

ALASKA LEGISLATURE COMMITTEE FILES 1983 - 1984 86/2

2711 SLC HB 246 (FILE 2)

2/1

TABLE 32
 ANNUAL PERCENTAGE RATES
 ON CONSUMER CREDIT
 AT RETAILERS IN NEW YORK STATE

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

TABLE 33

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

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

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

G. Automobile Dealers

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

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

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

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

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

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

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

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

TABLE 34
ANNUAL PERCENTAGE RATES
AUTOMOBILE DEALERS IN NEW YORK STATE

	In New York City			Elsewhere in State		
	Jan. 2, 1981	Jan. 2, 1982	Sept. 15, 1982	Jan. 2, 1981	Jan. 2, 1982	Sept. 1 1982
<u>New Car Loans</u>						
Average Rate	16.50 %	18.63 %	18.25 %	17.22 %	17.81 %	17.43 %
Range of Rates	12.68- 18.48	18.00- 19.00	17.50- 19.00	12.90- 19.34	15.00- 19.25	13.00- 19.00
<u>Loans on Cars Less Than 2 Years Old</u>						
Average Rate	19.38	20.67	20.17	19.93	20.31	19.91
Range of Rates	17.68- 21.00	20.50- 21.00	19.00- 21.00	16.00- 23.44	15.00- 24.50	13.00- 23.65
<u>Loans on Cars 2 Years Old or More</u>						
Average Rate	20.91	22.67	22.17	21.55	21.93	21.73
Range of Rates	17.68- 24.00	21.50- 24.00	20.00- 24.00	17.00- 24.50	18.00- 25.00	13.00- 25.00

TABLE 35

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

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

TABLE 36
 ANNUAL PERCENTAGE RATES
 ON CAR LOANS
 SELECTED AUTOMOBILE DEALERS
 IN NEW YORK STATE
 November 1982

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

IV. BANKING DEPARTMENT'S CONSUMER EDUCATION PROGRAM

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

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

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

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

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

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

JCPenney

October 11, 1983

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

Re: Senate Bil No. 276

Dear Senator Josephson:

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

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

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

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

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

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

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

Legal Department

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

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

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

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

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

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

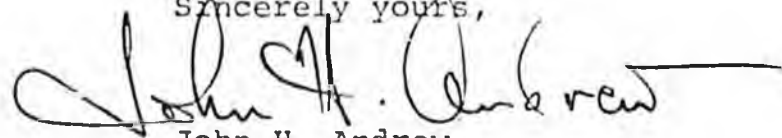
- A summary of a similar study by the New York State Banking Department.

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

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

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

Sincerely yours,



John H. Andrew
Western Regional Counsel

JHA/mmj

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

RETAIL REVOLVING CREDIT
FINANCE CHARGE RATES
1983 LEGISLATIVE ACTIVITY

DEREGULATION ADOPTED:

Idaho

DEREGULATED STATES - SUNSET REMOVED:

Montana

New Mexico

24% CEILING STATE -SUNSET REMOVED:

Maryland

21% CEILING STATE - SUNSET REMOVED:

Tennessee

DEREGULATED STATE - SUNSET EXTENDED:

New York (Four Years)

21% CEILING STATE - SUNSET EXTENDED:

Kansas (Two Years)

19.2% CEILING STATE - SUNSET EXTENDED:

California (Two Years)

18% CEILING STATE - SUNSET EXTENDED:

Connecticut

MAXIMUM FLOATING CEILING LOWERED FROM 24% to 21%:

Texas

RETAIL REVOLVING CREDIT

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

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

October 1, 1983

SB 276

DEREGULATION OF INTEREST RATES

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




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

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

SENATE ADVISORY COUNCIL

MEMORANDUM

TO: Senator Josephson
FROM: Pete Jean 
DATE: June 8, 1983
RE: SB276, [deregulation of Interest Rates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

¹ HR 4998 - PL 96-161.

