25¢ per each loan or credit extension or \$20 annual fee (applies to banks and others).	None			
Insurance Premium	10% per year add-on plus \$20 if amount financed is less than \$500, \$30 to \$1000, and \$40 over \$1000.	None			

*No limit on rate for loans by banks, S & L's, credit unions, and licensed lenders.

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
INDIANA Department of Financial Institutions	UCCC: 36% per year to \$660, 21% to \$2200, 15% to \$55,000; or 21% per year. Revolving credit; 21% or graduated rates.	25 mos. to \$660, 37 mos. to \$2200. None over \$2200.	Yes	Default Deferment Conversion	Rule of 78	No	\$55,000 No limit if secured by real estate.	Life, 65c. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC

UCCC requires same disclosures as Regulation Z. Regulation Z disclosures deemed compliance with state disclosure.

IOWA Superintendent of Banking	3% to \$500, 2% to \$1200, 1½% to \$2000, (Rate set by State Banking Board.)	25 mos. to \$300, 37 mos. to \$1000. None over \$1000.	Precomp.	Default Deferment	APR	Yes	\$2000	Life, 65c. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
State Auditor	Industrial Loan Act: 10% per year discount plus fee of \$1 per \$50 (\$40 max.)		Discount and fee	Default Deferment	APR	Yes	20% of capital.	

KANSAS Consumer Credit Commissioner	36% per year to \$540, 21% to \$1800, 14.45% to \$25,000; or 21% per year (after 7/1/83, 18%) Revolving loans permitted. (min. \$5-7.50 @ \$75.	25 mos. to \$420, 37 mos. to \$1400. None over \$1400.	Yes	Default Deferment Conversion	Rule of 78 to 61 mos; APR over 61 mos.	No	\$25,000 No limit if secured by real estate.	Life, 65c. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
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UCCC requires same disclosures as Regulation Z. No penalties allowed if creditor complies with Administrator's rules.

KENTUCKY Commissioner of Banking	3% to \$1000, 2% to \$3000. Over \$3000, 2% on entire balance.	60½ mos. to \$3000, 120 mos. to \$1500.	Precomp.	Default Deferment Conversion	Rule of 78	Yes	\$15,000	Life, 60c. Disability (14-day retro.); \$2.02-12 mos. \$2.93-24 mos. \$3.85-36 mos. NAIC
	Industrial Loan Act: 8% per year add-on or discount plus fee of \$1 per \$50 to \$2000; 5% up to \$5 per installment for default of 10 days. (See A.G. Op. No. 72-374 re rates.)	See Bank Loans on opposite page.	Interest and fee	Default Deferment	Rule of 78	Yes	\$10,000	

General Law requires same disclosures as Regulation Z. Reg. disclosure deemed compliance with state disclosure.

LOUISIANA State Bank Commissioner	36% per year to \$1400, 27% to \$4000, 24% to \$7000, 21% on any remainder; plus \$25 fee (min. \$15-\$25 @ \$200). Rate limited to 18% per year 12 months after maturity. Revolving credit permitted.	None	Yes	Default Deferment Conversion	Rule of 78	No	None	Life, \$1.00. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
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Licensed lenders and others may charge above rates on sale contracts (other than auto) acquired within 15 days of sale.

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Uniform Consumer Credit Code	[Banks, industrial loan corporations and other supervised financial organizations may charge the maximum rates stated on the opposite page.]	\$55,000 No limit if secured by real estate.	All goods (UCCC) Revolving Credit (UCCC)	Unpaid balance rate: 36% per year to \$660, 21% to \$2200, 15% to \$55,000, or 21% per year. (min. \$5-7.50 @ \$75) 21% per year (min. 50¢/mo.)	INDIANA Only UCCC 21% rate for "consumer related" loans to \$55,000.
Consumer Credit Code	21% per year on unpaid balances. (Applies to banks and other supervised financial organizations.)	\$25,000.	Motor Vehicle Other Goods	Precomputed monthly interest: 1 1/2-2 1/4 % 21% per year on unpaid balances (min. \$5-7.50 @ \$75)	IOWA 2% over U.S. bond rate; over \$25,000, any rate for consumer loans or real estate purchases or improvements.
Revolving Loan	1 1/2-1 3/4 % per month @ \$500 (min. 50¢/mo.)		Revolving Credit	1 1/2-1 3/4 % @ \$500 (min. 50¢/mo.)	
UCCC	18% per year to \$1000, 14.45% to \$25,000; or 21% per year to 7/1/83. (Applies to supervised financial organizations.)	\$25,000 No limit if secured by real estate.	All Goods	Unpaid balance rates: 21% per year to \$300, 18% to \$1000, 14.45% to \$25,000; or 21% to 7/1/83 (min. \$5-7.50 @ \$75)	KANSAS 15%; 1% over yield on federal mortgages for real estate loans and sales; no limit for variable rate real estate loans.
Insurance Premium	\$10 plus 12% per annum add-on.	None	Revolving Credit	1.75-1.5-1.2% per month @ \$300 & \$1000; or 1.75% to 7/1/83 (min. 50¢/mo)	
Bank Consumer Loan	(1) 8% per year discount (up to 5 yrs. and 32 days) or add-on (up to 10 yrs. and 32 days). (2) \$1 for each \$50 or fraction thereof on first \$800.	None	Motor Vehicle Other Goods	\$11-13-15 (acq.\$25) No limit (acq. \$10)	KENTUCKY 4% over FRB discount rate (19% max.), no limit over \$15,000.
Insurance Premium	\$10 plus 8% per year add-on.	None	Revolving Credit	No limit.	
Bank Revolving Credit	1 1/2 % per month.	None			
Consumer Credit	[Banks and other supervised financial organizations may charge the maximum rates stated on the opposite page. Others may charge 10% per year simple interest.]	None	Motor Vehicle (precomputed on unpaid balances)	1 1/2-2 1/2-2 3/4 % (after 9/30/84, 1 1/2-1 3/4-2 1/4-2 1/2 %) plus \$25 fee (min. \$25)	LOUISIANA 12%; no limit on discount for business loans; 17% for home seller loans.
Credit Card	1 1/2 % per month plus fee of 4% of cash advance.	None	Other Goods (unpaid balance rate)	24-18-12% per year @ \$1750 & \$5000 to \$25,000, or 18%, plus \$25 fee (\$25 acq. for first half of term) (min. \$5-7.50 @ \$75)	
Motor Vehicle Loan	Motor vehicle sales finance rates apply to auto loans made within 60 days of purchase.	None			
Insurance Premium	\$10 plus maximum rates stated on opposite page.	None	Revolving Credit	1 1/2 %	

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
MAINE Superintendent of Bureau of Consumer Protection	18% per year. (min. \$5, \$7.50, \$25 & \$75-250) Revolving credit permitted. Unique restrictions make higher rates generally inoperative (30% per year to \$660, 21% to \$2200 15% to \$55,000). Most licenses have ceased business.	25 mos. to \$660 37 mos. to \$2200. None over \$2200.	Yes	Default Deferment Conversion	Rule of 78 to 48 mos.; APR over 48 mos.	No No	\$55,000 No limit if secured by real estate.	Life, 43c. Disability (14-day retro.): \$2.29-12 mos. \$2.98-24 mos. \$3.52-36 mos. NAIC
<i>General law requires same disclosures as Regulation Z. Granted FRB Exemption.</i>								
MARYLAND Bank Commissioner	To \$2000: 2 1/4 to \$1000: 2% to \$2000: 2% (Temporary rate increase until 7/1/85.)	30 1/2 mos. to \$700. 38 1/2 mos. to \$2000. 72 1/2 mos. to \$5000	No			No	\$6000	Life, 56c (52c over 48 to 96 mos.) Disability (14-day retro.): \$2.00-12 mos. \$2.73-24 mos. \$3.45-36 mos. NAIC
<i>General disclosure law is almost a copy of Regulation Z. Granted FRB exemption.</i>								
MASS. Commissioner of Banks	23% per year plus \$20 annual fee. Rate Fixing Board. (6% a year 12 months after maturity.)	None	Precomp.	Default Deferment	Rule of 78 to 54 mos.; APR over 54 mos.	Yes (by rule)	\$6000	Life and Disability each 50c per \$100 per year.
	General Interest Law: 20% per year over \$6000 except for Second Mortgage Loan Law or if notify Attorney General.	None	No			No	None (over \$6000)	
<i>General disclosure law is almost a copy of Regulation Z. Granted FRB exemption.</i>								
MICHIGAN Financial Institutions Bureau, Department of Commerce	31% per year to \$500, 13% to \$3000*, or 18% on entire balance.	None	No			No	\$3000	Life only, 50c. Disability (14-day retro.): 12 mos. \$2.20 (actuarial equivalent for longer maturities)

*except loans secured by motor vehicles 2 or less model years old.

Compliance with Regulation Z satisfies consumer finance, sales finance, and home improvement law disclosure provisions.

OTHER CONSUMER LOAN LAWS
SALES FINANCE AND REVOLVING CREDIT LAWS
USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
UCCC	[Banks, industrial banks, and other supervised financial organizations may charge the maximum rates stated on the opposite page.]	\$55,000 No limit if secured by real estate.	Motor Vehicle	Unpaid balance rate: 18%-20%-23.5%	MAINE None
			Home Repair	18% on unpaid balances (min. \$25) (15% after 5/7/83)	
Credit Card	1½% per month.	\$55,000	Other Goods	Unpaid balance rates: 30% per year to \$660, 21% to \$2200, 15% to \$55,000, or 18% (min. \$5, \$7.50, \$25 @ \$75-\$250)	
			Revolving Credit	1½% (min. 50¢/mo.)	
Installment Loan	24% per year on unpaid balances if not secured by real estate (after 7/1/85, 18%). (Applies to banks and others.)	None	Motor Vehicle (unpaid balance rates)	24% (after 7/1/85, 21.5-23.5)-27%	MARYLAND 8%; no limit for first home mortgages; no limit over \$5000 for business loans.
Credit Card	2% (after 7/1/85, 1½% per month on first \$700, 1% on any remainder). (Applies to any financial institution including banks.)	None	Other Goods (unpaid balance rate)	24% per year (after 7/1/85, 22-18% per year @ \$1000) (min. \$10-8 @ 8 mos.)	
Second Mortgage Loan	(1) 24% per year on unpaid balances (after 7/1/85, 16%). (2) 2% fee or \$250.	None			
Insurance Premium	\$20 plus discount of 1.15% per mo.	None	Home Repair	None	
			Revolving Credit	2% (after 7/1/85, 1½-1% @ \$700)	
Bank Consumer Loan	Same as for consumer finance companies to \$6000; no limit over \$6000.	\$30,000 (eff. 1/1/84, \$40,000)	Motor Vehicle	\$12	MASS. 20%. Banks and other regulated lenders exempt.
Revolving Credit	1½% per month.	None	Other Goods	\$12	
Industrial Loan	12.5% per year @ \$500 discount.	\$10,000	Revolving Credit	1½% (min. 50¢/mo.)	
Second Mortgage Loan	1½% per month on loans over \$1500; assessed value of home not over \$40,000.	None (over \$1500)			
Insurance Premium	23% per year on unpaid balances plus \$16 fee.	None			
Bank Installment Loan	(1) 12.83% per year (2) 2% fee (\$15 max.) (3) Max. maturity 84 mos. and 32 days.	10% of capital and surplus	Motor Vehicle (unpaid balance rates)	16.5-19-22% (after 12/1/83, 12.83-16.25-21.25%) (min. \$15)	MICHIGAN 7% except certain home mortgages or land contracts until 12/31/83.
			Other Goods	\$12-10 @ \$500 (min. \$10, acq. \$10)	
Second Mortgage Loan	Over \$3000, 18% per year on unpaid balances (after 12/31/83 15%) plus 2% fee (max. \$200).	None			
Bank Revolving Loan and Credit Card	1½% per month on unpaid balances; max. 5% seller discount for credit cards, plus annual fee.	10% of capital and surplus	Home Repair	\$8 (min. \$12) or alternate rates	
			Revolving Credit	17% per mo. (min. 70¢/mo.)	
Insurance Premium	\$18 plus 12% per year add-on, except \$15 or \$17 on amounts less than \$100.	None			

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
MINNESOTA Commissioner of Banks	Regulated Loan Act: 33% per year to \$350, 19% over \$350; or 21.75% on entire balance.	None	Precomp.	Default Deferment Conversion	APR	Yes	\$35,000	Life, 60c. Disability (14-day retro.): \$2.61-12 mos. \$3.12-24 mos. \$3.52-36 mos. NAIC
MISSISSIPPI State Comptroller of Banks	36% per year to \$800, 33% to \$1800, 24% to \$4500, 12% over \$4500. Dollar amounts subject to changes based on FRB discount rate to 6/30/84.	None except 3 to 12 mos. to \$99	Precomp.	Default	Rule of 78	Yes (by reg.)	None	Loans over \$99 only Life, 90c. Disability. (by regulation)
MISSOURI State Comptroller of Banks	2.218% (\$15 per \$100 a year add-on) to \$800, 1.25% to \$2500, 10% per year on balances over \$2500, plus fee of 5% (max. \$15).	None	Precomp.	Default Deferment Conversion	Rule of 78	No	None	Life, 60c. Disability (14-day retro.): \$2.18-12 mos. NAIC (proposed)
<i>Re Reg. 2 and state disclosure compliance, see 1969 Missouri Attorney General Opinion No. 271.</i>								
MONTANA Department of Business Regulation	Add-on rate: \$20 a year per \$100 to \$500, \$18 to \$1000 and \$12 to \$7500. 2% per month on unpaid balances over \$7500. On loans of \$90 or less \$1 for each \$5. Revolving credit: 24% per year.	21 mos. to \$300 25 mos. over \$300 37 mos. to \$1000; to \$2500. None over \$2500.	Add-on	Default Deferment	Rule of 78	No	\$25,000	Life over \$300, 60c. Disability over \$300 (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-30 mos. NAIC
NEBRASKA Director of Banking	24% per year to \$1000, 23% on remainder (after 9/30/85, 24% to \$1000, 18% to \$5000, 18% over \$5000), plus 7% fee to \$20 and 5% over (max. \$500). Revolving credit permitted. (See also usury law.)	36 mos. to \$3000, none over \$3000.	Precomp.	Default Deferment Conversion	Contract Rate	Yes	None (\$7000 after 9/30/85)	Life, 64c. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC

General law requires disclosure of annual or monthly interest rate or annual add-on rate.

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Bank Consumer Loan	12% per year on unpaid balances; or 4½% over FRB discount rate.	\$35,000 (\$25,000 for savings)	Motor Vehicle	\$10 (after 7/31/83, \$8-11-13 plus \$3 for older models (acq. \$15)	MINNESOTA 8%; no limit for first home mortgage until 8/1/84, or over \$100,000.
Industrial Loan	See opposite page for rates permitted.	10% of capital and surplus			
Insurance Premium	\$10 plus 8% per year add-on to \$300, 6% over \$300.	None	Revolving Credit	1½% or, if yearly sales less than \$25 mill., 1½%	
Bank Revolving Credit	1% per month plus \$15 annual credit card charge; or 1½% per month.	None			
Installment Loan	7% per year (after 6/30/84, 6%) add-on. (Applies to banks and others.)	None	Motor Vehicle	(Unpaid balance rates) 14*-21-26.75-28.75% per year- (after 6/30/84, 14-18.46-24-26.75%) (min. \$25, acq. \$10).	MISSISSIPPI 10%*; 15% over \$2500 to corporations and over \$250,000 to partnerships.
Bank Consumer Loan	(1) 12% per year add-on (after 6/30/84, 10%) or 75¢ per month on loan up to \$100-\$15 min. (2) \$1 for each \$100 or fraction thereof lent.	\$2500	Other Goods	24-21% per year @ \$2500	
Revolving Credit	Same as revolving sale rates.	None	Mobile Homes	25% per year to \$1000, 18% to \$2500, 15% over \$2500.*	
			Revolving Credit	1¼% (after 6/30/84, 1½-1¼-1% @ \$800, \$1200) (min. 50¢/mo.)	
*or 5% over FRB discount rate to 6/30/84					
Installment Loan	See opposite page. (Applies to banks and others.)	None	Motor Vehicle	\$10-13 to \$7500 (min. \$25, acq. \$25)	MISSOURI 10%; or 3% over U.S. long-term bonds.
Second Mortgage Loan	1.67% per month on unpaid balances, plus 2% fee.	None	Other Goods	\$15-12-10 @ \$750 & \$1000, no limit on part over \$7500 (min. \$12)	
Credit Card	22% per year to \$1000, 10% per year over \$1000.	None	Revolving Credit	18% per year (min. 70¢/mo.)	
Regulated Lenders	No limit until 7/1/83 (does not apply to consumer finance licenses).	None	Motor Vehicle	No limit (after 7/1/83, \$7-9-11-min. \$20)	MONTANA 10%; or 4% over FRB discount rate to \$150,000 or 5% over to \$300,000. No limit over \$300,000 or for banks and others.
Bank Consumer Loan	After 7/1/83, annual discount rates: 11% on first \$300, 9% on next \$700, and 7% on any remainder (\$20 min.)	None	Other Goods	No limit (after 7/1/83, \$11-9-7 @ \$300, \$1000-min. \$20)	
Insurance Premium	\$12.50 plus 21% per year on unpaid balances.	None	Revolving Credit	No limit (after 7/1/83, 1½%-min. 50¢/mo.)	
Industrial Loan & Investment Company	19% per year on unpaid balances—precomputation permitted.	20% of capital surplus, capital notes and debentures	All Goods	Unpaid balance rates: 18% per year (min. \$10)	NEBRASKA 16%; no limit for real estate, business or agricultural loans by regulated lenders or over \$25,000. (min. \$10)
Bank Consumer Loan	19% per year on unpaid balances—precomputation permitted (min. \$7.50).	None	Revolving Credit	1¼-1½% per mo. @ \$500	
Bank Credit Card	18% per year plus \$20 annual fee.	None			