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

TABLE I

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

(1) No Usury Ceiling (12)

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

(2) Fixed-rate Usury Ceiling (20)

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

(3) Floating-rate Usury Ceiling (18)

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

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

(b) Tied to Federal Reserve Discount Rates

Alaska	Montana(d)
California(d)	Ohio
Delaware	

(c) Other Indexes:

- (1) Federal National Mortgage Association
(FNMA) auction rate -- Minnesota, Tennessee(c)
- (2) Daily prime rate by banks -- Nevada(d)
- (3) Rate on 30-month Certificates of Deposit -- N. Dakota(d)
- (4) Rate on 3-5 year U.S. Treasury securities and
seasoned corporate bonds -- Vermont

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

- (b) Ceiling applies to loans of \$50,000 or less.
- (c) Ceiling may float to maximum fixed rate.
- (d) Fixed or floating ceiling, whichever is greater/lesser.

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

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

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

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

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

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

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

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

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

⁴ Alaska and Delaware

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

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

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

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

MAY 31 1983

JOE P. JOSEPHSON

DISTRICT 5 ANCHORAGE
FIRST STREET
ANCHORAGE ALASKA 99501
(907) 277-4410WHILE IN JUNEAU
POUCH V
JUNEAU ALASKA 99801
(907) 465-4907
(907) 465-4525

COMMITTEES

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

May 24, 1983

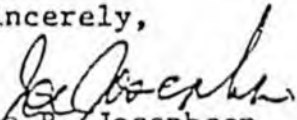
Pete Jeans
Senior Advisor
Senate Advisory Council
Pouch "V"
Juneau, Alaska 99811

Dear Pete:

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

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

Sincerely,


Joe P. Josephson

APPENDIX V. LENDING STATUTES IN THE UNITED STATES (April, 1981)

ALABAMA

Legal: Ala. Code tit. 8, § 8-1
\$6 upon \$100

Contract: Ala. Code tit. 8, § 8-1
\$8 upon \$100

Judgment: Ala. Code tit. 8 § 8-10
\$6 upon \$100

Small Loans: Ala. Code tit. 5, § 18-1
Small Loan Act

Instalment Loans: Ala. Code tit. 9, § 61

Instalment Loans & Credit: Ala. Code tit. 5, § 19-1
(§ 19-3) Consumer Finance

Insurance Premium Finance: Ala. Code tit. 27, § 40-1

Revolving Charge: Ala. Code tit. 8, § 8-14 (sur-charge) Effective until 7-1-81
Ala. Code tit. 5, § 19-3C
Consumer Finance

Revolving Loan: Ala. Code tit. 8, § 8-14 (sur-charge) Effective until 7-1-81
Ala. Code tit. 5, § 19-3C

Contract:

Judgment:

Legal Interest Rate:

Contract Rate:

Judgment Rate:

Small Loans:

Industrial Bank Act:

Instalment Loan Act:

Auto Finance:

Other Goods Finance:

Revolving Loan Credit:

Revolving Credit:

10%

Ariz. Rev. Stat.

Rate agreed to in writing

Ariz. Rev. Stat.

10% or as set out in instrument

Ariz. Rev. Stat. § 44-1201

Ariz. Rev. Stat. § 44-1201

Ariz. Rev. Stat. § 44-1201

Ariz. Rev. Stat. § 6-601

Consumer Loans Law

Ar. Rev. Stat. § 6-335A

Ariz. Rev. Stat. § 44-1205

Ariz. Rev. Stat. § 44-281

Motor Vehicle Time Sales

Disclosure Act

Ariz. Rev. Stat. § 44-6001,

(§ 44-6002).

Retail Instalment Sales

Transactions

Ariz. Rev. Stat. § 44-1205

Interest Usury

Ariz. Rev. Stat. § 44-6001,

(§ 44-6002)

Retail Instalment Sales

Transactions

ALASKA

Legal: Alaska Stat. § 45.45.010
10.5%

Contract: Alaska Stat. § 45.45.010
For quarter beginning 4/1/81, 18%; any rate if over \$100,000

Judgment: Alaska Stat. § 09.30.070
10.5%, or as set out in instrument but not over 10%

Small Loans: Alaska Stat. § 05.20.010
Small Loans Act

Instalment Loan Law: Alaska Stat. § 45.45.080

Sales Finance Act: Alaska Stat. § 45.10.010,
(§ 45.10.120)
Retail Instalment Sales

Insurance Premium Finance: Alaska Stat. § 06.40.101
Premium Financing Act

Revolving Credit Act: Alaska Stat. § 45.10.120,
(§ 45.10.120)
Retail Instalment Sales Act

Bank Credit Cards: Alaska Stat. § 45.10.010, (§ 45.10.120)
Retail Instalment Sales Act
Alaska Stat. § 06.05.208
Revolving Credit

Open End Loans: Alaska Stat. § 06.20.285
Open End Loans
Alaska Stat. § 06.20.230
Small Loans Act

ARKANSAS

Legal Interest Rate:

Contract:

Judgment:

Legal:

Contract:

Judgment:

Ark. Const. Art. 19, § 13

Ark. Stat. Ann. § 29-125

Ark. Stat. Ann. § 29-125

Ark. Stat.

6%

Ark. Stat.

10%

Ark. Stat.

10% unless otherwise

specified in instrument up

to contract rate.

CALIFORNIA

Legal Interest Rate:

Contract:

Usury Law of 1919:

Judgment:

Small Loans:

Cal. Const. art. XV, § 1 7%

Cal. Const. art. XV, § 1

Loan for personal family

or household uses (real

property excluded), 10%;

for other uses, 17% if loan

or loan commitment made

before 1-1-81, 18% if made

on or after 1-1-81.

Cal. Gen. Laws Ann. act

3757, § 2 (Deering)

Cal. Const. art. XV, § 1

7%

Cal. Financial Code §

24000

Small Loan Law

ARIZONA

Legal: Ariz. Rev. Stat.

CONSUMER USURY AND CREDIT OVERCHARGES

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

Loans:
Auto Finance: *Conn. Gen. Stat.* § 42-83, (42-85a)
Retail Instalment Sales Financing: *Conn. Gen. Stat.* § 42-83, (42-85b)
Retail Instalment Sales Financing (Other Goods): *Conn. Gen. Stat.* § 42-83, (42-85b)
Insurance Premium Finance: *Conn. Gen. Stat.* § 38-290, (38-298)
Insurance Premium Financing Companies: *Conn. Gen. Stat.* § 42-133c
Non-Bank Revolving Credit: *Conn. Gen. Stat.* § 42-133c
Open End Credit: *Conn. Gen. Stat.* § 42-133c

COLORADO

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

DELAWARE

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

CONNECTICUT

Legal Interest Rate: *Conn. Gen. Stat.* § 37-1, 8%
Contract: *Conn. Gen. Stat.* § 37-4, 12%
Judgment: *Conn. Gen. Stat.* § 37-3a, 8%; on out-of-state executed or secured contracts, as agreed up to legal rate in that state.
Small Loans: *Conn. Gen. Stat.* § 36-225
 Small Loan Law
Industrial Banks: *Conn. Gen. Stat.* § 36-148
Savings Banks Personal: *Conn. Gen. Stat.* § 36-97a

DISTRICT OF COLUMBIA

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

Auto Finance: D.C. Code § 40-901
 Instalment Sales of Motor Vehicles
 D.C. Code § 28-3601
 Direct Motor Vehicle Instalment Loans
 Instalment Loans: D.C. Code § 28-3308
 Direct Instalment Loans
 Revolving Charge: D.C. Code § 28-3701, (528-3702)
 Revolving Credit Accounts
 Insurance Premium Finance: D.C. Code § 35-1361
 Insurance Premium Finance Companies

Instalment Loan Law: Ga. Code § 57-116
 Auto Finance: Ga. Code § 96-1004
 Motor Vehicle Sales Finance Act
 Other Goods Finance: Ga. Code § 96-901, [§ 96-903]
 The Retail Instalment & Home Solicitation Sales Act
 Second Mortgages: Ga. Code § 84-5301, [§ 84-5310]
 Insurance Premium Finance Companies:

FLORIDA

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

HAWAII

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

GEORGIA

Legal Interest Rate: Ga. Code § 57-101
 7%
 Contract: Ga. Code § 57-101
 10.5%; real estate, 15.50% for May, 1981; any rate if credit \$100,000 or more; commercial accounts, 1 1/2% per month.
 Judgment: Ga. Code § 57-108
 10%
 Small Loans: Ga. Code § 25-315
 Industrial Loan Act
 Industrial Loans: Ga. Code § 25-315
 Industrial Loan Act

IDAHO

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

CONSUMER USURY AND CREDIT OVERCHARGES

ILLINOIS

Legal: *Ill. Rev. Stat. ch. 74, § 1.*
Act of May 24, 1879. \$5 upon \$100.