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	RERATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
NEVADA Superintendent of Banks	No limit.	24½ mos. to \$1000. 36½ mos. to \$2500. 48½ mos. to \$4000. 60½ mos. to \$6000. 72½ mos. to \$7500. 84½ mos. to \$10,000.	Precomp.	Default Deferment	Rule of 78	Yes	\$10,000	Life, 65¢. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC
NEW HAMPSHIRE Bank Commissioner	2% to \$600, 1½% to \$1500, no limit on larger loans. (Rate drops to 12% a year 3 months after maturity.)	24 mos. to \$600. 36 mos. to \$1500, none over \$1500	No			Yes	\$10,000	Life, based on term: 47¢ -12 mos. 89¢ -24 mos. \$1.29-36 mos. Disability (14-day retro.): \$1.96-12 mos. \$2.43-24 mos. \$2.73-36 mos. NAIC
<i>General law requires disclosure of "finance charges, expressed in dollars, rate of interest, or monthly rate of charge, or a combination thereof".</i>								
NEW JERSEY Commissioner of Banking & Insurance	30% per year. Revolving credit permitted.	36½ mos. to \$1000. 48½ mos. to \$2500. 60½ mos. to \$5000	No			Yes	\$5000	Life, 44¢-64¢ depending on insurance volume. Disability (14-day retro.): \$1.80-12 mos. \$2.16-24 mos. \$2.38-36 mos. NAIC
<i>Compliance with Regulation Z satisfies inconsistent disclosure provisions of laws noted herein.</i>								
NEW MEXICO Commissioner of Banking	No limit (after 7/1/83, 3% to \$150, 2½% to \$300, 1½% to \$1000, 1¼% to \$2500). Rate drops to 10% a year one year after maturity, entry of judgment, 90 days after a bankruptcy adjudication followed by discharge, or 90 days after borrower's death.	None	Precomp.	Default Deferment Conversion	APR	Yes	\$2500	Life, 65¢. Disability (14-day retro.): \$2.35-12 mos. \$3.25-24 mos. \$4.15-36 mos. NAIC
	Installment Loan Law: No limit (after 7/1/83, 8.75% per year add-on; min. \$2 per month or \$10; \$15 fee).	None	Precomp.	Default Deferment	Rule of 78	No	None	
<i>Regulation Z disclosure deemed compliance with sales finance disclosure provisions.</i>								
NEW YORK Superintendent of Banks	No limit (after 6/30/83, 2½% to \$100, 2% to \$300, 1½% to \$900, 1¼% to \$2500).	24½ mos. to \$300, 36½ mos. to \$1400, 48½ mos. to \$2500, 60 mos. over \$2500 (by regulation)	Precomp.	Default Deferment	Rule of 78	Yes	\$4000 (after 6/30/83, \$2500)	Life, 49¢. Disability (14-day retro.): \$3.15-12 mos. \$4.44-24 mos. \$5.34-36 mos. (litigation pending) NAIC
	Licensed lender second mortgage loans (by rule): No limit, until 6/30/83.	None	Precomp.	Default	APR	Yes	None (over \$4000)	

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND
REVOLVING CREDIT LAWSUSURY
LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Bank Consumer Loan	8% per year discount on loans up to \$500. and 7% on larger loans.	\$1500	All Goods	No limit	NEVADA No limit.
Thrift Companies	No limit.	15% of capital and surplus	Revolving Credit	No limit	
Mortgage Broker	12% per year or 3.5% over prime (if over 9%).	\$200,000			
Second Mortgage Loan	No limit; max. 18% per year 6 mos. after maturity. Revolving credit permitted.	\$35,000	Motor Vehicle	No limit (min. \$25. acq. \$25)	NEW HAMPSHIRE No limit.
Insurance Premium	No limit.	None			
Bank Consumer Loan	30% per year.	\$25,000	Motor Vehicle	(Unpaid balance rates) 30% per year (min. \$12-10 @ 8 mos., acq. \$15)	NEW JERSEY 16%; 30% criminal usury. (applies to all loans and sales)
Bank Revolving Loan	(1) 30% per year. (2) \$15 annual fee.	None	Other Goods	30% per year (min. \$12-10 @ 8 mos., acq. \$15)	
Second Mortgage Loan	30% per year	None	Home Repairs	30% per year (min. \$12. acq. \$15)	
Insurance Premium	30% per year	None	Revolving Credit	30% per year	
Installment Loan	See opposite page. (Applies to banks and others.)	None	Motor Vehicle	No limit (after 7/1/83. \$9 75-10-12-14) (min. \$25)	NEW MEXICO No limit. After 7/1/83, loans 10%; unsecured loans. 12%; or 3% over FRB discount rate, and variable rate for home mortgages.
Revolving Credit	No limit (after 7/1/83, 1½% per month to \$500. 1½% on remainder; 1½% for cash advances).	None	Other Goods	No limit (after 7/1/83. (\$12-10-8 @ \$300 & \$1000-min. \$10)	
Insurance Premium	No limit (after 7/1/83, 8.75% per year add-on. \$2 per month or \$10 min.).	None	Revolving Credit	No limit (after 7/1/83. 15¢-13½¢ per \$10 @ \$500-min. 70¢/mo.)	
Bank Installment Loan	No limit (after 6/30/83, 6% per year discount to 37 months, 5.25% to 61 months, 5% over 61 months-\$10 min.).	\$25,000	Motor Vehicle	No limit (after 6/30/83. \$7-10-13) (acq. \$15)	NEW YORK 16%; 25% criminal usury. (not clear if applies to regulated loans and sales)
Bank Revolving Loan	No limit on rate or card fee (after 6/30/83, 1½% to \$500, 1% on remainder).	\$25,000	Other Goods	No limit (after 6/30/83. \$10-8 @ \$500-min. \$12-10 @ 8 mos.)	
Insurance Premium	14% per year add-on plus \$10 (after 6/30/83, 10% plus \$8) (\$15, \$12, \$10, and \$8 min.).	None	Revolving Credit	No limit on rate or card fee (after 6/30/83. 1½%-1% @ \$500) (min. 70¢/mo.)	

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
NORTH CAROLINA Commissioner of Banks	3% to \$600, 1 1/4% to \$3000 (after 7/1/83, 3% to \$300, 1 1/2% to \$3000). (6% per year after maturity.)	25 mos. to \$600, 37 mos. over \$600 to \$1500, 49 mos. to \$2500, 61 mos to \$3000.	No			Yes	\$3000	Life, 80c. Disability (14-day retro.); \$2.42-12 mos. \$3.30-24 mos. \$4.18-36 mos.
	Optional rate: 16% per year "effective rate" or 6% over 6-mos. U.S. T-bill rate to 7/1/83 (\$10 per loan or \$1 per payment min.) on loans to \$5000.	60 mos.	Yes	Default Deferment	Rule of 78	Yes	\$5000	
	"Motor vehicle" licensees: Add-on: \$15 a year per \$100 to \$500, \$11 to \$1000, \$9 to \$1500, or 16% a year simple interest between \$1500 and 3000.	48 mos.	See rate column	Default Deferment	Rule of 78	Yes	\$5000	
NORTH DAKOTA Department of Banking and Financial Institutions	2 1/2% to \$250, 2% to \$500, 1 1/4% to \$750, 1 1/2% to \$1000.	24 1/2 mos.	Precomp.		Rule of 78	No	\$1000	Life, 75c. Disability (14-day retro.); \$2.61-12 mos. \$3.53-24 mos. \$4.18-36 mos. NAIC
	Consumer Finance Act; no limit over \$1000. Revolving credit permitted.	None	No			No	\$15,000	
OHIO Division of Consumer Finance in Dept. of Commerce	28% per year to \$1000, 22% on remainder; or equivalent APR. Revolving credit permitted.	25 1/2 mos. to \$500, 37 1/2 mos. to \$1000, 49 1/2 mos. over \$1000	Add-on	Default Deferment Conversion	Rule of 78	Yes	\$3000	Life, 65c. Disability (14-day retro.); \$2.23-12 mos. \$2.81-24 mos. \$3.21-36 mos.
	Second Mortgage Act; 21% per year. Revolving credit permitted.	None	Precomp.	Default Deferment Conversion	Rule of 78 to 61 mos.; APR over 61 mos.	No	None	
<i>Until Jan. 1, 1985, an alternate 25% per year for laws on this and opposite page is permitted; except for usury law.</i>								
OKLAHOMA Administrator of Consumer Affairs	UCCC: 30% a year to \$600, 21% to \$2000, 15% to \$45,000; or 21% per year. Special rates for loans to \$100. Revolving credit permitted.	25 mos. to \$600, 37 mos. to \$2000.	Yes	Default Deferment Conversion	Rule of 78	No	\$45,000 No limit if secured by real estate.	Life, 85c. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
<i>Regulation Z adopted by Consumer Affairs Commission under UCCC. Granted FRB exemption</i>								
OREGON Superintendent of Banks	No limit. Revolving credit permitted.	None	Precomp. for loans for 62 mos.	Default Deferment Conversion (to 62 mos.)	Recomputation	Yes	\$50,000	Life, 55c-1 yr. Disability (14-day retro); \$2.65-12 mos. \$3.75-24 mos. \$4.69-36 mos.
<i>Regulation Z disclosure deemed compliance with sales finance disclosure provisions.</i>								

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Installment Loan	16% or 6% over 6-mo. U.S. T-bill rate for non-real estate loans to \$5000 or real estate loans to \$25,000 (\$10 per loan or \$1 per payment min.) (Applies to banks and others.)	\$25,000	All Goods (precomputed unpaid balance rate; stepped by amount financed, rather than graduated.)	24-22-20-18% @ \$1500, 2000, 3000 (min. \$5); 16% (real est. security); min. for autos: 18-20-22-29%, based on age. (\$25,000 max.)	NORTH CAROLINA 16% or 6% over 6-mo U.S. T-bill rate (by rule) to \$25,000; no limit over \$25,000 or over \$10,000 for first home mortgages.
Revolving Loan and Credit Card	Revolving loans: 1 1/2% per month to \$5000, 1% on remainder. Credit card financing: 1 1/2% per month. (Applies to banks and others.)	None			
Second Mortgage Loan	(1) 18% per year or 5% over FRB discount rate on unpaid balances. (2) 181 mos. max. maturity. (3) actual closing costs.	\$25,000	Revolving Credit	1 1/2%	
Insurance Premium	\$15 plus 12% per year add-on.	None			
Bank Credit Card	1 1/2% per month.	None	All Goods (Precomputed unpaid balance rate) Revolving Credit	No limit. (acq. \$15) No limit.	NORTH DAKOTA 5-1% over U.S. T-bill rate (by rule); no limit for regulated lenders or over \$35,000.
Bank Consumer Loan	10% per year discount; or 18% per year on unpaid balances.	10% of capital and surplus	All Goods	18% per year on unpaid balances; or to \$700, \$8 plus 50¢ per mo. for first \$50 and 25¢ per mo. for each next five \$50 (acq. \$10)	OHIO 8%; no limit over \$100,000; 3% over FRB discount rate for real estate mortgages.
Bank Credit Card	1 1/2% per month on unpaid balances. (min. \$1/mo.)	10% of capital and surplus	Revolving Credit	1 1/2% (min. \$1/mo.)	
Insurance Premium	\$10 plus 10% per year add-on unpaid (1% per month on revolving credit balances.)	None			
Uniform Consumer Credit Code	[Banks and other supervised financial organizations may charge the maximum rates stated on opposite page.]	\$45,000 No limit if secured by real estate.	All Goods (UCCC) Revolving Credit (UCCC)	Unpaid balance rate: 30% per year to \$600, 21% to \$2000, 15% to \$45,000, or 21% per year. (min. \$5-7.50 @ \$75) 21% (min. 50¢/mo.)	OKLAHOMA 45%
Bank Consumer Loan	No limit.	\$50,000	Motor Vehicle	No limit (acq. \$15)	OREGON 12% or 5% over FRB discount rate; no limit over \$50,000, for first home mortgages, or for banks and others.
Bank Credit Card	No limit and default charge.	\$50,000	Other Goods	No limit (acq. \$10-15-25-50 @ \$100-250-500)	
Insurance Premium	\$10 plus 1 1/2% per month on unpaid balances.	None	Revolving Credit	No limit	

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
PENNSYLVANIA Secretary of Banking	To \$5000: 9½% per year discount for 48 months, 6% for remaining period, plus max. fee of \$100 (\$1 for each \$50 or fraction); 1½% per month for default or deferment, 2% per month (no pre-comp.) for revolving and installment loans to \$5000. See rules re installment loans over \$5000.	60½ mos. for discount loans	Discount and fee	Default Deferment	Rule of 78	No	None	Life, (based on term): 50¢-1 yr. \$1.38-3 yrs. \$2.20-5 yrs. Disability (14-day retro.): \$2.13-12 mos. \$2.71-24 mos. \$3.11-36 mos. NAIC
PUERTO RICO Secretary of Treasury	Prime rate as add-on (by rule).	None	Add-on	Default Deferment	Rule of 78	Yes	\$1500	Life, 75¢. Disability.
RHODE ISLAND Director of Business Regulation	Rate on entire balance: 3% on loans to \$300, 2½% on loans between \$300 and \$800 and 2% on larger loans.	25 mos. to \$1000; 37 mos. over \$1000	No			Yes	\$2500	Life, 50¢. Disability. (14-day retro.): \$1.49-12 mos. \$2.96-24 mos. \$3.51-36 mos. NAIC
	Second Mortgage Loan Law: 21% per year simple interest.	None	No			No	None	
SOUTH CAROLINA State Board of Financial Institutions and Dept. of Consumer Affairs.	Supervised Lenders: no limit. Revolving lending permitted.	25 mos. to \$480, 36 mos. to \$1600. No limit over \$1600	Precomp.	Default Deferment Conversion	Rule of 78 61 mos.; APR over 61 mos.	Yes	\$40,000 No limit if secured by real estate.	Life, 75¢. Disability (14-day retro.): \$2.00-12 mos. \$2.80-24 mos. \$3.50-36 mos.
SOUTH DAKOTA Dept. of Banking and Finance	No limit. \$2 min. in certain cases. (10% per year 8 mos. after maturity). Revolving credit permitted.	24½ mos. to \$1000; 38½ mos. to \$2500; 60½ Mos. to \$5000. None over \$5000	No			No	\$30,000	Over 100, Life, 60¢. Disability (14-day retro.): \$1.98-1 yr. \$3.42-3 yrs. \$4.23-5 yrs.

Superintendent of Banking authorized to "administer and enforce" Reg. Z

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Bank Consumer & Revolving Loan	6% per year discount (max. 10 years and 15 day); 1% per month on unpaid balances for loans; 1¼% per month for purchases; or 5% over FRB discount rate.	\$10,000 or first \$10,000 of larger loans	Motor Vehicle	(Unpaid balance rates) 18-21% per year. (min. \$10)	PENNSYLVANIA 6%, no limit over \$50,000; variable rate for home mortgages.
			Other Goods	18% (after 3/29/85, 15% per year) (min. 70¢/mo. for 6 mos.)	
Second Mortgage Loan	1.85% for loans over \$5000. Revolving credit permitted. No max. maturity.	None	Home Repairs	\$8 (min. \$12)	
			Revolving Credit	1.5% (after 3/29/85 and for gas credit cards, 1¼%) (min. 70¢/mo. for 6 mos.)	
Installment Loan	9.5% per year add-on to 36 months (by rule).	None	All Goods	Motor Vehicles 10-11-12%. Electric fixtures, household 12%; commercial, 10% household furniture, 13%.	PUERTO RICO 10½% for variable home mortgages. (by rule)
Credit Card	2.17% per month on unpaid balances (17% per year for cash advances) (by rule).	None	Revolving Credit	1.7%	
Loan and Investment Company	(1) 8% per year discount (except 21% on real estate loans). (2) \$1 for each \$50 or fraction thereof lent (21% per year on unpaid balances for real estate loans).	15% of capital and surplus or \$10,000, whichever is larger.	All Goods	21% per year simple interest (min. \$10, acq. \$10)	RHODE ISLAND 21% or 9% over U.S. T-bill in 25%.
Bank	21% per year. Regulated by Department of Business Regulation primarily as to investments.	\$10,000	Revolving Credit	21% per year simple interest (min. 50¢/mo.)	
General Interest Law	21% per year or 9% over U.S. T-bill index.	None			
Educational Loan	21% per year.	None			
General License	21% per year. Applies to all lenders not licensed under other laws.	None			
UCCC	No limit.	\$40,000 No limit if secured by real estate. \$7,500	Motor Vehicle	No limit	SOUTH CAROLINA Any rate for first purchase money home mortgages by supervised lenders or supervised financial organizations.
Restricted Lender	To \$150: \$2.50 per mo. To \$1000: add-on of \$20 per \$100 per year to \$100, \$18 to \$300, \$11 to \$500, \$9 to \$1000. Fee not over 7% or \$28 plus \$1 per month. Over \$1000: \$7 add-on plus fee not over 5% or \$200, plus \$1 per month.		Other Goods	No limit (min. \$5-\$7.50 @ \$75)	
Insurance Premium	\$15 plus 1% per month add-on.	None	Revolving Credit	No limit (min. 50¢/mo.)	
Bank Revolving Loan and Credit Card	No limit.	None	Motor Vehicle	No limit	SOUTH DAKOTA No limit.
			Other Goods	No limit	
			Revolving Credit	No limit	