Contract: *Ill. Rev. Stat. ch. 74, § 4.*
Act of May 24, 1879. 9%; residential no limit through 12-31-81; 14% maximum for state banks (variable rate).

Judgment: *Ill. Rev. Stat. ch. 74, § 3.*
Act of May 24, 1879. 8%. 6% on judgments against governmental entities.

Consumer Finance Act: *Ill. Rev. Stat. ch. 74, § 19.*

Consumer Instalment Loan Act: *Ill. Rev. Stat. ch. 74, § 51.*

Instalment Loan Law: *Ill. Rev. Stat. ch. 74, § 4a.*
Act of May 24, 1879.

Revolving Credit: *Ill. Rev. Stat. ch. 121 1/2 § 501 (§ 528)*
Retail Instalment Sales Act

Auto Finance: *Ill. Rev. Stat. ch. 121 1/2, § 561*
Motor Vehicle Retail Instalment Sales Act

Other Goods: *Ill. Rev. Stat. ch. 121 1/2 § 501. (§ 527)*
Retail Instalment Sales Act

Insurance Premium Finance: *Ill. Rev. Stat. ch. 73, § 1065.60*
Insurance Code, Art. 32

INDIANA

Legal: *Ind. Code, § 24-4.6-1-102*
8%

Contract: *Ind. Code, Spe rates*
specified in consumer sections of UCCC.

Judgment: *Ind. Code, § 24-4.6-1-101*
8%

Consumer Supervised Loans - Licensed Lenders: *Ind. Code § 24-4.5-3-508*
Ind. UCCC

Consumer Regulated Loans: *Ind. Code § 24-4.5-3-201*
Ind. UCCC

Consumer Loans In General: *Ind. Code § 24-4.5-3-201*
Ind. UCCC

Revolving Loan Accounts: *Ind. Code § 24-4.5-3-201(4)*
Ind. UCCC

Non-Consumer or Non-Consumer Related Loans: *Ind. Code § 24-4.5-3-601*
Ind. UCCC

Consumer Sales Credit: *Ind. Code § 24-4.5-2-201*
Ind. UCCC

IOWA

Legal: *Iowa Code § 535.2*
5¢ on the 100.

Contract: *Iowa Code § 535.2*
Variable; any rate for real estate investment trusts, business loans of \$100,000 or more and agricultural loans of \$500,000 or more.

Judgment: *Iowa Code § 535.3*
10% per year. Unless otherwise specified in instrument up to contract rate.

Small Loans: *Iowa Code § 536.1*
Small Loan Law

Industrial Loans: *Iowa Code § 536A.23*
Iowa Consumer Credit Code

Bank Instalment Loans: *Iowa Code § 524.906*
Banking Act of 1969

Consumer Credit Sales: *Iowa Code § 537.2101, (§ 537.2201)*
ICCC

Revolving Charge Accounts: *Iowa Code § 537.2101 (§537.2202)*
ICCC

Consumer Loans In General: *Iowa Code § 537.2101 (§ 537.2401)*
ICCC

Consumer Revolving Loans: *Iowa Code § 537.2101 (§ 537.2402)*
ICCC

Auto Finance: *Iowa Code § 322.1*
Motor Vehicle Dealer's Licensing Act

KANSAS

Legal: *Kan. Stat. § 16-201*
10%

Contract: *Kan. Stat. § 16-207*
10%, unless otherwise specified by consumer sections of UCCC, 11% on residential mortgage loans.

Judgment: *Kan. Stat. § 16-204*
12%. This rate applies to judgments rendered on or after 7/1/80. Judgments rendered before that date bear interest of 8% through 6/30/80 and 12% on and after 7/1/80.

Consumer Supervised Loans - Licensed Lenders: *Kan. Stat. § 16a-2-101 (§ 16a-2-401)* amended by Rules & Regulations of the Consumer Credit Commissioner § 75-6-24.

Consumer Loans: *Kan. Stat. § 16a-2-101 (§ 16a-2-401)*
UCCC

Consumer Credit Sales: *Kan. Stat. § 16a-2-201*
UCCC

Revolving Credit: *Kan. Stat. § 16a-2-201 (§ 16a-2-202)*
UCCC

Consumer Loans In General: *Kan. Stat. § 16a-1-301*

Insurance Premium Finance: *Kan. Stat § 16a-4-101*
UCCC

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

KENTUCKY

Legal: Ky. Rev. Stat. § 360.010
8%

Contract: Ky. Rev. Stat. § 360.010
17% on \$15,000 and less,
and 14% on loans by banks
and trust companies on
contracts \$15,000 or less
(variable rate); \$10
minimum on bank loan per-
mitted; others, any rate.

Judgment: Ky. Rev. Stat. § 360.040
8%

Small Loans: Ky. Rev. Stat. § 288.410
Small Loan Law

Industrial Loans: Ky. Rev. Stat. § 291.460
Industrial Loan Law

Bank Instalment Loans:
Auto Finance: Ky. Rev. Stat. § 287.215
Ky. Rev. Stat. § 190.090
Motor Vehicle Retail Instal-
ment Sales Act

Insurance Finance: Ky. Rev. Stat. § 304.30.010
Insurance Premium Financ-
ing Law

Bank Revolving Credit: Ky. Rev. Stat. § 287.710

LOUISIANA

Legal: La. Civ. Code Ann. art.
2924 (West)
10%

Contract: La. Civ. Code Ann. art.
2924 (West)
8%; 12% on conventional
obligation secured by im-
movable property.

Judgment: La. Civ. Code Ann. art.
2924 (West)
10%

Consumer Loans: La. Rev. Stat. Ann.
§ 9:3510, (§ 9:3519)
Louisiana Consumer Credit
Act

Consumer Credit Sales: La. Rev. Stat. Ann. § 9:3510,
(§ 9:3520)
LCCA

Auto Finance: La. Rev. Stat. Ann. § 6.951
Motor Vehicle Sales
Finance Act

Revolving Charge: La. Rev. Stat. Ann.
§ 9:3510,
(§ 9:3523)
LCCA

Revolving Loan Account: La. Rev. Stat. Ann.
§ 9:3510,
(§ 9:3519)
LCCA

Lender Credit Card: La. Rev. Stat. Ann.
§ 9:3510,
(§ 9:3524)
LCCA

Insurance Premium
Finance: La. Rev. Stat. Ann.
§ 9:3510,
(§ 9:3519)
LCCA

MAINE

Legal: Me. Rev. Stat. tit. 9-B, § 432
6%

Contract: Me. Rev. Stat. tit. 9-B, § 432
No maximum if in writing

Judgment: Me. Rev. Stat. tit. 14, §
1602
8% unless otherwise
specified in instrument up
to contract rate; 12% from
and after judgment.

Consumer Supervised
Loans - Licensed Lenders: Me. Rev. Stat. tit. 9-A
§ 2.101, (§ 2.401)
Maine Consumer Credit
Code

Consumer Credit Sales: Me. Rev. Stat. tit. 9-A,
§ 2.102, (§ 2.202), Maine
Consumer Credit Code

Revolving Charge Ac-
counts: Me. Rev. Stat. tit. 9-A,
§ 2.101, (§ 2.202) Maine
Consumer Credit Code

Consumer Loans In-
General: Me. Rev. Stat. tit. 9-A,
§ 2.101, (Unsupervised)
(§ 2.401) Maine Consumer
Credit Code

Revolving Loan: Same provisions as above.
Maine Consumer Credit
Code

Insurance Premium
Finance: Me. Rev. Stat. tit. 9, § 4061
The Insurance Premium
Finance Company Act

Auto Finance: Me. Rev. Stat. tit. 9, § 2.201
Maine Consumer Credit
Code

Industrial Banks:
Home Repair Finance: Me. Rev. Stat. tit. 9-B, § 918
Me. Rev. Stat. tit. 9, § 3721.
Home Repair Financing Act
No specific provision

MARYLAND

Legal: Md. Ann. Code art. 12,
§ 102
6%

Contract: Md. Ann. Code art. 12,
§ 103
8%. Business loans over
\$5,000, any rate; residential
mortgages, any rate.