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
TENNESSEE Commissioner of Insurance and Banking	Industrial Loan Act: 7½% per year discount (max. 18% per year on unpaid balances) plus fee of 4% or \$2 to \$20, 50¢ per \$5 to \$75, and \$7.50 for larger loans, and monthly fee of \$1.50 to \$300 and \$1 for larger loans.	24 mos. to \$300. 36 mos. to \$1000. Over \$1000, 120 mos.	Discount and fee	Default	Contract Rate	No	10% of net worth	Life, 75¢. Disability (14-day retro.): \$2.39-12 mos. \$3.16-24 mos. \$3.69-36 mos.
TEXAS Consumer Credit Commissioner	Add-on rates: \$18 a year per \$100 to \$810, \$8 to \$6750, or formula rate. Special rates for loans to \$270. Revolving credit permitted.	37 mos. to \$1500, 49 mos. to \$3000, 63 mos. over \$3000.	Add-on	Default Deferral	Rule of 78	No	\$6750 (by rule)	Life, 58¢. Disability (14-day retro.): \$2.23-12 mos. \$2.81-24 mos. \$3.21-36 mos. NAIC
	Consumer Credit Code, Ch. 4: \$8 per year add-on or formula rate. Revolving credit permitted.	None	Add-on	Default Deferral	Rule of 78	No	None	
<p><i>General law requires disclosures similar to Regulation Z.</i></p> <p style="text-align: center;"><i>Formula Rate: Set by Commissioner, twice 26-week U.S. T-bill rate, min. 18% per year, max. 24% per year.</i></p>								
UTAH Commissioner of Financial Institutions	UCCC: 36% per year to \$840, 21% to \$2800, 15% to \$70,000; or 21%* per year. Revolving credit permitted.	25 mos. to \$840, to \$2800. None over \$2800.	Yes	Default Deferral Conversion	Rule of 78 to 61 mos.; APR over 61 mos	No	\$70,000 No limit if secured by real estate.	Life, 60¢. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.28-36 mos. NAIC
<p>*18%-60 days after end of 1983 legislative session.</p> <p><i>Regulation Z associated "by reference" by Regulation No. 1 under UCCC.</i></p>								
VERMONT Commissioner of Banking and Insurance	2% to \$1000, 1% to \$3000; or 1½%.	48½ mos.	No			Yes	\$3000	Life only, 44¢-70¢ depending on insurance volume. Disability (14-day retro.): \$2.37-12 mos. \$2.84-24 mos. \$3.20-36 mos. NAIC
	Second mortgages (part of usury law): 18% per year (only over \$3000 for licenses).	180 mos. (licenses only).	No				None	
VIRGINIA Commissioner of Banking (Delegated by State Corporation Commission)	3% to \$600, 2¼% to \$1800, 1½% to \$2800, or add-on rate, \$21 a year per \$100 to \$600, \$17 to \$1800, \$13 to \$2800, plus 2% fee. (Rate drops to 6% a year 6 months after maturity or after judgement, or 90 days after borrower's death or bankruptcy.) Rates and ceiling set by Commission.	21 mos. to \$500, 31 mos. to \$1000, 43 mos. to \$1500, 49 mos. to \$2800.	Add-on	Default Deferral Conversion	Rule of 78	Yes	\$2800	Life, 55¢. Disability NAIC

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Bank Consumer Loan	6% per year discount (or add-on).	None	Motor Vehicle	None	TENNESSEE Variable rates for home mortgages (over 121 mos.) and other loans. (max. 18%)
			Other Goods	\$11.75 (after 7/1/83, \$10-8-6 @ \$500 & \$5000) (min. \$12.50, acq. \$15)	
			Revolving Credit	17.5¢ per \$10 (after 7/1/83, 15¢) (min. 70¢/mo.)	
Banks, S & L Assns. & Credit Unions	[These lending agencies may make loans under the Installment Loan Law and the Home Mortgage Loan Law, and banks and S & L associations may be licensed to charge the Consumer Finance Law rates. These "Laws" are Chapters of the 1967 Consumer Credit Code.]		Motor Vehicle	\$7.50-10-12.50-15-18 or formula rate (min. \$25, acq. \$25)	TEXAS Formula rate: max. 28% for business loans over \$250,000.
			Other Goods	\$12-10-8 @ \$1350 & \$2700 or formula rate (min. \$12-9-6 @ \$75 & \$25)	
Second Mortgage Loan	8% per year add-on or formula rate. (Consumer Finance licensees may operate under this law.)	None	Home Repairs	Same as for other goods plus extra charges allowed for second mortgage loans.	
Insurance Premium	Maximum rates stated on opposite page.	None			
Credit Card	18% per year to \$1500; 12% to \$2500, 10% over \$2500; or formula rate.	None	Revolving Credit	15-10¢ per \$10 @ \$1350 or formula rate (min. 75¢/mo.)	
Uniform Consumer Credit Code	[Banks, industrial loan corporations and other supervised financial organizations may charge the maximum rates stated on opposite page. Others may charge 21%* per year simple interest for loans and revolving credit and 50¢ per month minimum or annual credit card fee for revolving credit.]	\$70,000 No limit if secured by real estate.	All Goods (UCCC)	Unpaid balance rate: 36% per year to \$840, 21% to \$2800, 15% to \$70,000 or 21%* per year. (min. \$5-7.50 @ \$75)	UTAH No limit.
			Revolving Credit (UCCC)	No limit (min. 50¢/mo.)	
Installment Loan (part of usury law)	(1) 24% per year to \$1000, 12% over \$1000; or 18%. (2) Max. 48½ mos., except 8 yrs. for home improvements.	None	Motor Vehicle	(unpaid balance rates) 18-20% per year	VERMONT 12%; any rate for first home mortgages.
Revolving Credit	1½-1¼% @ \$500 plus annual bank card fee.	\$5000	Other Goods	1½-1¼% per mc. @ \$500 (min. \$10)	
Insurance Premium	1½% to \$500 and 1¼% on remainder.	None	Revolving Credit	1½-1¼% @ \$500 (min. 50¢/mo.)	
Industrial Loan Companies	(1) no limit. (2) 2% of loan.	20% of capital and surplus.	All Goods	No limit (min. \$25)	VIRGINIA 8%, except first mortgage loans and, over \$5000, business loans.
Bank Consumer Loan (section of usury law)	No limit; 2% fee.	None	Revolving Credit	No limit (min. 50¢/mo.)	
Revolving Loan	No limit.	None			
Second Mortgage Loan	(1) 9% per year, add-on or any rate on unpaid balances. (2) 2% of loan (\$1 min.) (3) Cost of specified services. (4) No max. rate over 122 mos.	None			
Insurance Premium	\$15 plus 1% per month.	None			

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
WASHINGTON Supervisor of Banking	2 1/2% to \$500, 1 1/2% to \$1000, 1% to \$2500.	48 1/2 mos.	Precomp.	Default Deferment Conversion	Rule of 78	Yes	\$2500	Life, 60c. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC
	Industrial Loan Act: 10% per year discount (or APR equivalent) plus 2% fee (\$2 min. fee) and 50c per month. Real estate loans: 25% APR over 2 years.	24 mos., none for real estate security.	Discount and fee	Default	Rule of 78	Yes	15% of Capital and Surplus.	
WEST VIRGINIA Commissioner of Banking and Attorney General	36% per year to \$500, 24% to \$1500, 18% to \$1600. Revolving credit permitted (min. 50c/mo.).	36 1/2 mos.	Precomp.	Default Deferment Conversion	Rule of 78 to 36 mos.; APR over 36 mos.	Yes	\$1600	Life, 65c. Disability (14-day retro.); \$2.65-12 mos. \$3.35-24 mos. \$4.00-36 mos.
WISCONSIN State Banking Department	Discount Loan Law, Sec. 138.09: 23% per year simple interest under \$3,000; 21% on entire balance if \$3000 or more; or 6% over greater of 6-month or 2-year Treasury rates. No limit from 11/1/84 to 10/31/87 for rates or rebates. Revolving credit permitted.	24 1/2 mos. to \$700, 36 1/2 mos. to \$3000. None over \$3000.	Precomp.	Default Deferment Conversion	Rule of 78 to 48 mos.; APR over 48 mos.	No	None	Life, 40c. Disability (14-day retro.); \$2.23-12 mos. \$2.81-24 mos. \$3.21-36 mos.

Consumer Act requires Reg. Z and other disclosures. No penalties allowed if comply with Administration's rules or interpretations.

WYOMING State Examiner	UCCC: 36% per year to \$300, 21% to \$1000, 15% over \$1000; or 21% per year. Revolving credit: 21% per year.	25 mos. to \$300, 37 mos. to \$1000. None over \$1000.	Yes	Default Deferment Conversion	Rule of 78 to 61 mos.; actuarial over 61 mos.	No	\$25,000 No limit if secured by real estate.	Life, 50c (captives 45c). Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC
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UCCC requires same disclosures as Regulation Z. Granted FRB exemption.

	TYPE OF CREDIT	MAXIMUM RATE	
UNITED STATES	First home (and mobile home) mortgages	None* (applies to banks and others.)	
	Business and agricultural credit over \$1,000	5% over FRB discount rate (to 4/1/83)*	
	State Banks, S & L's,	1% over FRB discount rate or state rates*	*subject to state preemption until 4/1/83
	National Banks	1% over FRB discount rate or state rates	

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Industrial Loan	(1) 10% per year discount. (2) 2% of loan (\$2 minimum). (3) 50¢ per month.	2% of capital and surplus.	All Goods	6% per year over 6-mo. U.S. T-bill rate on unpaid balances (17.5% for 1983) (min. \$10)	WASHINGTON 12% or 4% over U.S. T-bill rate. no limit on business loans.
General Interest	(1) 12% per year simple interest; (2) reasonable charges for expenses and services incident to making loan—for loans to \$500 not more than 4% up to \$15 except \$4 min. (Applies to banks and others.)	None	Revolving Credit	18% per year. (min. \$1/mo.)	
Insurance Premium	\$10 plus 10% per annum add-on.	None			
Installment Loan	6% per year discount (max. 15% APR) or add-on (min. \$5-7.50 @ \$75); rate allowed for national banks; or 18% on unpaid balances.	None (Banks 10% of capital and surplus)	Motor Vehicle	Unpaid balance rates: 18% per year.	WEST VIRGINIA 18% (by rule); 1½% over U.S. bond rate for home mortgages.
Industrial Loan Company	(1) 27% per year to \$2,000, 25% to \$10,000, and 18% on remainder; or (2) 6% per year discount or 21% per year on unpaid balances to \$5000, plus \$1 for each \$50 or fraction thereof lent.	10% of capital and surplus	Other Goods	Unpaid balance rates: 18% per year. (min. \$5-7.50 @ \$75).	
Second Mortgage Loan	(1) 6% per year add-on; or 18% per year on unpaid balances. (2) Expense charge up to 10% of loan (\$150 min.)	None	Revolving Credit	1½ (min. 50¢/mo.)	
Revolving Loan	1½% per month on unpaid balances (min. 50¢/mo.)	\$25,000			
Wisconsin Consumer Act	18% per year on unpaid balances or 6% over 6-mo. T-bill rate. No limit from 11/1/84 to 10/31/87. Revolving credit permitted	\$25,000	Motor Vehicle	Unpaid balance rates (precomp): 18% per year or 6% over 6-mo. T-bill rate. No limit from 11/1/84 to 10/31/87. (min. \$15)	WISCONSIN No limit.
Insurance Premium	Same as above, plus \$6 on balances from \$50 to \$100 and \$10 for balances of \$100 or more. No limit from 11/1/84 to 10/31/87	None	Other Goods	Unpaid balance rate: 18% per year or 6% over 6-mo T-bill rate. No limit from 11/1/84 to 10/31/87 (min. \$5-7.50 @ \$75)	
			Revolving Credit	1½% or variable rate to \$25,000. No limit from 11/1/84 to 10/31/87 (min. 50¢/mo.)	
Uniform Consumer Credit Code	[Banks, industrial loan corporations and other supervised financial organizations may charge the maximum rates stated on opposite page.]	\$25,000 No limit if secured by real estate	All Goods (UCCC)	Unpaid balance rate: 36% per year to \$300, 21% to \$1000, 15% to \$25,000; or 21% per year. (min. \$5-7.50 @ \$75)	WYOMING Only UCCC Supervised Loan rate for "consumer related" loans to \$25,000.
			Revolving Credit	21% per year. (min. 50¢/mo.)	

ANNUAL, PERCENTAGE RATES EQUIVALENT TO VARIOUS ADD-ON AND DISCOUNT RATES ON LOANS REPAYED IN EQUAL MONTHLY PAYMENTS OVER DIFFERENT PERIODS

W. N. Nesbit, Manager of Mathematical Services and Rate Analyst
 Research Department, Household Finance Corporation

Add-on Rate Per Year	Annual Percentage Rate, Different Repayment Periods:							
	6 Mos.	12 Mos.	18 Mos.	24 Mos.	30 Mos.	36 Mos.	48 Mos.	60 Mos.
3%	5.12	5.49	5.61	5.66	5.68	5.68	5.67	5.64
4	6.82	7.30	7.45	7.50	7.52	7.51	7.47	7.42
5	8.52	9.10	9.27	9.32	9.33	9.31	9.24	9.15
6	10.21	10.80	11.08	11.13	11.12	11.08	10.97	10.85
7	11.90	12.68	12.87	12.91	12.88	12.83	12.68	12.50
8	13.59	14.45	14.65	14.68	14.63	14.55	14.35	14.13
9	15.27	16.21	16.42	16.43	16.35	16.24	15.99	15.71
10	16.94	17.97	18.17	18.16	18.06	17.92	17.60	17.27
11	18.62	19.72	19.91	19.87	19.74	19.57	19.19	18.80
12	20.29	21.46	21.64	21.57	21.41	21.20	20.75	20.31
13	21.95	23.19	23.36	23.26	23.05	22.81	22.30	21.79
14	23.62	24.91	25.06	24.92	24.68	24.40	23.82	23.25
15	25.28	26.62	26.75	26.58	26.30	25.98	25.32	24.68
16	26.93	28.33	28.43	28.22	27.89	27.53	26.80	26.10
17	28.58	30.03	30.10	29.85	29.48	29.07	28.26	27.50
18	30.23	31.72	31.76	31.46	31.04	30.59	29.70	28.88
19	31.88	33.40	33.41	33.06	32.60	32.10	31.13	30.24
20	33.52	35.07	35.05	34.65	34.14	33.60	32.54	31.58
21	35.15	36.74	36.68	36.22	35.66	35.07	33.94	32.92
22	36.79	38.40	38.29	37.79	37.17	36.54	35.32	34.23
23	38.42	40.06	39.90	39.34	38.67	37.99	36.69	35.53
24	40.05	41.70	41.50	40.88	40.16	39.43	38.05	36.82

Discount Rate Per Year	Annual Percentage Rate, Different Repayment Periods:							
	6 Mos.	12 Mos.	18 Mos.	24 Mos.	30 Mos.	36 Mos.	48 Mos.	60 Mos.
3%	5.20	5.66	5.87	6.01	6.13	6.23	6.41	6.59
4	6.96	7.60	7.92	8.14	8.32	8.50	8.82	9.15
5	8.74	9.58	10.01	10.33	10.61	10.88	11.40	11.96
6	10.53	11.58	12.15	12.59	12.99	13.38	14.17	15.04
7	12.33	13.61	14.34	14.92	15.47	16.01	17.15	18.45
8	14.15	15.68	16.58	17.33	18.06	18.79	20.39	22.26
9	15.98	17.78	18.88	19.83	20.76	21.73	23.91	26.61
10	17.83	19.91	21.24	22.12	23.60	24.85	27.77	31.58
11	19.69	22.08	23.65	25.09	26.57	28.18	32.04	37.39
12	21.56	24.28	26.14	27.87	29.70	31.73	36.80	44.33
13	23.42	26.52	28.68	30.76	33.00	35.53	42.15	52.84
14	25.36	28.80	31.30	33.77	36.48	39.63	48.26	63.67
15	27.29	31.12	33.99	36.90	40.16	44.06	55.31	78.19
16	29.23	33.48	36.76	40.16	44.07	48.87	63.63	99.15
17	31.18	35.88	39.61	43.57	48.24	54.13	73.65	133.09
18	33.16	38.32	42.55	47.14	52.69	59.93	86.07	199.98
19	35.15	40.81	45.57	50.87	57.46	66.35	102.10	—
20	37.15	43.34	48.69	54.80	62.60	73.54	123.88	—
21	39.18	45.92	51.92	58.92	68.15	81.67	155.80	—
22	41.22	48.55	55.25	63.27	74.19	90.98	208.24	—
23	43.28	51.23	58.69	67.87	80.79	101.79	312.50	—
24	45.35	53.97	62.25	72.73	88.05	114.58	—	—

To convert any annual rate to a monthly rate divide by 12.

The Annual Percentage Rates above are the same as the "Annual Percentage Rates" required by Federal Regulation Z. They were computed by the actuarial method, which is the same as the United States Rule in all of the above cases because all are repayable in equal monthly payments.

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Capital Shortage, Public vs Private
Allocation of Capital, and Alternative
Ownership systems for Alaska's Oil Wealth

Prepared for The
Permanent Fund Trustees
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I. Capital Shortage and Capital Market Efficiency in Alaska.

In attempting to assess the functioning of rural capital markets in Alaska we looked at a number of different aspects of the problem. I will list these first, then discuss them in turn:

1. Is there a shortage of physical capital in rural Alaska?
2. Do private financial institutions create a shortage of capital by discriminating against rural Alaska? .
3. Is there a capital shortage in Alaska as a whole due to too little competition among financial institutions?
4. Has state regulation of financial institutions created a capital shortage?
5. What effects have state loan programs had on the availability of capital in Alaska?

Now to look at each of these in turn.

1. Shortage of physical or real capital. If private financial institutions have failed to provide enough financing to rural Alaska in the past, then there will be too little real capital there today. This would imply there would be good, high return investment opportunities available, to put the needed real capital in place. We reviewed the limited literature on this subject. Krutilla and Brubaker, two economists from Resources for the Future, studied this question in 1976 and concluded there were few investment opportunities in interior Alaska. Similarly, in 1979, Olson and Tuck, of the University of Alaska, viewing this question in the context of potential investments for Native Corporation funds, concluded sustained economic growth in rural Alaska was extremely unlikely. Finally, the experience of the Native Corporations in trying to locate investment opportunities for the substantial amounts of funds each year since 1973 suggests such opportunities

may be lacking.

This last inference is somewhat controversial. Some have suggested investment opportunities exist, but Native Corporations have not found them for a variety of reasons--preoccupation with problems of internal organization, lack of business experience, lack of managerial skills, and so forth. Perhaps this is the case. All we can say at this point is that we have yet to see any evidence that the supposed investment opportunities do exist.

This issue also serves to point out that if investment opportunities do exist, factors other than capital shortage may keep them from being exploited. In the case of the Native Corporations the capital was clearly there; if good investments were overlooked it was for other reasons.

This point can be generalized. I was told that someone who heard our testimony last year said we couldn't see the trees for the forest. To him, if there was a river full of fish, and no one catching them, that was a capital shortage. That is much too simple a conclusion. There may be many other reasons why no one is harvesting those fish. There may be other lower cost fishing grounds, there may be other higher paying uses of labor time, there may be no market, there may be a market but it may be subject to very restrictive price controls, and so on. We cannot conclude a priori that capital shortage is the problem in every case.