Judgment: Md. Ann. Code art. 11,
§ 107

Consumer Loans:
Auto Finance: Md. Ann. Code art. 58A, 1
Md. Ann. Code art. 12,
§ 601 (§ 609).
Retail Instalment Sales

Other Goods: Md. Ann. Code art. 12,
§ 601 (§ 610).
Retail Instalment Sales

Insurance Premium:
Premium Finance
Agreements Md. Ann. Code art. 48A,
§ 486A

Second Mortgage:
Revolving Credit: Md. Ann. Code art. 12,
§ 501 (§ 506).
Retail Credit Accounts

CONSUMER USURY AND CREDIT OVERCHARGES

MASSACHUSETTS

Legal: *Mass. Gen. Laws Ann. ch. 107 § 3*
\$6 on each \$100 for year.

Contract: *Mass. Gen. Laws Ann. ch. 107, § 3*
No limit.

Judgment: *No statutory provisions.*

Small Loans: *Mass. Gen. Laws Ann. ch. 140 § 96*
Rate set by administrative

Small Loan Law Rate Order *Mass. Gen. Laws, Ann. ch. 172A, § 9*

Industrial Banks: *Banking Company Act.*

Savings Banks Instalment: *Mass. Gen. Laws, Ann. ch. 168, § 37*

Loans *Rate determined by Small Loan Law, above*

Insurance Premium Finance: *Mass. Gen. Laws, Ann. ch. 256C § 1*
Rate set by Administrative Rate Order

Second Mortgages: *Mass. Gen. Laws, Ann. ch. 140 § 90*

Auto Finance: *Mass. Gen. Laws, Ann. ch. 255B, § 1.*
Motor Vehicle Retail Instalment Sales

Other Goods Finance: *Mass. Gen. Laws, Ann. ch. 255D, § 1 (§ 11)*
Retail Instalment Sales and Services

Revolving Credit: *Mass. Gen. Laws, Ann. ch. 255D, § 1 (§ 27)*
Retail Instalment Sales & Services

MICHIGAN

Legal: *Mich. Comp. Laws § 438.31*
\$5 upon \$100 for year

Contract: *Mich. Comp. Laws § 438.31*
7%; any rate for certain business loans; special provisions for mortgage loans and land contracts

Judgment: *Mich. Comp. Laws § 600.6013*
12% (unless otherwise specified in instrument up to contract rate) from date of complaint to satisfaction of judgment; 13% after judgment date.

Small Loans: *Mich. Comp. Laws § 493.1*

Bank Instalment Loans: *Mich. Comp. Laws § 487.305*

Autos: *Mich. Comp. Laws § 492.101*
Motor Vehicle Sales Finance Act

Other Goods: *Mich. Comp. Laws § 445.851, (§ 445.857)*
Retail Instalment Sales Act

Improvement Loans:

Insurance Premium Finance:

Revolving Credit:

MINNESOTA

Legal:

Contract:

Judgment:

Small Loans:

Industrial Loans:

Bank and Savings Bank Loans:

Auto Finance:

Insurance Premium Finance:

Revolving Credit:

Revolving Loan:

MISSISSIPPI

Legal:

Contract:

Judgment:

Small Loans:

Bank and Trust Company Loans:

Instalment Loans:

Mobile Home Loans:

Auto Finance:

Other Goods:

Revolving Credit:

Revolving Loans:

Mich. Comp. Laws § 445.865

Home Improvement Finance Act

Mich. Comp. Laws § 500.1501

Insurance Premium Finance Companies

Mich. Comp. Laws § 445.851, (§ 445.862)

Retail Instalment Sales Act

Minn. Stat. § 334.01

\$6 upon \$100 for year

Minn. Stat. § 334.01

\$8 on \$100 for year; no limit on loans of \$100,000 or more; home mortgages,

variable; rate; business and agricultural loans, 17.5%;

loan by bank or savings bank, 14%.

Minn. Stat. § 549.09

Variable rate; rate may not be less than 8% for year.

Minn. Stat. § 56.01

Small Loan Law

Minn. Stat. § 53.04

Industrial Loan & Thrift Company Law

Minn. Stat. § 48.153

Minn. Stat. § 168.66

Motor Vehicle Retail Instalment Sales Act

Minn. Stat. § 59A.01

Insurance Premium Finance Companies

Minn. Stat. § 334.16

Open End Credit

Minn. Stat. § 48.185

Open End Loan Account Arrangements

Miss. Code Ann. § 75-17-1

8% until 7-1-82.