In the same vein, we sometimes hear people complain of a capital shortage for investing in opportunities they claim will be there when a market is developed or transportation costs fall or some other key change occurs. Obviously, this is a bit of a confusion. The investment

opportunities are conjectural. The real shortage is of markets or low cost transport, or something else. Additional financial capital will not make these problems go away. And if these really are the basic problems, then making more capital available is probably just a good way to waste that capital.

We have no trouble compiling a list of factors which may hinder business activity and investment in rural Alaska: (a) lack of investment opportunities, (b) land title problems, (c) insurance difficulties, (d) lack of infrastructure, (e) inadequate collateral, (f) lack of information and expertise, (g) seasonal nature of business opportunities, (h) high costs of everything, including capital, (i) low personal income and wealth in rural Alaska.

We feel that one of these factors, the last one, is of major importance in any policy discussion of capital shortage. Levels of per capita income and wealth in rural Alaska are low, perhaps only one-third as high as in urban Alaska. This means rural Alaskans must settle for fewer goods of all sorts — food, shelter, clothing, luxuries, and credit. The cure for this problem is to increase their wealth and income, not to give them grants of individual goods. Unfortunately, though, we as a nation have just come through a nearly fifty year period, starting with the New Deal, during which it has been fashionable to try to cure poverty with grants of goods and services, rather than grants of income. This approach is almost totally discredited among economists, who are nearly unanimous in arguing that something like a negative income tax should replace current systems of public housing, food stamps, low cost medical care, subsidized credit,

and so forth.

When I was teaching in New York City one of my colleagues was a well known liberal economist, who has in recent years announced himself a socialist. He and I could argue and disagree on hundreds of economic issues, but this was one we could not disagree on: if you want to raise income, give money, not goods and services. If you give money, people are free to spend it on whatever they like; this will allow them to maximize their satisfaction as they see it. If you give goods and services, they are stuck with those particular forms of income, unless they can find ways to sell or trade them for things they prefer more.

Further, in the case of granting subsidized credit, if you give money you raise personal net worth and thus increase the individual's borrowing capacity. If you give credit you put the individual into debt, and further reduce his capacity to borrow.

Thus our strong recommendation: look carefully at the problem of rural Alaska; if they really come down to problems of wealth and income, then subsidize people, not capital or credit. The same dollar amount of subsidy implicit in any state loan program will do more for people if it is given instead as a cash grant.

2. Do private financial institutions discriminate against rural Alaska? Many business people and households in rural Alaska feel they have a more difficult time getting credit than do their urban counterparts. They allege the system discriminates against them. We can find no evidence that this is true. It appears there is no discrimination in deposit interest rates - these are uniform throughout the state. Loan interest rates also appear to be uniform state-wide. Non-price and

conditions could, of course, be used to discriminate against rural borrowers, but the small amount of evidence available suggests to us that such is not the case. What does seem to be the case is that low personal income and wealth, plus the whole host of business problems listed above, mean that rural borrowers are at a disadvantage when standard, uniform criteria are applied in judging loan applications — thus, they get less credit. Finally, the provision of extensive, high cost, probably low profit, branch bank net works to serve rural Alaska suggests discrimination in favor of rural Alaska in the form of subsidized service provision.

We understand some people, though, are suspicious of the branch banks, and see them as a way to suck deposits out of rural Alaska, without putting loans back into the community. However, Federal law prohibits such behavior, and the Federal agencies enforcing the Community Reinvestment Act of 1977 told us all regulated financial institutions in Alaska were in compliance with the law as of the time we were looking at this problem.

What we conclude, then, is that there is no rural/urban split in Alaska's capital markets. Rather, there is a single, unified, statewide capital market. We thus turn our attention next to a consideration of factors effecting capital availability and interest rates statewide as a whole.

3. Is there too little competition in the State's financial markets? Part of the concern about capital shortage in Alaska appears to stem from the observation that, at least from 1968 through the late 1970's loan interest rates charged by commercial banks were generally

higher than those found elsewhere in the U.S. This is seen by some as evidence that competition in this industry is not strong enough to drive interest rates down to "normal" levels. If this argument is correct and there is some degree of monopoly power operative in commercial banking in Alaska, then microeconomic theory predicts output will be restricted in this industry, which translates into a capital shortage.

We find, however, that deposit interest rates as well have been higher in Alaska than in the rest of the country; this cannot be due to monopoly power. Our explanation for the generally higher structure of commercial bank interest rates is that during the time in question Alaska was a capital short region, due mainly to high loan demand caused by the pipeline boom, and as such had to import capital from the rest of the country, paying a premium to cover transactions costs normally associated with inter-regional capital transfers.

While we do not believe the levels of loan interest rates are evidence of lack of competition, we also observe that the spread between deposit and loan interest rates in Alaska has consistently been larger than in the rest of the country. This is a result which would be found if competition was lacking. We also observe that Alaska's commercial banking industry is more concentrated than in other states with similar banking laws. Nationally, in states which like Alaska allow state-wide branching, the two largest banks in the leading SMSA have about 59% of the business (as measured by deposits); in Alaska the figure is 74%. On the basis of these observations we suspect there is too little competition in commercial banking, perhaps leading to

restriction of lending activity and to avoidance of some riskier loans which would be undertaken in a more competitive environment.

The cure for too little competition is more competition. Our suggestions for increasing the amount of competition among Alaska's financial institutions will be given at a later point in this testimony.

4. The effects of state regulation. The regulatory picture in Alaska has been changing recently. Alaskan financial institutions, along with those in the rest of the country have long been subject to Federal ceilings on deposit interest rates. These ceilings, which distort the savings decision and tend to make the financial sector smaller than it should be, are being phased out over a six year period, under provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980. However, until completely eliminated these ceilings contribute to inefficiencies in financial intermediation in Alaska, as elsewhere.

The same Federal Act imposes uniform reserve requirements on all financial institutions either federally insured or eligible for federal insurance. As it is phased in, this Federal requirement will override the reserve requirements Alaska has imposed on its state chartered banks. Our 1980 position that State reserve requirements are unnecessary and unwise remains unchanged. However, the issue of what should be done with these reserve requirements has been taken out of the State's hands by the Federal override.

Until recently, Alaska had had a gross receipts tax on banks. This also was an unwise tax, which interfered with the efficient functioning of financial institutions. Removal of that tax improves

the efficiency of the State's private financial institutions.

There remains, however, a form of state regulation which seriously distorts Alaska's capital markets. This is regulation in the form of loan interest rate ceilings, generally known as usury laws. Usury laws substitute loan pricing by government fiat for price determination in the market place. State usury laws generally are so restrictive that they set interest rates below even competitive levels. This is especially true during times of inflation, such as we have experienced in this country for too many years now. In the typical situation, the quantity of loans demanded is quite large due to the relatively low loan interest rate set by law, but the quantity of funds supplied to financial institutions is low due to Federal deposit interest rate ceilings. There is thus excess demand—a capital shortage—in the market place. Commercial banks attempt to subvert usury ceilings through compensating balance requirements which raise the effective but not the nominal loan rate. At the same time they and other financial institutions institute nonprice rationing to deal with the excess demand. Many factors can serve as the basis for nonprice rationing, but for our purposes it is perhaps most important to note that discrimination is likely to be in favor of conventional, low risk loans, and against unusual, innovative, or risky investment projects which come seeking financing. This, of course, works against new borrowers, aggressive, risk-taking businesses, and firms with new technologies and new products, among others.

Alaska has several usury laws: the Trade Practices Act that applies to all financial institutions except small loan licensees,

the Retail Installment Sales Act, and the Small Loan Act. All three have adverse effects on the functioning of Alaska's capital markets, but the Small Loan Act is by far the most serious. During the period of our study, 1979-80, the provisions of this Act, combining maturity size, and interest rate restrictions, essentially limited loans over \$1,000 to a marginal return of only 12%. Since nearly risk-free money market investments yielded more than that at the time, the Act destroyed any incentive for small loan licensees to make loans larger than \$1,000. As a result, finance companies do very little business in Alaska. Nationally they account for about 6.4% of all financial institution assets, but in Alaska they have only $\frac{1}{2}$ of 1% of such assets. This obviously leaves a sizable hole in the structure of Alaska's financial institutions, and effectively eliminates one source of loans to high risk borrowers.

We have strongly recommended that the state abolish all usury laws, with priority going to elimination of the current Small Loan Act. A new Small Loan Act might allow finance companies to offer uninsured savings and time deposits, which would increase competition between these institutions and commercial banks, savings and loans, and credit unions.

5. State loan programs and capital shortage. State loan programs are instituted to increase the availability of capital at "reasonable" interest rates. In general, with small exceptions, they do not have that effect. Rather, they "crowd in" on private institutions and replace private lending with public lending. This is not just an assertion. It is a simple implication of economic theory, which has

long been recognized in the economics and finance literature, and which is supported by statistical as well as theoretical studies. However, I am going to leave to Professor Fry the task of elaborating on the crowding in effect, and I at this point will leave the conclusion as an assertion.

I ask you to consider what happens in private markets if this assertion is correct. State loan programs are set up and begin lending money, usually at below market, subsidized rates. Borrowers desert private lenders. With less business, private lenders have to reduce the size of their operations. There are economies of large scale operation in financial institutions, which implies, conversely, that there are diseconomies of small scale operations.

Private sector lending becomes more costly, and at more of a disadvantage in competing with state loan programs. Smaller, weaker, institutions fail, and go out of business or are absorbed by other institutions. There is less competition than before, with all the problems that implies. If this line of reasoning is correct, and it is, then state loan programs threaten the viability, and in the extreme, the very existence of private sector financial institutions.

Unfortunately, there are influential people who are not impressed with this conclusion as it stands, and who would have us believe it really makes no great difference if government lending replaces private lending. This is wrong. As I shall attempt to show in a few minutes, political allocation of capital is almost inevitably less efficient than market allocation of capital.

Before we reach that subject, however, it is important to note

another specific problem which tends to arise with one type of government loan program, namely, loans for business purposes. State business loan programs generally involve subsidies, almost always in terms of subsidized, below market interest rates, and often in terms of lenient credit standards. Naturally, such highly favorable terms attract many would-be borrowers - usually, far more than the loan programs can accommodate. Those who run the loan programs must somehow ration their limited funds. Actual rationing schemes which develop may be very complex and involve many elements. Usually, however, a key element is that state loan bureaucrats will attempt to ration loan funds in accordance with their personal theories of economic development. In underdeveloped countries this has classically shown up as heavy subsidization of such things as the steel industry on the naive theory that economic development implies industrialization, and industrialization requires steel. Hence, we find high cost, low productivity, white elephant steel mills in deserts and jungles all over the world. The variety of bureaucrats' economic development theories and fantasies is endless, limited only by their imaginations.

The real danger here is that subsidized credit program rather than harnessing the energy and productivity of the market system, may actually destroy it. The destruction will be at the very heart of the market system, because it will change the very nature of the basic productive unit of that system - the business firm. It will transform the profit or value maximizing firm into a subsidy maximizing firm.

The profit maximizing firm tries to produce products that will sell, tries to hold costs down to increase profits, is constantly alert

for new products, new production methods, new markets— for anything that will give it an edge. The subsidy maximizing firm, on the other hand, doesn't care what it produces, doesn't care whether it holds costs down, or whether it uses capital intensive or labor intensive methods of production. All its energies are devoted to doing whatever will allow it to qualify for subsidies; it produces what is subsidized, it uses lots of whatever inputs are subsidized most generously, it locates wherever it can get the most subsidies. It is alert and aggressive, and looking for opportunity —but opportunity is defined in terms of anticipating where the government subsidy spigot will next open up.

The real tragedy, of course, is that subsidy maximizing firms do not provide a viable economic base for a country. They have no real substance, and when the subsidies stop, they melt away, leaving an undiversified, weakened economy.

We have come a long way — and we have a long way to go yet. I would like at this point to summarize, in two different ways, what we have covered so far. First, a simple summary of the capital shortage question. We find that capital markets in Alaska are unified — there is no urban-rural split. These markets appear to work reasonably well, but do have some specific deficiencies. These deficiencies have specific cures. There is too little competition in some parts of the capital markets; more competition should be encouraged. There is too much regulation of the capital markets; markets should be deregulated. State loan programs are not a cure for capital market problems. Rather, they are part of the problem. All state loan programs should be abolished. The Permanent Fund should not add to the problem by

etting into the loan business, or by funding other state loan programs.

Now, for a second summary of our conclusions so far. I should like to put this in terms of two alternative scenarios for the future of the Alaskan economy. One scenario projects the effects of the state continuing with the policies it now follows. The other projects the effects of making the policy changes we recommend. Up to this point, our discussion has focused on the efficiency of a single sector of the economy — the capital markets — and ignored larger issues related to the state's oil revenues. At this point, though, it will be useful to develop the two scenarios in the context of two alternate ways of injecting state funds into the Alaskan economy. The alternatives to be considered are cash grants, on the one hand, and state loans, on the other.

Scenario one. The State redistributes some part of the oil revenues as cash grants to Alaskans. This results in increased disposable income for Alaskans, which leads to additional spending for personal consumption and for investment in owner-operated businesses. Although a considerable amount of this new spending would go for imports, a significant amount would remain in the State, stimulating economic activity, and giving a multiplied increase in income. Jobs would be created to produce goods and services for which there was a real market demand.

At the same time, increased income would stimulate savings, leading to increased deposits in the State's financial institutions, and thus to increased lending capacity of those institutions. Financial institutions would also face increased demand for loans from expanding businesses, and from consumers wanting to finance consumer durables and housing purchases. For the full effects on private

capital markets to be generated, however, two additional policy steps would have to be taken.

First, a new Small Loan Act would have to be passed to fill in the hole now existing in Alaska's financial system because the current Small Loan Act discourages household and industrial finance companies from operating in the State. A new Small Loan Act should allow the rapid development of financial institutions providing finance to high risk projects. The second step would be to remove the other market imperfections due to current State policy. This would allow the private capital market to respond vigorously and efficiently to meet the growing demands of households and businesses. Specifically, (1) all usury and interest rate ceilings should be removed, so that the interest rate will be free to serve its main social role as the allocator of capital, and (2) all State loan programs should be abolished so that market decisions rather than decisions of State bureaucrats determine who gets capital, where, when, and on what terms. The result of these actions will be an expansion of the private capital markets, increased scale (and thus lower per unit cost) for individual financial institutions, more competition than presently and ultimately the development of a sound, vigorous capital market which will be a key element in Alaska's future development.

In summary, then, Scenario One leads to (1) an expansion of the Alaskan economy, (2) the growth and expansion of those businesses and industries which meet consumer needs and/or produce goods for which there is an external market, (3) increased income and wealth for individual Alaskans, enabling them to make equity investments and borrow larger amounts than previously, and (4) the development and

strengthening of private capital markets in Alaska.

Scenario Two. The State attempts to use its selective credit policy (the policy of granting loans, often at subsidized rates, to selected firms, industries, and individuals) to stimulate the Alaskan economy. Oil revenues are used to to expand existing State loan programs and establish new ones. This puts money in the hands of the favored borrowers and gives an economic stimulus, with a multiplier.

However, the State's lending activity crowds in on the private sector and to a large extent just replaces loans which would have been made by the private capital market. This offsets and nearly eliminates the multiplier effect. Further, as the scale of Alaska's private financial sector shrinks, individual institutions become smaller, and some encounter financial difficulties. The larger established institutions weather the storm, but smaller and newer institutions are hard hit, and competition in lending is reduced. Per unit costs rise as the average size of institutions falls. This leads to increased charges and interest rates to borrowers.

At the same time, the selective credit policy has two undesirable effects: (1) subsidized interest rates give commercial borrowers false signals about the value of capital and so they waste capital, investing in numerous unsound projects, and (2) due to the selective nature of the loan programs economic expansion comes in the industries which the State believes should be expanded, rather than in those which pass the market test of producing output which consumers are willing to buy. Thus, there is no good reason to believe investments made in response to State policy will stand up over the years and contribute to sustained, diversified growth of the State's economy. Since there is no increase

in income there is also no increased savings to serve as a pool of funds for real investment. Further, the Small Loans Act will continue to discourage household and industrial loan companies from operating in the State, thus leaving a hole in Alaska's capital markets.

In summary, then, Senario Two leads to (1) a lesser expansion of the Alaskan economy than does Senario One, (2) long term movement of the economy in a questionable direction as expansion responds to the selective credit policy rather than to real economic forces of the market, (3) increased debt for firms and individuals who borrow from the State, and (4) contraction and weakening of the State's private capital markets.

II. Private vs. Public Allocation of Capital.

One of the key predictions of the section just completed is that state lending will crowd in on private lending, thus tending to substitute government allocation of capital for market allocation. What is the significance of this? Obviously, to persons of "capitalist" ideology this is an undesirable change, but to persons of "collectivist" ideology the change is favorable. We should, though, like to go beyond ideology, beyond mere definitional characterization of one system as good, the other as evil. What we need to do is to judge the two systems in terms of their probable effects on economic efficiency.

It is easiest to begin with the analysis of the marketplace as a system for allocating capital. This is so because for over two hundred years now we have had an economic theory of the workings of markets. In 1776 Adam Smith pointed out in The Wealth of Nations that the Invisible Hand of competition could harness the selfish actions of

individuals and produce results for the common good. That insight is as valid today as it was two hundred years ago. Further, in the time since Adam Smith's day, economists have greatly refined his basic notion, developing very specific and rigorous concepts of economic efficiency, showing in detail that competitive equilibrium will achieve efficiency, developing concepts of market failure to analyze cases where private markets will not lead to efficiency, and finally, working out theories of economic policy to give us a kit of tools to use to correct or reduce market failure. We thus know a great deal about the operation of individual markets and the market system as a whole.

When we apply the basic theory to capital markets we focus on the institutions known as financial intermediaries. These firms intermediate between savers and investors. Thus, they operate in two markets — a savings deposit market and a loan-investment market. (Some intermediaries have contractual rather than deposit relations with savers, e.g., insurance companies, pension funds.) Intermediation consists of providing financial services that satisfy demands in both markets. That is, intermediaries provide size intermediation by, for example, aggregating small deposits and making large loans. They provide maturity intermediation by taking on short term deposits and making long term loans. They provide risk intermediation by offering savers implicit participation in a relatively safe portfolio of loans and investments which individually may be relatively risky. At the same time, they reduce transactions and information costs of financial dealings, and they take advantage of economies of scale and economies of specialization.

If the markets they operate in are competitive, then competition

will force them to produce the economically efficient mix of services (output) and produce each service at its lowest possible cost. Further, the system of financial intermediaries will produce a system of equilibrium interest rates, which will serve to allocate capital throughout the economy, among the competing demanders. These interest rates will give efficient, accurate signals to capital users, and will guide capital to its highest, most productive uses. This, then, in outline, is the case for market allocation of capital.

In the real world, of course, we never achieve perfect institutions. We have already indicated that Alaska's existing capital markets have imperfections. However, methods of reducing these imperfections are well known, and can be implemented. The 1980 Depository Institutions Deregulation Act will improve capital market functioning throughout the country. State deregulation and termination of state loan programs are our suggestions for moving Alaska's capital markets even closer to the results of the competitive model.

Let us turn now to the analysis of a system of political allocation of capital. This is more difficult to analyze because we lack a complete, detailed, theory of the economics of political systems. However, there has developed in recent years a field of the economics of public choice, which provides us with some insight into matters such as the political allocation of capital.

Under a system of political allocation of capital (e.g. a system of state loan programs and state banks) basic decisions will be made through majority rule voting. That is, the legislature and, at a later stage, state bureaucrats, will vote on how much capital the whole system is to have, how much capital shall go to each funding institution,

how much to various individual demanders, what interest rates to charge, what terms and conditions to require of borrowers, and so forth.

Public choice economics has shown that majority rule is often deficient as a decision mechanism on such economic issues. One technical problem, which we need not go into here, is that majority rule decisions taken through a series of pairwise votes may lead to no unique outcome, no unique "will of the voters," but instead may vary with the arbitrary sequence of pairwise votes taken.

Of more practical importance is the problem that simple majority rule ignores the intensity of the voters preference. This is not so in marketplace "voting", where we each vote the intensity of our preference by the amount we are willing to pay for particular goods and services. But in political voting a passionate "no" counts just exactly as much as and no more than a mild "yes". The real danger in such voting is that a majority with little at stake can outvote a minority with much at stake. This means voting can lead to situations where the losers lose more than the winners gain. In such cases no possible redistribution of winnings could compensate the losers and still leave net winnings. Voting can, and in the real world frequently does, approve projects with negative net value.

The following simple example will illustrate the point. Assume five voters, A, B, C, D, and E are to vote on a proposal which would cost \$500. The costs are to be shared equally, so each would have to pay \$100 in extra taxes to finance the project if it is approved. Assume the benefits to the individuals, as they themselves assess them are \$105 each for A, B, and C, and \$50 each for D and E. A, B, and C have a mild interest in seeing the project undertaken — \$5 net value

to each, and will vote in favor of it. D and E are strongly against the project, since each stands to lose \$50, and will vote against it. The project passes, 3 to 2. The political system has voted in a project with total benefits of \$415, but total costs of \$500, for a negative net value of \$85. Or, put more bluntly, the political system has voted to waste \$85 worth of resources.

This example is very realistic and relevant. Real world political systems involve more voters, more issues, logrolling, and so forth, but this sort of outcome is always a possibility. It is not a possibility if the same decision is taken in the marketplace. The dollar votes of consumers A through E would total \$415, cost of production would be \$500, and no profit-seeking firm would willingly produce the good. This is one reason why market decision making on production of private goods is likely to be superior to political decision.

In the previous example all five voters took part in the decision. Let us modify that assumption by calling on a second insight of public choice economics. This is the notion of "rational voter ignorance." That essentially says that information necessary to make good, informed decisions on all issues, public and private, is costly, and that voter/consumers will rationally choose to remain ignorant about issues which they expect to have little impact on them. On other issues where they have a great deal at stake they will pay the price to inform themselves, and will perhaps get involved in political activity once they are informed.

Again, an example will be useful. Assume Legislative Bill A is very important to one person in a thousand who expects to gain \$1,000 if the bill passes, but only pay \$2 in extra taxes as his share of the

cost. The other 999 persons out of a thousand, let us assume, will get no benefit; from the bill, but will each have to pay \$2 in taxes. Now assume all one thousand know it cost them \$5 in time and nuisance to become informed about the effects of any bill. A person who expects to lose a trivial \$2 if the bill passes, will see little if any reason to incur a cost of \$5 to understand the issue more fully. The person expecting a net benefit of \$998, however, will be intensely interested in this bill, and will inform himself about it, at a cost of \$5.

If this person can induce his elected representative to get the bill passed at a cost to him of less than \$993, he will come out ahead. In essence, he will be the only one voting on the bill, since the other 999 citizens will ignore the issue. Replicate this situation in the constituencies of other elected representatives, and you have the strong possibility of passing a bill which costs \$2,000 in taxes for every \$1,000 in benefits generated.

This is the problem of resource misallocation due to special interests in a political system. It is especially acute in a fiscal situation like Alaska's, where the cost to the citizen is not an out-of-the-pocket cost, but instead the opportunity cost of using already collected oil revenues. Recognition of this problem has apparently led to Alaska's recent law requiring that interest rate subsidies be open and above board, rather than hidden. While this is a good law, which will undoubtedly make it more difficult for special interests to arrange subsidies, it should be noted that as long as subsidies are tied to individual prices they will continue to cause resource waste and misallocation.

A third problem with political decisions on economic matters is

that often they force all citizens to consume a standard level of government output, rather than having the option, as in the marketplace to consume more or less of a good than does the average person. I would like more national defense, you would like less, but we both are stuck with the medium amount preferred by the median voter. This is tolerable in the case of defense, which we know cannot be produced in the marketplace; we are willing to put up with this imperfection of government in order to have some defense. It is not tolerable, though, when we have as an alternative a well functioning market which will cater to individual tastes.

The state of Alaska now forces all individuals to save about 10% of "their" share of oil revenues, in the form of allocations to the Permanent Fund. In a few minutes I will develop an alternative which would have allowed individual, market-determination of the savings percentage. Can we have any doubt that there would be variety in individual savings decisions, rather than the uniformity we see today under political determination on this issue?

Another major aspect of public decision making is not related to voting per se, but rather to what happens after the voting, namely, that responsibility for actual operations is turned over to government bureaucracies. In order to understand what that implies about economic efficiency we need a theory of behavior and equilibrium of the bureaucracy, analogous to the theory of the business firm which we use in the theory of markets. Popular thought offers two theories. On the one hand, there is the "public servant" theory. This sees bureaucrats as selfless, hardworking souls, whose only objective is to achieve the public interest, subject to their limited budgets. In this

theory, bureaucracies, reflecting the motives of the bureaucrats, do work in the public interest, which includes improving the economic performance of the private sector. At the other extreme is the "evil bureaucrat" theory. This sees bureaucrats as only out for their own good, as parasites on the public purse and predicts bureaucracies will be expensive and wasteful, and will seldom if ever operate in the public interest.

The emerging economic theory of bureaucracy takes a more general view of bureaucrats and bureaucracies. First, it assumes that bureaucrats, like the rest of us, seek a variety of objectives. The public interest is probably one of those objectives. However, income and wealth, power and prestige, security, and other personal objectives are also sought. The theory notes that achievement of many of these personal objectives is positively correlated with the size of the bureau which the bureaucrat works in. Thus, the bureaucrat will have a strong incentive to take actions which will increase the size of his bureau and its budget.

Up to this point, the theory could be applied to both public and private bureaus. However, the second major building block focuses on the constraints or limits which the parent system places on the bureau and its bureaucrats. Here, public and private bureaus part company. Private business firms seek profits. This gives them a relatively simple, straightforward yardstick to use in judging their various operations, divisions, and so forth. Further, the stockholders of corporations can and do withdraw support from firms with poor profit performance and poor performance of stock's price. These mechanisms combine to keep private bureaucrats from straying too far toward substituting their own personal objectives for those of the parent

organization.

The same is not true of public bureaucracies. They are not judged on simple profitability criteria, but instead are judged in the much more flexible term of the public interest. Also, the ultimate "owners" of the public bureaucracy — the citizens, the taxpayers — cannot just consult the stock market page to find out how well their assets are being managed. In fact, they really have no simple way of monitoring bureaucratic performance. All in all, public bureaucrats are much more free than private bureaucrats to use the resources of the organization for their own ends, rather than for the owners' ends.

Specific models of public bureaucracies tend to focus on one aspect of the loose control the public has over its bureaucrats. That is in cost control. The basic problem here is that funding agencies and legislative oversight committees tend to find it nearly impossible to determine what it really costs to produce the output they want. The bureaucrats themselves are the only real experts on cost and production of their output, and they are highly skilled at concealing that information. Astute bureaucrats are thus able to inflate their budgets by claiming necessary costs are higher than they actually are.

Applied to Alaska's financial sector, these models suggest that if Alaska replaces private, profit seeking financial intermediaries with public bureaucracies, the result will be (a) high cost operations, which will be difficult to control or correct by political means, (b) evolution of operational procedures and paperwork requirements which increase staff and budget size, and place a heavy compliance burden on private borrowers, (c) evolution of lending policies which tend to increase the size of the bureau, rather than those that tend

to maximize the social return from lending.

In very brief summary, without repeating all the individual points made in this section, it appears that political allocation of capital is likely to be far less efficient than market allocation. Neither system can be perfect, but the imperfections of the market system are slight and fairly controllable, while the imperfections of the political system are major and almost inherent – or, at least, basically uncontrollable in our present state of knowledge about the economics of public choice.

III. Alternative Forms of Ownership for Alaska's Oil Revenues.

In the previous two sections I have come down hard against the idea of state loan programs. However, I actually have a great deal of sympathy for the business people and households who are asking for such programs. Some of these people desperately need business financing, others would very much like to have housing finance. It must be very frustrating to see your needs unmet when your state government has more money than it knows what to do with – especially if you believe that in a democracy all assets and property of government ultimately belong to the governed. In other words, if you believe that part of that money is yours. Under these circumstances it is quite understandable that people ask their government to at least lend them some of their own money.

From my perspective, however, their frustration is misplaced. Instead of being frustrated with interest rates and the availability of capital, they should be frustrated with the way their ownership of oil money has been defined. This is the final issue I would like to

explore: the issue of the economic implications of alternative ways of defining the ownership of Alaska's oil revenues.

Let us look first at the current situation. Alaska's citizens own the oil lands and they own the oil revenues. But, what they have is common property ownership: the citizens own the oil revenues in common, as a group, and no individual can single out any part of them as his private property. In practice though, common property can be converted to private property through political action. That is really what is taking place each legislative session; it is what is taking place here when Permanent Fund trustees decide how to use the Fund and its earnings.

Elimination of income taxes turns part of the oil revenues into the private property of those who get to keep the money they would ordinarily have paid in taxes. Appropriations for various state bureaucracies turn part of the oil revenues into the private property of bureaucrats, who can use their budgets to advance their careers and raise their future incomes. Provison of subsidies, hidden or open, to various groups in the population converts part of the oil revenues into their private property, and so on.

Obviously, the people who win the most at this game are those who are politically powerful and politically astute. Also, it should be obvious that a certain amount of the oil money is dissipated in paying for the costs of political activity, in bureaucratic waste, and in production of negative net value projects for special interest. Finally, the broad outlines of the pattern of use of oil revenues is also clear. Existing arrangements and political decision making have led to (1) a large increase in government output relative to private output,

(2) a large increase in government's power to try to control the development of the private sector through selective credit policies, subsidies and other methods and (3) a large increase in public savings, through the Permanent Fund, with these resources apparently earmarked for provision of future government output.

Is this a set of results which best reflects the true preferences of the citizen-owners of the oil revenues? Are these the results of an allocative system which is responsive to the real needs and demands of the citizens? Our previous discussion of the allocative deficiencies of the political-bureaucratic system should make you doubtful that the answer to either of these questions is yes.

In order to put the current system in perspective, let us compare it with an alternative system which could have been used to define ownership in Alaska's oil revenues, and then to allocate those revenues. The key to the current system is that individual citizens own the oil lands through their role as "owners" of the state of Alaska. The whole system and all its allocative results would have been very different if individual citizens had owned the oil lands through their rights as owners of a private corporation. Imagine that the oil lands had been owned by a private corporation which had as its stockholders all Alaskans, and only Alaskans - or whatever group of persons you want to say has ownership rights under the current system. How much control over oil wealth would that system have given individual owners, and what patterns of resource use would we have seen over the years since discovery of oil?

Prior to the discovery of oil, stock in this land owning corporation would have had some (perhaps low) market price. As soon as oil

was discovered, the market would have bid up the price of the stock. This would have immediately given individual Alaskans an increase in net worth. With each new discovery and each higher estimate of the size of the oil pool and each increase in the world price of oil, the market would have bid the stock price even higher. Thus, all the favorable events we have seen over recent years would have increased the net worth of Alaskans.

Individuals would have been free to sell the stock at any time, or hold it as they saw fit. Presumably the corporation would have periodically increased dividends, thus increasing the cash flow to those Alaskans who continued to hold stock. Also note there would have been no need for stockholders to remain in the state in order to receive their increases in wealth. This is in sharp contrast to the current system. Finally, ownership rights would have been clear-cut and legally enforceable, and there would have been no need to engage in political activity to either secure the rights or to protect them from encroachment by special interests and bureaucrats. In sum, individual Alaskans would have had far more personal control over their share of the oil wealth if it had been private property than in the current case where it is common property until converted to private property through political decisions.

The patterns of resource use flowing from individual control of oil revenues would also have been quite different than those we have seen under the current system. First, there would have been a great increase in demand for market produced goods and services, rather than the current increase in government output. Second, increased market demand would have stimulated private investment and economic expansion

in response to market forces, rather than expansion in response to government subsidies. Third, there would have been an increase in private savings, rather than in public savings. This would have increased deposits in local financial institutions. Fourth, increased investment demand would have meant increased loan demand; increased deposits would have meant increased loan capability; local financial institutions would have grown and achieved economies of scale and increased competition, rather than the opposite effect we see now due to crowding in by state loan programs. Fifth, there would have been some increased demand for public goods and services, as people would also want to consume more of these as their incomes rise, and there would have been some normal increase in state revenues through the income tax.

But an extraordinary rate of growth of government spending would have been unlikely, since to achieve that the political system would have had to pry the money out of the hands of the citizens, rather than spending it before they can get their hands on it, as is now the case. Finally, it seems very unlikely that there would have been anything at all like the Permanent Fund. The long run savings percentage in this country is less than 10% out of personal disposable income. Additional private savings out of increased private income due to oil revenue would have approximated this long run figure. It is almost inconceivable that voters would have approved an additional 25% public savings out of gross oil income, on top of their normal savings. The Permanent Fund may make a certain amount of sense to citizens in the context of current arrangements, where it is a means of removing a portion of wealth from the fate that awaits it in the imperfect, waste-

political system. But it would make very little sense in the context of the alternative system, where individuals would have direct personal control of their own oil incomes.

We have now compared the effects of two alternative ownership systems for Alaska's oil wealth. It has been shown that the current system of common property ownership has a number of serious deficiencies:

- it does not give individuals effective control over their shares of the wealth;
- it has no inherent tendency to produce economic efficiency. Rather, majority rule voting and bureaucratic administration have strong tendencies to misallocate resources and to dissipate the wealth;
- the misallocative effects of the current system are not limited to government production and output--they also spread to the private sector, reducing the efficiency of capital markets, and setting subsidized interest rates which make capital look less scarce than it really is, thus distorting production decisions throughout the economy;

A private property rights system, in contrast, would perform much better on all these counts. Can there be any question which system Alaskans would choose if given a second chance?

If the current system is so flawed, why is it in use? Has it some great merits we have overlooked? Is this system needed because it is more democratic than the alternatives? Are there other high minded justifications for the system?

As far as I can tell, none of these things has anything to do with the existence of the system. The system exists by accident. It was historical accident which put the oil lands in the hands of the state of Alaska. It was historical accident in the form of custom and tradition which led to a common property definition of ownership of the wealth from those lands.

Now, as a result of these accidents, economic affairs run backwards in Alaska. The normal pattern in our society is that income is generated in the private sector, then some portion is taxed away to run the public sector. In one sense this is true in Alaska as well, since the oil revenue comes from taxes on the oil industry. But from the point of view of the individual citizen it looks as if part of his income is now materializing in the public sector, from which point some small portion may be passed on to him, if he is lucky.

Is there any reason why Alaskans should continue to allow the game to be played this way? Does the present system have any legitimacy at all? These are questions an outsider probably should not ask, and certainly should not answer. I do hope, though, you in Alaska will ask and answer them for yourselves.

don't mess

RETAIL REVOLVING CREDIT

STATES WITHOUT STATUTORILY IMPOSED RATE CEILINGS

States which prior to 1980 did not impose ceilings:

1. Kentucky
2. New Hampshire
3. Oregon

States which removed ceilings in 1980:

4. Arizona
5. New York

States which removed ceilings in 1981:

6. Delaware
7. Illinois
8. Montana
9. Nevada
10. New Jersey
11. New Mexico
12. Ohio
13. Utah
14. Wisconsin (effective 1984)

States which have removed ceilings in 1982:

15. South Carolina
16. South Dakota
17. Virginia (effective April 1, 1983)

12/17/81

J. C. PENNEY Co.

STATES WITH RATES OVER 18%

- 1, KENTUCKY
- 2, NEW YORK (D) (S) 6-30-83
- 3, ARIZONA (D)
- 4, NEW HAMPSHIRE
- 5, OREGON (D)
- 6, ALABAMA (S) EXTENDED TO JUNE 1983
- 7, CALIFORNIA (S) 10-1-82
- 8, KANSAS (S) 7-1-82
- 9, MISSISSIPPI (S) 6-30-82
- 10, NEBRASKA
- 11, SOUTH CAROLINA (S) 7-30-82
- 12, SOUTH DAKOTA (S) 7-1-83
- 13, DELAWARE (D)
- 14, GEORGIA
- 15, IDAHO
- 16, MONTANA (D) (S) 7-1-83
- 17, NEW JERSEY (D)
- 18, NEW MEXICO (D) (S) 7-1-83
- 19, TEXAS
- 20, UTAH (D)
- 21, WYOMING
- 22, OKLAHOMA
- 23, MICHIGAN
- 24, ILLINOIS (D)
- 25, NEVADA (D)
- 26, COLORADO
- 27, OHIO (D) (S) 1-1-85
- * 28, WISCONSIN

D = DEREGULATION

S = SUNSET AND DATE OF EXPIRATION

*FLOATING RATE UNTIL 1984 AND THEN DEREGULATION

12 deregulated

12/17/81

J. C. PENNEY Co.

STATES WITH RATES AT 18%

- | | |
|------------------|--------------------------|
| 1. CONNECTICUT | 12. LOUISIANA |
| 2. WASHINGTON | 13. MARYLAND |
| 3. WEST VIRGINIA | 14. MASSACHUSETTS |
| 4. VIRGINIA | 15. MISSOURI |
| 5. MAINE | 16. NORTH CAROLINA |
| 6. VERMONT | 17. NORTH DAKOTA |
| 7. ALASKA | 18. RHODE ISLAND |
| 8. FLORIDA | 19. TENNESSEE |
| 9. HAWAII | 20. MINNESOTA (16%-18%) |
| 10. INDIANA | 21. DISTRICT OF COLUMBIA |
| 11. IOWA | |

STATES WITH RATES BELOW 18%

1. PENNSYLVANIA (15%)
2. ARKANSAS (10%-CONSTITUTIONAL LIMIT SET IN THE YEAR 1876)

DURING THE 1981 LEGISLATIVE SESSIONS, RETAIL CARD RATES WERE A FOCUS OF ATTENTION IN TWENTY FIVE (25) STATES. HERE IS A BREAKDOWN OF THE ACTIVITY BY STATES:

10 STATES DEREGULATED (ELIMINATED ALL CEILINGS)

DELAWARE	NEW JERSEY
ILLINOIS	NEW MEXICO
OHIO	OREGON
MONTANA	UTAH
NEVADA	WISCONSIN (1984)

8 STATES INCREASED RETAIL CREDIT CARD RATES OVER 18%

ALABAMA (21%)	IDAHO (21%)
CALIFORNIA (19.2%)	OKLAHOMA (21%)
COLORADO (21%)	TEXAS (24%) VARIABLE
GEORGIA (21%)	WYOMING (21%)

7 STATES TOOK MISCELLANEOUS ACTION ON CREDIT CARD RATES

WASHINGTON (18%)	MISSOURI (18%-ELIMINATED BREAK RATE AT \$500)
CONNECTICUT (18%)	WEST VIRGINIA (18%-ELIMINATED BREAK RATE AT \$750)
MINNESOTA (16%-18%)	MASSACHUSETTS (18%-ELIMINATED BREAK RATE AT \$500)

DISTRICT OF COLUMBIA (18%-ELIMINATED BREAK RATE AT \$500)



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THE MACNEIL-LEHRER REPORT

Usury Ceilings

In New York

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In Washington

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Rep. BILL PATMAN Democrat, Texas
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BARBARA REID ALEXANDER Maine Bureau of Consumer
Credit Protection

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Usury Ceilings

ROBERT MacNEIL: Good evening. Several major banks lowered their prime lending rate half a point today to 19%, an interest rate expected to become the standard for business loans across the country. At the same time, the White House urged the Federal Reserve Board to ease its tight money policies slightly. Deputy Press Secretary Larry Speakes said the administration still supported the Fed's policy of monetary restraint; it merely wanted a rollback of recent actions which had increased restraint on the money supply. On Capitol Hill concern over tight money and the high interest rates is surfacing in another way: proposed legislation to do away with state usury laws, or legal limits on interest rates. Bankers, retailers and finance companies backed the effort, claiming that low interest levels are stifling credit. Removing the ceilings, they say, will cause more credit to flow. Consumer groups and some state officials say that argument is false, and oppose the legislation on the ground that it will legalize loan-sharking. Tonight, should Washington take the cap off state interest rates? Jim?

JIM LEHRER: Robin, usury is defined as the loaning of money at an unconscionable or exorbitant rate of interest. There are 44 states with various laws prohibiting its practice. But there's no uniformity to them, either in the types of loans they cover, or when the rate becomes unconscionable or exorbitant, and thus illegal. At one extreme is Arkansas which has a cap on bank consumer loans at 10%. At the other extreme is South Carolina, where the cap is 24%. The others have ceilings somewhere in between. Congressman John J. LaFalce, Democrat of New York, wants all ceilings, all caps, in all states eliminated, and he's the sponsor of legislation in the House that would do just that. Congressman, why should state interest rate ceilings be eliminated?

Sen. JOHN LA FALCE: Well, I think there are a number of reasons. First of all, I think that the economic forces that are at work determining the market interest rates are either national or international in scope, and bear virtually no relationship to state forces. Secondly, the state laws that are on the books now are really relics of ages long past. The usury rates were set at a time when we had interest rates of perhaps 2%, and you might have a usury law prohibiting interest being charged above 12%. But because of the present volatility of our interest rates, those usury laws have, in effect, prevented the availability of credit. So, if you live in a state with a restrictive usury law, you simply can't get credit. Your down payment for a car costing \$7,000 would have to be \$7,000. Your down payment for a home costing \$100,000 would have to be \$100,000. And so, really, what—

LEHRER: And that in fact is the case in states where they have usury laws?

Rep. LA FALCE: In fact that is the case in a great many states where they have such restrictive usury laws. In the state of New York, for example, it was impossible until 1980 to obtain a residential mortgage when the market rates were about 20%, and you had a restrictive rate of around 12%. The issue is not what the interest rate should be. The market will determine that. The issue is whether or not credit will be available to the consumer who wants to make a purchase.

LEHRER: Well, what if you take the laws off? Let's assume that your bill is enacted into law, signed by the President and the whole thing. Wouldn't that mean that interest rates would just skyrocket for retail—

Rep. LA FALCE: No, because we have a classic free market competition here in the United States. There are untold numbers of lending institutions. And I think that the free market would have its chance to work, and would work. Would there be a few number of

abuses? That could well be the case. There would be very, very few, however, in my judgment. There are abuses now that are going unprosecuted because of lack of proof, but the point is, the problem that *(audio lost)* of small businesses going out of business, drying up the real estate market prior to the time that the federal government did preempt the usury ceilings on residential mortgages. The good to be accomplished would offset whatever potential harm might exist by perhaps a thousandfold.

LEHRER: Congressman, let me ask you this. Let's say the people of Arkansas — they have 10% interest rates — that the people of Arkansas want a 10% interest rate, and if they want to pay the \$7,000, or whatever it takes to live within that law, why should the federal government say, "Hey, no. You've got to charge more than that?"

Rep. LA FALCE: Well, I think we have a federal problem on our hands. I would preserve, however, the right of the individual states to exercise their sovereignty by permitting them a three-year time period to reinstate that usury law if that would be their desire. So they would have the right to effectively veto the federal preemption.

LEHRER: But three years later?

Rep. LA FALCE: No. Within that three-year period of time. They could do it immediately.

LEHRER: I see. Thank you, Robin?

MacNEIL: A number of states have recently raised or abolished their interest rate ceilings. One of them is Texas, and the experience has caused one congressman from Texas to oppose the LaFalce bill. He is freshman Democrat Bill Patman, also a member of the Banking Committee, the committee chaired for many years by his father, Wright Patman. Congressman, why do you oppose the bill?

Rep. BILL PATMAN: I think this is an important state right that should be maintained. We ought to let the states decide for themselves just what should be done about this particular issue. And I don't believe that the take-out provision is adequate, that Congressman LaFalce mentioned.

MacNEIL: What does that mean, the "take-out provision"?

Rep. PATMAN: Where a state could exempt itself from this particular lifting of the usury ceiling. Because it would have to do so before April the 1st of 1983, or in that area. We don't even meet in Texas in the legislature again until January of 1983, in regular session.

MacNEIL: What happened in the Texas experience recently, partially abolishing the interest rate ceiling, that has caused you such anxiety?

Rep. PATMAN: Well, I think it's regrettable that the Texas legislature did act to raise the interest rate ceiling, but that was its option, acting with what it assumed to be the will of the people behind it. That same legislature may in the future decide that it wants to lower that rate, and passage of this bill after the take-out provision is gone will not permit it to do so. I think it's important to realize that the market rate of interest — of interest — is not set for the small consumer loans. We in Texas have a super high rate, of up to 109%, and even beyond that, on loans of \$100 and under. We're one of only five states in the entire United States that authorized such abuses of the consumer. And if we pass this bill of the Congressman's and we don't have some exemption of a state from that particular type of loan, then you'll have that same type of abuse prevalent throughout the United States.

MacNEIL: Give me an example of the kind of abuse you're talking about.

Rep. PATMAN: Well, a \$100 loan for six months would be chargeable — cash loan — would have charges on it amounting to 109%. The lenders in Texas of those particular

loans actually flip them, or renew them every couple of months, and then charge a non-refundable acquisition charge that raises the effective yield, in some instances that we noticed when I was in the Texas Senate, to up to 149%.

MacNEIL: Mr. LaFalce says that his bill is necessary because credit has dried up in states where the usury laws keep the interest rate below a ceiling that is below current market rates. And so people just can't get credit.

Rep. PATMAN: That's a common argument of the loan companies and the finance companies. I've followed this issue for many of the years in which I served in the Texas Senate, and these finance companies will go from state to state now, and seek to jack up the rates. And then they'll go around to the other states that have not increased their rates, and say, "You're out of line." We kept those rates low in Texas, or at least lower than some of these other states, for at least 12 years. And all that time, these finance companies were promising that they would go out of business if we didn't suddenly increase their rates. They made huge profits. In fact, one loan company, we found by examining the records in Massachusetts, regarded Texas as its 11th most profitable state out of some 38 or so in which it operated, even though we kept our rates at what they called a low level.

MacNEIL: Well, do you argue, then, Congressman, that the interest rate ceilings are not preventing the availability of credit?

Rep. PATMAN: Yes. I think in general they could cause some difficulty in obtaining credit in some areas. But there doesn't seem to be a shortage of the availability of credit throughout the nation to call for an extreme measure of this type. I think that once we take off these limits that the states have imposed themselves, we'll never get them back down, and we'll have a large series of abuses, a long series of them, that will really result, I think, ultimately, in a public outcry against this type of thing.

MacNEIL: Well, thank you, Jim?

LEHRER: Among those pushing for federal elimination of state usury ceilings are small businesses which depend on consumer credit. This includes the retail furniture business, and people like Mel Kusun of Texarkana, Texas. Mr. Kusun owns three furniture stores, two in Texas, one next door in Arkansas. He's also on the board of the National Home Furnishings Association, his business's trade organization, and was to testify this week at hearings on the usury law issue — hearings that have now been postponed, you discovered once you got to Washington a while ago, right?

MEL KUSIN: Right.

LEHRER: Okay. Mr. Kusun, in your Texas stores, what interest rate do you charge now?

Mr. KUSIN: Presently we're charging 24%. That's the new limit allowed by the state of Texas under the new legislation.

LEHRER: I see. Now, what do you charge across the — across the street in Arkansas?

Mr. KUSIN: Well, our other store is 32 miles away in Hope, Arkansas. We charge 10%.

LEHRER: Well, now, what's the difference in terms of what people buy, and the success of these stores?

Mr. KUSIN: Well, there's an unbelievable difference, and it's getting more and more painful all the time. In the state of Arkansas, retail furniture prices are normally about 11% higher than those in surrounding states of Texas, and, I believe, Oklahoma.

LEHRER: So you're getting it anyhow? You just have to raise the price of the furniture? Is that it?

Mr. KUSIN: I'll explain to you. We pay—we are lucky to pay approximately prime bank interest in our area, which is about 20%. In Arkansas, with the 10% state limitation, the store has to make up the difference itself. Anybody in the furniture business in Arkansas today who deals in credit sales has to supplement the sale itself, or else raise the price on it.

LEHRER: But the people in Arkansas are still buying furniture, I guess, and doing all these other things. How does it work?

Mr. KUSIN: They're paying more money—more money for their furniture because of the interest differential. The furniture stores there—many of them—are having to decide whether to stay in business or not, because they are the ones supplementing that whole difference in what they have to pay for money, and what the state limit is. Now, our position is this on the money available for something like furniture or automobiles or that. We're in the business of providing our customers with furniture. We're not in the business of credit. We handle the credit more as a convenience, a necessary convenience. If a state could set the rate at which a business borrows money, then it would be fine to set the rate at which it loans the money. But we have, as businessmen, to go by a federal existing loan rate, which would be the bank prime rate. But yet, within states, we are limited by the state law. So unless a furniture store can supplement the difference, it just won't work. And this is why we feel that it should—the interest rate should follow the level of the market.

LEHRER: In other words, what you're saying is that if you could borrow the money yourself in Arkansas, say, for 8% or 9% or even 10%, then you wouldn't mind using—mind giving people credit at 10%.

Mr. KUSIN: Exactly.

LEHRER: I see. What would be the effect of Congressman LaFalce's bill—if it, in fact, was enacted into law—on your particular business—or the small businessman generally—that deals in consumer credit?

Mr. KUSIN: Let's say in Arkansas we could then again go to the loaning agencies, which would be banks or large firms—national firms that sell such financing. They would take all of the so-called contracts that a furniture store or any other retailer has if they had the difference to work between. If the—if the new law were to be passed that would allow a float-up on the interest to a market price, then we wouldn't—we would no longer be in the credit business in the furniture business. We would be selling furniture, as we should be.

LEHRER: I see. You do not share Congressman Patman's fear that this thing will be abused, and could lead to some serious abuses in terms of the amount of—the exorbitant rate of interest that could eventually be charged?

Mr. KUSIN: No, we don't think so at all. Our business, from a—the furniture business itself is a very competitive business. The prices of furniture will be held down by competition. If the interest rate is allowed to seek its own level, that will also become competitive. But most important, the consumer who wants to buy furniture can buy it on credit. Today in states like Arkansas, when furniture dealers have to withdraw from the market because they can't support it anymore with those high interest rates, the consumer is the one who really suffers, either through high prices, or through the, really, the almost lack of availability within a market place of furniture.

LEHRER: I see. Thank you, Mr. Kusin, Robin?

MacNEIL: A number of consumer organizations, led by the Consumer Federation of America, oppose the usury legislation. Another witness who was in Washington to testify, is Barbara Reid Alexander, superintendent of the Maine Bureau of Consumer Credit Protection, a state agency. Ms. Alexander, why do you oppose these bills? I should say,

there is also a bill in the Senate, correct?

BARBARA R. ALEXANDER: There is. Many state regulators and people associated with the state agencies that control consumer credit around the country oppose these bills because our state laws are the product of a very delicate balancing between the decision as to what interest rate should be mandated, and what consumer protections should be garnered in return for high interest rates. Consumer protections are linked to high rates in most states. They certainly are in Maine. If Congress enacts these bills, we will find that many important consumer protections, that our state legislatures thought were crucial in the regulation of credit, will be destroyed.

MacNEIL: Like what?

Ms. ALEXANDER: Well, for the privilege of higher rates in many states, we regulate substantive contract terms, and limit late fees, attorneys' fees, closing costs, default charges. We require a rebate of interest when a consumer prepays a contract early. We prohibit prepayment penalties. We limit the amount that the creditor can increase a contract when the consumer has troubles and comes in to refinance that contract. All of those protections are gone when we enact HR-2501, which is sponsored by Congressman LaFalce.

MacNEIL: What do you say to a dealer like Mr. Kusin in the retail business, who said that if you don't allow the interest rates to rise to the market level that dealers are going to have to get it another way, simply by putting supplemental prices on their product?

Ms. ALEXANDER: It's interesting that we find ourselves talking about Arkansas in this program. They are the state that is used to push this bill — and has been used to push bills like this for some years, now. The state of Arkansas had a statewide referendum on their 10% usury ceiling, which is in their constitution. The people in that state went to vote, and overwhelmingly defeated an attempt to increase that 10% limitation. I am not going to defend the 10% limitation of Arkansas. That's Arkansas' problem.

MacNEIL: What is the limit in Maine?

Ms. ALEXANDER: Generally 18%, with higher rates allowed for smaller transactions.

MacNEIL: And what effect is that having on consumer credit — on the availability of consumer credit?

Ms. ALEXANDER: I think that most credit is available in Maine at the maximum rates right now, and I think the volume of credit is down, and I think it's because people will not pay those high rates. I think the credit availability argument is really a non-argument. People are not going out to buy cars right now because the rates are too high, and they don't want to buy a car at 18%, 19% and 20% interest rates. The credit in this country is growing nationally at a rate of 7% to 8%. That contrasts with the rate of increase for 1980 — all of 1980 — of only 1%.

MacNEIL: You mean, credit availability — credit is growing faster this year than it was last year?

Ms. ALEXANDER: That's correct, sir.

MacNEIL: Even with the high interest rates?

Ms. ALEXANDER: And that's because most all states have made changes in their interest rate ceilings. Seven to 10 states have totally deregulated interest rates, except for a criminal usury statute that prevent loan-sharking, bills and legislation which would also be totally obliterated by HR-2501. Every time we increase rates nationally 1% in this country, we're costing consumers \$3 billion. That's money that doesn't go into economic growth

and development or capital expenditures to expand our economy. That's money that goes into retiring debt service, which is really not what I think Congress should be about at the present time.

MacNEIL: Well, thank you. Jim?

LEHRER: Congressman?

Rep. LA FALCE: Yes, let me make a number of points. First of all, I think that everyone here, and probably everyone in Washington, is against high interest rates, and we want to do all that we possibly can to bring those interest rates down. Secondly, I think there is true—

LEHRER: Yeah, but to her point. Her point, basically, is that it's high interest rates — period — that are causing people not to buy cars and furniture from Mr. Kusun, and all the usury laws don't have a thing in the world to do with it.

Rep. LA FALCE: Well, it's true that high interest rates are causing that, and I have been criticizing high interest rates and calling for actions to cope with high interest rates. But it is also true that regardless of the high interest rates we have right now, if the market interest rates are, say, double the usury ceiling, you're going to have a total closure of the window on credit. And that has happened historically, and that still is happening now for individuals who do believe that they can afford the going interest rates.

LEHRER: Do you agree with that, Congressman Patman?

Rep. PATMAN: No, I certainly don't. The market does not set the small loan rates. The small loan rates are set up to the maximum that the lender can charge. Now, I don't know what's going to happen when this happens — when we pass this bill, if it passes. Mel mentioned going up to 24%. Obviously he did that as soon as he had the opportunity.

LEHRER: What was it before it was — you said that it's now, in Texas law — 24% is what you're now allowed. What was it before the law?

Mr. KUSIN: Eighteen.

LEHRER: Eighteen. So you went up 6% overnight?

Mr. KUSIN: Yes. Well, we do financing through General Electric Credit Corporation and the banks and the — everybody in the state followed the law as it allowed. It eased the pinch, but not completely. Now, that's an interesting thing, because we still — when we sell our accounts receivable through financing companies, we still have to pay a discount. With that 24% —

LEHRER: Let me make sure we explain what that means. You — somebody walks into your furniture store, they buy furniture, you give them credit. You take that paper and then you sell it to a finance company. All right, now, what do you sell it to them? Now, if you charged the customer 24%, what do you sell it to the finance company for?

Mr. KUSIN: Today in Texas I believe the approximate discount that the store has to pay — the store has to pay — is about 4%.

Rep. LA FALCE: So that store is either going to take a loss or it's going to pass that difference on to the customer in some camouflaged way, rather than direct, rather than openly. Another point —

Rep. PATMAN: But the point is, though, that these loan companies always charge the maximum, whether it's 3 1/4%, as it is under the Uniform Consumer Credit Code in some states, or some — or a higher amount, often 45%. It's gotten grossly out of proportion.

LEHRER: Ms. Alexander, let me ask you. If you— if the usury law in Maine suddenly went away tomorrow— it's now 18%, right?

Ms. ALEXANDER: Generally, yes.

LEHRER: What do you think, if the market were allowed to work its magic, where do you think it would go?

Ms. ALEXANDER: I don't know what it would do in Maine, but we know something about what's happening in some of the states that have deregulated. In the state of New York, interest rates increased dramatically. In the state of Arizona—

Rep. LA FALCE: Well, you know, I am from New York, and I know a little bit about that. And she says that interest rates increased dramatically. The fact of the matter is, the market interest rates were already considerably higher than the usury ceiling. So if the usury ceiling is 12, and the market interest rates are 18, and you're able under a new law to charge the market interest rates, of course there's going to be a dramatic increase— dramatic increase. But it wasn't above and beyond what the market was charging.

LEHRER: Well, what's the market in— Yeah, go ahead.

Ms. ALEXANDER: I wasn't characterizing the increase. You asked what happened. That is what happened.

LEHRER: Right.

Ms. ALEXANDER: In the state of Arizona, we find that used car loans are going in the range of 30% to 50%, that people who live near or in the Indian reservations out there, who do not— are not able to shop for credit because the credit availability is not there, are paying 50% interest rates to buy a used car because they have a captive market, and the used car dealers in the area have set a rate at extraordinarily high rates.

LEHRER: Make sure we understand, now. Arizona was a state that had a usury law, had a cap, removed it— deregulated— and that's what you're— what about that, Congressman?

Rep. LA FALCE: Well, first of all, she's complaining about a 30% interest rate, whereas the state of Maine, for small loans, has a 30% usury ceiling. I have no doubt that an individual could always point to a specific instance— a specific example— and say here is an example of abuse. But I can also point to 99% of the cases where I think the classic competition that exists within our free market would work, and I could also point out literally hundreds of thousands of small businesses that have failed, in large part due to restrictive usury laws that are on the books.

Ms. ALEXANDER: I don't know where the Congressman's getting those statistics. Ten thousand small businesses close every year, and it doesn't have anything to do with interest rates they're able to charge consumers. It has to do with rates that are imposed on them by banks so that they can operate. It's the prime rate of 19%, 20% and 21% we were talking about before. But let me get back to— the issue here is not whether or not I can sit here and defend any one state's scheme of things. The point is that the state of Maine has a scheme; it's very happy with that scheme. It's reviewed every year in our legislature. It forms a delicate balance between credit availability, which we want to have available, generally, and consumer protections. And if the legislature and the people in the state of Maine have decided that that approach which we have is the one for Maine, I question whether it's proper for Congress to step in and erase that balance without really understanding the impact of it.

Rep. LA FALCE: If I could address myself to that issue, first of all, a great many state

legislators in states that have the restrictive usury ceilings, have said. "We hope Congress will bail us out because this is a tough political issue. You can't sell it back home. You do the dirty work." Secondly, we do give the states the right to revoke the federal pre-emption. Third, the Congress has the power, and I think the obligation, to act to effectuate the interstate commerce laws. If this isn't interstate commerce, I don't know what is. In a great many instances, the Congress has already preempted usury ceilings. We've done it for business loans; we've done it for agricultural loans; we've done it for residential loans, etc. In preempting usury ceilings on those type of loans, and permitting credit, therefore, to flow to those type of loans, we have engaged in credit allocation, and we've denied that type of credit, therefore, to the consumer and to the small businesses.

LEHRER: Congressman Patman?

Rep. PATMAN: It's legal for the Congress to do this; but it is wrong. We should never have preempted the states' rights—the states' right to operate in these other areas, and I really believe that we're going to be getting in this—in legalizing loan-sharking throughout the United States by passing this bill. That will be—

LEHRER: How does it legalize loan-sharking?

Rep. PATMAN: Well, loan-sharking is the charging of a rate that is illegal. Right now, or at least when I left the legislature, loaning money over 18% in certain transactions was loan-sharking. Loaning money at 25%, in the other states, was loan-sharking. If we're going to be taking off the lid entirely, and nothing will be loan-sharking. We'll be like legalizing burglaries, and permitting them and licensing them.

LEHRER: But if you have the market rate up at 20%, how could that be loan-sharking? I mean if it's costing that much as a result of the economy, and the prime rate is at 20%—

Rep. PATMAN: Well, the amount that's charged fluctuates from state to state, perhaps. It's something that every state legislature can examine carefully. Sure, it's a tough issue. But the people ought to have a right to talk to folks on the local level about these matters.

LEHRER: We just have a few seconds. Speaking of the local level, back to you, Mr. Kusun. Do you think that the people in Arkansas do not have—should not have the right to do what they want to do in their state, right?

Mr. KUSIN: I believe they should certainly have the right, but the merchants from whom they buy the goods cannot operate under a system where they have to supplement by fully 10% what the interest is.

LEHRER: Thank you, Robin?

MacNEIL: Yes, that's the end of our time this evening. Thank you all for joining us in Washington. Good night, Jim.

LEHRER: Good night, Robin.

MacNEIL: That's all for tonight. We will be back tomorrow night. I'm Robert MacNeil. Good night.

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USURY LAW

FACT SHEET

WHAT IS USURY?

Usury is a law which limits the rate of interest a lender can charge consumers for borrowing money.

HOW DO MISSOURI BANKS COMPARE IN THE LOAN MARKETPLACE WITH BANKS IN UNREGULATED STATES?

Missouri banks lend significantly less to consumers than banks in unregulated states. As a matter of fact, banks in Missouri lend about 20 percent less to consumers than banks in those unregulated states. There are 15 states which have eliminated loan rate ceilings.

HOW MANY DIFFERENT USURY CEILINGS ARE THERE IN MISSOURI?

We have 22 usury ceilings in Missouri which affect the consumer. They include:

- 1) Small Loan Act – Installment lending
- 2) Second Mortgage Act – Second mortgages on homes
- 3) Retail Credit Sales Act – Retailer financing
- 4) Motor Vehicle Time Sales Act – Financing by car dealers
- 5) General Usury – Regulates anything that does not fit into the above four categories

IF THE USURY LAW CEILINGS ARE TOO RESTRICTIVE, WHAT WILL HAPPEN?

- 1) Some consumers will find it more difficult or impossible to secure financing.
- 2) Lenders will be encouraged to find unregulated areas to finance. For example, most banks will loan money to business because business loans are unregulated by rate.

WHO BENEFITS FROM THE USURY LIMIT?

The well-to-do consumers, those with high incomes and a long record of credit worthiness are financed. People with lower incomes are not financed and are, subsequently, hurt by low usury limits.

DOES THE USURY CEILING HAVE AN EFFECT ON THE PRICE OF GOODS?

It sure does. If the cost of money a retailer borrows is higher than the interest he can charge customers who finance through him, then the retailer has to increase the price of goods.

IF THE USURY LAW IS DEREGULATED, WHAT WOULD KEEP INTEREST RATES FROM GOING THROUGH THE ROOF?

First of all, the lenders will be in a competitive situation. Financial institutions want to loan money and will use innovative approaches to get the consumer's business.

Secondly, the rates of interest keep pace with inflation and the general cost of money. If the cost of money to the bank goes up, so will the interest rate charged to the consumer. Likewise, if the rate declines, so will the rate banks charge.

There are no national ceilings on home loans, yet Missouri's interest rates remain below the national average. That says something for competition among thousands of Missouri lenders.

WHY IS IT IMPORTANT TO DEREGULATE MISSOURI'S USURY LAW OR ELIMINATE IT ALTOGETHER?

It is important to raise the limit on usury or abolish the law altogether because it restricts a lender's ability to loan money to high credit risk consumers.

The banking marketplace should be competitive. For example, a price ceiling is not set on retail goods, yet the marketplace sets competitive prices on those goods. The same should apply to lenders.

There are over 1200 bank locations, 370 savings and loan branches, thousands of retail outlets, 38 mortgage banking companies, 90 agricultural credit cooperatives, and a number of federally subsidized loan programs.

WHAT DO LENDERS DO WHEN THE USURY CEILING LIMITS THEIR ABILITY TO LOAN MONEY?

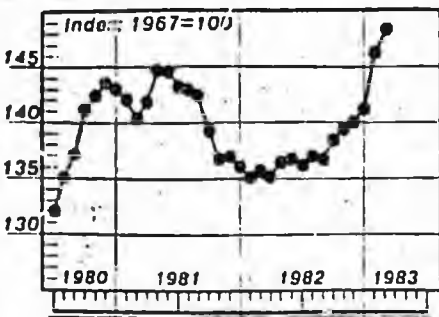
Ceilings have encouraged lenders to use such credit rationing devices as higher down payments, shorter maturities, and higher fees for related non-credit services which increase the effective interest rate. They have curtailed the amount of credit available to lower income and higher risk borrowers, harming primarily those individuals whom the ceilings are intended to benefit.

HAS THE MISSOURI LEGISLATURE EVER INCREASED THE USURY CEILING?

Yes. Each time the cost of money rises, the Legislature has been asked to raise the usury ceiling. The last time, 1979, raised the general usury ceiling from a fixed 10 percent to a quarterly floating rate tied to long-term government bonds.

MISSOURI BANKERS ASSOCIATION
P O. Box 596
JEFFERSON CITY, MISSOURI 65102
314/636-8151

Leading Indicators



COMPOSITE of key indicators of future economic activity rose in February to 148.3% of the 1967 average from a revised 146.2% in January, the Commerce Department reports. (See story on page 3.)

John Waters' Films Have Low Budgets, Large Leading Lady

'Master of Bad Taste' Repels Critics but Reaps Profit—Rooting for Captain Hook

By TRISH HALL

Staff Reporter of THE WALL STREET JOURNAL

"One of the most vile, stupid and repulsive films ever made," said Variety, the show-business bible, in its 1974 review of John Waters' "Pink Flamingos."

To Mr. Waters, the film's screenwriter and director, that was praise of the highest order. After all, he was telling the story of two families contesting for the title of "The Filthiest People Alive." What's more, the nature of Variety's superlatives doubtless helped the film to become a staple on college campuses and at midnight movie houses. "Pink Flamingos" may not have played well in Peoria, but today it is in its eighth year at the same Los Angeles theater.

Mr. Waters' five other feature-length movies—"Mondo Trasho," "Multiple Maniacs," "Female Trouble," "Desperate Living," and "Polyester"—have been variously called weird, depraved, violent and sacrilegious. "I think they're trash," says critic Rex Reed of the Waters oeuvre. "They have no redeeming social value whatsoever. They represent the final insult to sane and rational society—the ultimate nose thumb."

That they do; and therein lies their appeal to a steadily growing audience. For if the 36-year-old Mr. Waters is still unknown to most U.S. moviegoers, his films are nonetheless profitable—something of a feat in an industry plagued by expensive duds. For example, "Polyester," his most recent movie, cost \$300,000 to make and, since its 1981 release, has grossed more than \$2 million at the box office.

The Young and the Jaded

Mr. Waters' fans—who tend to be young, rebellious and, some would say, a bit jaded—regard him as America's indisputable master of bad taste. To Mr. Waters, that is as it should be, as long as they also find him amusing. "I want people to laugh and be repulsed at the same time," he says. "If you can make somebody getting their arms cut off funny, I'm all for it."

He is also all for sets that are deliberately, although affectionately, tacky ("God Bless Our Mobile Home" signs and leopard-skin wallpaper); plot lines that are tortuous; and characters that are for the most part unattractive, if not downright grotesque. His leading lady is nearly always played by Divine, a



Business Bulletin

A Special Background Report On Trends in Industry And Finance

DIVIDEND GROWTH will probably slow more before turning up.

Corporations' dividend outlays will rise less than 7% this year, Merrill Lynch's chief economist predicts; a rise of under 4% is seen by a Data Resources economist. Last year, according to the Commerce Department, the recession cut the growth in dividend outlays to 8%, from 12% in 1981. By Standard & Poor's count, only 1,590 companies—36% fewer than in 1981—increased their dividend rates last year; but 573 companies—90% more than in 1981—reduced or omitted payments.

Although the recession is believed over, economists expect most companies to rein in dividend growth so that financial reserves can recover from recent profit declines. "Companies will want to improve their balance sheets," says Morris Cohen, an economic consultant in Hackensack, N.J. Standard & Poor's says the portion of corporate earnings paid out as dividends has soared to about 55%, from 43% a year ago. Many corporate managers will aim to reduce that ratio well below 50% again, analysts suggest.

The strength of the stock market possibly removes one rationale for increasing dividends: to lift stock prices.

PLEASURE TRAVEL this spring will be stronger than last year.

Bookings are 20% to 30% ahead of a year ago for All Seasons Travel, Charlotte, N.C. South Dayton (Ohio) Travel Agency says business is up 10%. And Terry Beatty, owner of Regency Travel in Memphis, says business is "staggeringly booming—we can hardly take it all." Consumer parsimony appears to be waning as the economy strengthens. Says an American Express travel-agency executive in New York: "People seem to feel now that a vacation is no longer a luxury—it's a necessity."

The robust U.S. dollar prompts more people to travel abroad. Mexico, whose peso is especially weak, attracts the most bookings at Liberty Travel in New York. "Everyone thinks the country is on sale," a Liberty marketer says. World Travel Center, Cleveland, reports strong bookings for travel in the South Pacific and China. Bookings for Europe—especially France, Italy and Greece—rise at JB's World, New York.

BANK-TO-BANK NETWORKS spring up to link automated tellers.

Plus System Inc., Denver, will connect the banking machines of 35 institutions throughout the U.S., including Bank of America in California and Chase Manhattan Bank in New York. The system expects to start up in May with 10,000 machines; plastic cards issued by each member bank will activate every member's machines. Cirrus System, Chicago, founded by 13 banks, started up in January when a Detroit bank's customer used a cash machine in Chula Vista, Calif. At least seven such nationwide networks of automated tellers are in operation or pending, says the Electronic Funds Transfer Association.

Access to various institutions' machines makes banking much easier for travelers. Such access "is what customers want—it enhances the value of the card," says an officer of First American Bank, Kalamazoo, Mich. Thus, the bank has joined a regional network called Magic Line, which connects 1,300 machines in Michigan and itself belongs to Nationet, a national network.

Eventually, all banking machines might be accessible to every customer, as telephone booths already are.

BEING BEARISH proves fatal for the Exchange Insiders Report a stock market

Handling Money

Some Unlikely Places Benefit From the Boom In Financial Services

Sioux Falls Becomes a Center For Credit Cards; Banks Head for Delaware Cities

New York City Fights Back

By RANDALL SMITH

Staff Reporter of THE WALL STREET JOURNAL

SIoux FALLS, S.D.—This windblown prairie city (population 81,000) is 1,376 miles from New York, 569 miles from Chicago and 1,785 miles from Los Angeles. The middle of nowhere, some might think. But all of a sudden it has become a banking center of sorts, and a lot of local people's lives have changed as a result.

Melissa May, whose husband attends divinity school here, was hard put to find temporary jobs as a waitress or sales clerk at the minimum wage of \$3.35 an hour. Then a year ago she began work at Citibank N.A.'s new credit-card operations center here, fielding toll-free telephone inquiries from MasterCard holders all over the country. She got a raise last fall and now makes more than \$5 an hour, plus health insurance and other benefits. "The word around is that this is a good place to work," she says.

Greg Hanson, 21, also is working at a job he never dreamed existed a few years ago. His two brothers are employed at the local John Morrell & Co. meat-packing plant, one of the nation's largest slaughterhouses and still the city's largest employer, with 2,800 jobs. But Morrell has done little hiring since Greg got out of high school a few years ago. For a while, he worked repairing trucks but had been laid off before he started working at Citibank in August 1981. At first, he operated machines that insert bills and promotional fliers into 200,000 envelopes daily. He has since been promoted to the post of clerk in charge of the vault containing blank, unissued credit cards.

Providing Jobs

More than 40% of the employees at the credit-card center were unemployed before they came to work at the long, slab-shaped modernistic building on the outskirts of town, near a truck stop and a mobile-home dealership. There are currently about 800 full-timers on the job, and Citibank eventually plans to have a work force of 1,500.

Sioux Falls is prospering as a result. Its December unemployment rate was 5.4%, the sixth lowest in the nation among 221 metropolitan areas over 50,000 population, and Mayor Rick Knobe thinks the rate would have been two or three percentage points higher without the Citibank operation. John Belmore, manager of the local Dayton's department store, attributes two years of healthy sales increases to the bank's presence.

What's happening in Sioux Falls has been happening here and there all over the economic landscape as the nation's financial services companies have reached out to hire more people to help with their burgeoning money-handling and paper-work chores.

"Financial-services employment has been among the fastest-growing of all U.S. industries and continues to be an extraordinarily dynamic sector," says Irving Levinson, director of economic studies at the Hudson Institute, a Westchester, N.Y., think tank.

More Bankers Than Steelworkers

From 1973 to 1982, according to the Bureau of Labor Statistics, the number of jobs in finance, insurance and real estate rose 32% to 5.4 million, while jobs in metal work-

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Handling Money: Some Unlikely Places Benefit From the Continuing Boom in Financial Services

Continued From First Page

of Citibank, said it plans to buy a small bank in another South Dakota town, Rapid City. By using a new state law allowing state-chartered banks to sell insurance, Citibank apparently aims to skirt a federal law barring national banks from the insurance business.

Wherever it's possible, the emerging financial supermarkets such as Citibank, Merrill Lynch, BankAmerica Corp. and American Express Co. are targeting low-cost Sun Belt areas for future growth, much as industrial companies did decades ago when they moved from the Northeast to the South. They seek places where labor, land, electricity and taxes are cheap. And they seek some of the older cities in the East and Midwest where unions, high unemployment and crumbling old roads and bridges pose the threat of higher tax costs later.

Advances in telecommunications have allowed clerical operations to be moved almost anywhere. When American Express decided to move its traveler's check operations out of New York, it screened several cities for cost advantages before finally choosing Salt Lake City. The other finalists: San Antonio and Austin, Texas; Little Rock, Ark.; Nashville and Memphis, Tenn., and Jacksonville, Fla.

Citicorp actually owns its own satellite telecommunications system with four earth-receiving stations (including one here at Sioux Falls).

Unions have had little success organizing a growing army of financial-service workers. "It's the last frontier, and we aren't doing too well," says AFL-CIO spokesman Rex Hardesty. He observes that most of the available jobs wouldn't be too attractive as placement jobs for laid-off production-line workers anyway. Clerks in financial services typically earn between \$10,400 and \$18,100 a year, while comparable production-line wages average \$22,000 for auto workers, \$23,000 for steelworkers and \$21,000 in trucking, Hardesty says.

Sioux Falls attracted Citibank during a 30-day dispute between bankers and New York state over the 12% New York interest-rate ceiling. South Dakota Gov. William Janklow asked his state legislature to remove most interest-rate ceilings entirely, and then it invited the New York-based bank into the state. New York later lifted its ceiling, but then it was too late.

The operation moved here from Huntington, N.Y., a New York City suburb. Although higher-level people were relocated here from Huntington, many of the better jobs have also been won by local people, including Mayor Knobe's wife, Beverly. Kamie Ward, wife of a local judge, supervises about 100 customer-service agents. Robert Mazur, president of transaction services, came from the Federal Reserve Bank in Omaha, Neb. There he ran check processing; at Citibank he gets the checks to the Fed and paid quickly as possible—usually within 36 hours. This is a vital part of a business where a day's "float" on five million charge

accounts means thousands of dollars in interest.

Delaware won 1,800 new bank jobs by not only abolishing interest ceilings but also offering a sliding-scale tax on bank profits that starts at 8.7% for profits up to \$20 million and drops to 2.7% for profits over \$30 million. Among the dozen new bank offices that were opened in Wilmington as a result are those of New York's five biggest banking institutions. Thanks partly to such moves, state development director Nathan Hayward III notes that employment grew 2.6% in Delaware in 1982, while falling 1.6% nationally. The state's unemployment rate, now 8.7%, sank below the national average last year for the first time since 1973.

In New York City, the growth of all types of financial services has helped resuscitate the local economy since its brush with disaster in 1975 when the city was suffering from a mass exodus both of major-company headquarters and factories. Now the fear is that financial-service jobs, particularly clerical "back-office" functions, also eventually will flee the high-cost urban environment to the suburbs and beyond.

Foreign Banks Arrive

So far, though, while some of the major institutions have dispatched back-office work to nearby Long Island and New Jersey, total bank employment is still rising in the city. It increased 29% in the years 1977-82, while total employment rose only 5% and manufacturing jobs declined 15%. In 1982, jobs in financial services there exceeded jobs in manufacturing for the first time. Scores of out-of-town and foreign banks have taken space in Manhattan, in anticipation of deregulated interstate banking and to tap the Eurodollar market in the new international banking zone that was set up last year.

Banks occupy about 15% of all Manhattan office space, up from about 10% as recently as 1979, estimates Stephen Siegel, president of the office leasing firm of Cushman & Wakefield Inc. Institutions that have completed, or are planning moves into new or expanded quarters include Manufacturers Hanover Corp., Chemical New York Corp., J.P. Morgan & Co., Republic New York Corp., Irving Bank Corp., BankAmerica, Continental Illinois Corp., Mellon National Corp., National Westminster Bank and Lloyds Bank. "The New York market would be seriously overbuilt without the financial institutions," says Mr. Siegel.

In addition, investment-banker Goldman, Sachs & Co. and Continental Corp., an insurance company, are finishing separate \$100 million-plus headquarters in lower Manhattan, and American Express is planning what may be the city's most expensive building ever at about \$450 million.

Nevertheless, Daniel Costello, who left American Express a year ago to head BankAmerica's real-estate department, believes that, aside from political and social issues, when it comes to costs, "it's cheaper to locate back rooms outside cities." He is already setting up a \$100 million operations

center for the bank at Concord, Calif., about an hour's drive from BankAmerica's headquarters city of San Francisco.

Suburban Campuses

Other companies, such as Merrill Lynch and Prudential, are trying to decentralize their computer operations—from one big mainframe to smaller machines in several "regional operations centers" around the country, closer to branch offices. Merrill Lynch, which has a mammoth Manhattan mainframe, in the future will have most "of our growth outside Manhattan," according to Joseph Grano, the investment firm's branch service manager. Merrill Lynch is also preparing to move 1,000 people to a campus-style executive training center in Princeton, N.J., and Citibank has built a conference center in Westchester County, north of New York City.

"You can talk about bucolic environments, but cows can't work the computers," protests Kenneth Lipper, New York City's new deputy mayor for finance and economic development. Nevertheless, Mr. Lipper, who was formerly an official of the Wall Street firm of Salomon Brothers, believes that the city's major financial-service firms face critical location decisions in the next five years and that New York must somehow "anchor" both the headquarters and back offices of these firms.

To help persuade Equitable Life Assur-

ance Society of the U.S. to leave its Manhattan headquarters, the "unofficially identified" some insurance rules and is lobbying to change them, Mr. Lipper says that groups from banks, insurance firms, as well as insurance companies, are planning to draw up their own rules on those matters which would continue to be the financial world.

Partially offsetting the financial-services employment wave of mergers of major companies and the financial problems banks and savings banks that have resulted in liquidations in recent years, the two insurance titans, General Corp. and INA Corp., alone have triggered 2,000

Moreover, Mr. Leveson says the big drop in the inflation rate threatens some future growth, and he predicts that the rate will slow. There are signs and the new pressures of inflation already had some effect on the market.

However, Norman Robins, an economist at Mellon Bank, says that even greater gains in the financial services industry will come from more financial supermarketization increasingly blurring the lines between banking, securities, insurance and other businesses.

Already, American Telegraph Co., free to compete for its divestiture of regional building a stock-and-bond

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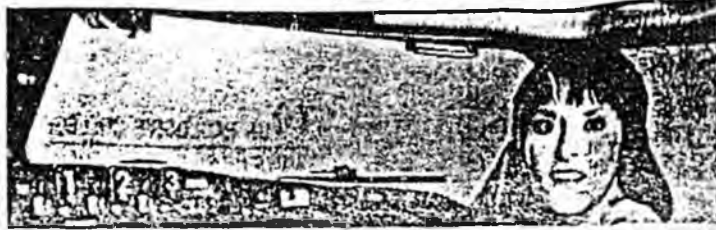
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Profit Services

at Concord, Calif., about
BankAmerica's head-
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Partially offsetting the steady rise in fi-
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tween banking, securities trading, real es-
tate and other businesses.

Already, American Telephone & Tele-
graph Co., free to compete more widely un-
der its divestiture of regional companies, is
building a stock-and-bond operation near

Jacksonville, Fla., ostensibly to serve its
shareholders and those of seven regional
holding companies that will be spun off.
AT&T won't confirm or deny it, but bankers
in New York see the five-building campus-
like facility as possible future competition
for the stock-transfer services that the
banks now provide to non-AT&T compa-
nies.

Mellon Bank's Mr. Robertson notes that
even some of the smokestack industrial
firms are diversifying into financial ser-
vices—including American Can Co., Armco
Inc., Deere & Co. and National Steel Corp.
"I don't think we're near t.i. saturation
point yet," he says.

Ford Holders to Vote On Profit Sharing Plan

By a WALL STREET JOURNAL Staff Reporter
DETROIT—Ford Motor Co. will ask its
shareholders to approve a profit-sharing
plan for white-collar employees who aren't
eligible under the company's executive bon-
us plan.

In proxy material for the meeting,
scheduled for May 12, Ford said the plan is
similar to the one adopted for blue-collar
employees under the contract it negotiated
with the United Auto Workers union last
year. The auto maker said that, as of Dec.
31, it had 52,129 employees who would qual-
ify to participate in the new profit-sharing
plan.

"This follows our usual practice of pass-
ing on benefits to our white-collar work
force that we have promised to hourly em-
ployees," a Ford spokesman said.

Canada Budget Speech Is Slated for April 19

By a WALL STREET JOURNAL Staff Reporter
OTTAWA—The Canadian government set
a date of April 19 for its formal budget
speech, the minister of finance, Marc La-
londe, said yesterday.

Canadian budget speeches generally con-
tain a wide range of taxation and expendi-
ture measures, as well as forecasts of the
nation's expected economic performance.
Their contents remain a carefully guarded
secret until the speech is given.

Many of the tax measures take effect im-
mediately under executive authority. Parli-
amentary approval of the measures is also
certain, because Prime Minister Pierre Tru-
deau's party holds a majority of the seats
in Parliament.

Mr. Lalonde said his budget measure
will be designed "to strengthen the recovery
that is taking place." His first preoccupa-
tion, he said, will be the creation of jobs in
private industry, which he said must be "the
pump primer" of economic recovery.

Mr. Lalonde's remarks appear to sustain
his repeated rejection of calls for major gov-
ernment job-creation programs. However,
he indicated that the stimulative budget
measures will widen a budgetary deficit cur-
rently estimated at \$30 billion (Canada
for the year ending March 31, 1984. The de-
ficit for the fiscal year ending today is es-
timated at \$27.2 billion.

IF YOU'RE ON THE PHONE A LOT, THE CALLING CARD HELPS A LOT.



In reference to this memo, Ed Watkins said to see the Wall Street Journal, Thursday, March 31 edition, front page, far right column which relates to this memo.

Mark Fox

MEMORANDUM

State of Alaska

TO: Legislative Budget Review Committee
Office of the Governor

DATE: April 1, 1983

FILE NO:

THRU: Richard A. Lyon, Commissioner
Department of Commerce & Economic
Development

TELEPHONE NO:

FROM: Willis F. Kirkpatrick, Director
Division of Banking & Securities
Willis

SUBJECT: Summary/HB 246
Deregulation of (Loan)
Interest Rates

Recommendation

It is recommended that the Administration endorse the bill. If passed HB 246 would effectively do away with any State limitation on the interest rates charged on loans. 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 rate 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).

In 1980 as the prime rate grew past 20%, 42 states lifted or eliminated their usury ceilings. Thirteen states have essentially eliminated altogether the interest rates that banks can charge on consumer loans. I have not been able to, at this time, identify any state that has repealed its usury provisions taking any action on consumer abuse to reinstate them.

The Administrations of both South Dakota and Delaware have removed the usury rates from their statutes in order to allow out-of-state banks to form credit card bases within their states. In talking to Delaware on March 31, 1983, they report no abuse or problems since their repeal of usury in 1982. Since the repeal they have picked up five banks from New York, two banks from Pennsylvania and four banks from Maryland.

Question: Why are money supplies going up? Do any indication that fund of \$ now? Is there a public need for more money?

→ Governor

BMAC will use highest rate possible - does now

...less profitable—pointing of a feat in an industry plagued by expensive duds. For example, "Polyester," his most recent movie, cost \$300,000 to make and, since its 1981 release, has grossed more than \$2 million at the box office.

The Young and the Jaded

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He is also all for sets that are deliberately, although affectionately, tacky ("God Bless Our Mobile Home" signs and leopard-skin wallpaper); plot lines that are tortuous; and characters that are for the most part unattractive, if not downright grotesque. His leading lady is nearly always played by Divine, a 300-pound man in drag. "Everything is reversed in my movies," Mr. Waters says. "Good is bad, ugly is beauty. Everything is backwards, so you're laughing; but you're laughing with an edge."



It is a style of cinematic humor without imitators—fortunately, some say—and one that defies categorizing. Robert Shaye, the president of New Line Cinema Corp., the New York company that distributes Mr. Waters's films, explains it this way: "It's not quite black humor, but tough humor. It's gritty. Funny, but scary."

With all that, Mr. Waters says he is aiming to make movies that, while still celebrating his sense of the absurd, appeal to what might be called normal people. It looks as if he might be succeeding. "Polyester" won him his first positive reviews in mainstream publications; Newsweek, for example, called the film "a rancidly hilarious slice of Americana." As a result, the movie has drawn audiences that hadn't seen previous Waters films. It is just now opening in Europe and Asia and going into U.S. homes via cable.

Ultimate Soap Opera

"Polyester" celebrates everything Mr. Waters finds fascinating in American life. It is the ultimate soap opera, where every suburban nightmare comes true: the daughter pregnant by a punk, the son wiped out on drugs and getting his kicks by stomping on women's feet, the husband a cheat and a pornographer whose business brings pickets to the family home. In the midst of that, the long-suffering wife, played by the humorous Divine, falls in love with every woman's dreamboat, a character played by Tab Hunter. The action is enhanced by "Odorama" cards, which viewers are instructed to scratch and sniff at various points during the film; suffice it to say that the olfactory sensations aren't entirely pleasurable.

Small wonder that Mr. Waters's fans frequently ask him two questions: Do you have parents? And do you live in a house just like a normal person? His answer to both is yes.

In fact, Mr. Waters is "In many ways ex-
Please Turn to Page 15, Column 1

... system Inc., Denver, will connect the banking machines of 35 institutions throughout the U.S., including Bank of America in California and Chase Manhattan Bank in New York. The system expects to start up in May with 10,000 machines; plastic cards issued by each member bank will activate every member's machines. Cirrus System, Chicago, founded by 13 banks, started up in January when a Detroit bank's customer used a cash machine in Chula Vista, Calif. At least seven such nationwide networks of automated tellers are in operation or pending, says the Electronic Funds Transfer Association.

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BEING BEARISH proves fatal for the Exchange Insiders Report, a stock-market newsletter published in Pinehurst, N.C. "You can't afford to miss a bull market... and that, unfortunately, is what I did," says Dudley Bohlen, the editor, holding the publication after a 65% drop in circulation.

THREE-DIMENSIONAL copies are possible on a Minolta copier being tested in Europe. The machine reproduces Braille writing and raised-relief maps, Minolta says.

PERSONAL-COMPUTER USERS spend \$608, on average, on initial purchases of software, or programming, Frost & Sullivan market researchers say. The average outlay for additional software purchased during the first year of computer ownership: \$139.

OPERATING RATES begin to recover for many manufacturers.

LTV's steel plants now run at about 65% of capacity, up from 41% in the 1982 fourth quarter. Campbell Soup's operating rate, at about 70%, is up from 60% eight months ago. Preway Inc., a Wisconsin maker of fireplaces, operates at 68% of capacity, up from 48% a year ago. The latest (February) Federal Reserve Board measure of capacity utilization for U.S. manufacturing is 66.5%, up from 67.4% last November. (Three years ago, well before the latest recession, the rate was 87.2%.)

Higher operating rates put companies on track toward renewed or improved profit, but not necessarily soon. Gifford-Hill, a Dallas cement producer, expects "a lot more gravy on the profits side" at cement plants if operating rates reach 80% or more; but the rates, despite recent improvement, are still only in the 70%-to-75% range.

Hiring picks up as plants use more capacity. Preway, for one, has restored nearly 100 of the 300 jobs it pared in the recession.

BRIEFS: It's the thought that counts: Tappan's Quaker Maid division in Leesport, Pa., issues a two-page news release on its plans to give "over \$325.00 worth of groceries" to an Atlanta center for the elderly. . . . A remote-controlled robot will stand in for New Jersey's governor at a ground-breaking ceremony in Princeton April 14.

—JEFFREY A. TANNENBAUM

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More Bankers Than Steelworkers

From 1973 to 1982, according to the Bureau of Labor Statistics, the number of jobs in finance, insurance and real estate rose 32% to 5.4 million, while jobs in metal working, autos and textiles were declining 38% to 2.4 million. During this span, jobs in banking and credit have enjoyed the strongest growth, surging 40% to 2.2 million.

While the growth of the service sector as a whole has been well publicized, the expansion of financial services has been greater than many people realize because it has come gradually. For example, since the end of World War II, the number of branch banks has increased from 4,000 to more than 43,000. In the same period, according to Federal Reserve figures, the net acquisition of financial assets by U.S. households has soared from \$12.6 billion a year to \$226 billion. Inflation alone would account for less than one-fourth of that increase.

With real incomes rising year after year, many American families for the first time discovered they had a nest egg to conserve and manage. The arrival of double-digit inflation in the 1970s quickly made the traditional 4% and 5% interest rates on savings inadequate, and much of this hoarded money began to move toward institutions that offered innovative, inflation-sensitive products such as money funds and investment-oriented insurance.

The financial-services boom has served to shelter major money-market cities from the full impact of the recession that has been felt so harshly by such smokestack cities as Youngstown, Gary and Detroit. Throughout the recession, for example, New York City has been in the midst of a record-breaking office-building spree, and in Connecticut, Hartford's insurance offices are spilling over into such nearby towns as Enfield, Middletown and Simsbury.

Delaware Lures Bankers

Some financial work is being farmed out to much more out-of-the-way places. In Columbus, Ohio, Banc One Corp., which processes transactions for New York-based Merrill Lynch & Co.'s Cash Management Accounts, has bolstered the local economy with hundreds of new jobs. And Wilmington, Del., has won a dozen small offices of big out-of-state banks since Delaware reduced its taxes on banks. Several states now are aggressively changing their state laws to attract financial-services firms, while the bigger cities are battling back to keep what they have.

Just this week, Citicorp, the parent com-
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