Miss. Code Ann. § 75-17-1

18% until 7-1-82.

Miss. Code Ann. § 75-17-7

8% unless otherwise specified in instrument up to contract rate.

Miss. Code Ann. § 75-17-1

Finance Charge Law

Miss. Code Ann. § 81-5-79

Miss. Code Ann. § 75-17-1

Miss. Code Ann. § 63-19-43

Miss. Code Ann. § 75-17-1

Miss. Code Ann. § 75-17-1

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

MISSOURI

Legal: *Mo. Rev. Stat. § 408.020*
9%

Contract: *Mo. Rev. Stat. § 408.030*
15.2% for quarter beginning 4-1-81, any rate for securities pledged as collateral, business loan of \$5000 or more, loan of \$5000 or more secured by negotiable instrument.

Judgment: *Mo. Rev. Stat. § 408.040*
9% unless otherwise specified in interest up to contract rate.

Small Loans: *Mo. Rev. Stat. § 408.100*
Small Loan Law

Auto Finance: *Mo. Rev. Stat. § 365.010*
Motor Vehicle Time Sales

Bank and Investment Companies: *Mo. Rev. Stat. § 368.040*

Other Goods Finance: *Mo. Rev. Stat. § 408.250*
Retail Credit Sales

Revolving Credit: *Mo. Rev. Stat. § 408.300*

Revolving Loan: *Mo. Rev. Stat. § 408.200*

Second Mortgages:

NEBRASKA

Legal:

Contract:

Judgment:

Small Loans:

Industrial Loan and Investment Companies:

Bank Instalment Loans: Instalment Sales, All Goods:

Revolving Credit:

Neb. Rev. Stat. § 45-102
12% per annum

Neb. Rev. Stat. § 45-101-03
16% per annum; any rate, corporate loans, guarantors or sureties of corporate loans, loans with aggregate principal amounts over \$25,000, federally insured loans, loans made upon securities pledged as collateral.

Neb. Rev. Stat. § 45-103
12% per year upon \$100. Unless otherwise specified in instrument up to contract rate.

Neb. Rev. Stat. § 45-114
Small Loan Law

Neb. Rev. Stat. § 8-435
Loan and Investment Companies

Neb. Rev. Stat. § 8-820
Neb. Rev. Stat. § 45-334
Instalment Sales Act

Neb. Rev. Stat. § 45-204
Revolving Charge Agreements

MONTANA

Legal: *Mont. Rev. Codes Ann. § 31-1-106*
6%

Contract: *Mont. Rev. Codes Ann. § 31-1-106*
Up to \$150,000, 17%; over \$150,000 to \$300,00, 18%; over \$300,000, any rate.

Judgment: *Mont. Rev. Codes Ann. § 25-9-205*
10% where judgment involves contract, at rate specified in contract.

Small Loans: *Mont. Rev. Codes Ann. § 32-5-101*
Consumer Loan Act

Industrial (Morris Plan): Case law may allow discount basis using §31-1-106 rate?

Auto Finance: *Mont. Rev. Codes Ann. § 31-1-201, (§ 31-1-241)*
Retail Instalment Sales Act

Other Goods Finance: *Mont. Rev. Codes Ann. § 31-1-201, (§ 31-1-241)*
Retail Instalment Sales Act

Revolving Credit: *Mont. Rev. Codes Ann. § 31-1-201, (§ 31-1-241)*
Retail Instalment Sales Act

Instalment Loans: *Mont. Rev. Codes Ann. § 31-1-436*
(suspended until 7/1/83)

NEVADA

Legal:

Contract:

Judgment:

Instalment Loan and Finance Act:

Bank Loans:

Thrift Company Loans:

Sales Finance, All Goods:

Revolving Credit:

Nev. Rev. Stat. § 99.040
8%

Nev. Rev. Stat. § 99.050
18%; variable rate for secured mortgages

Nev. Rev. Stat.
Appears to be controlled by Legal Rate

Nev. Rev. Stat. § 675.010
Nev. Rev. Stat. § 662.165
Nev. Rev. Stat. § 677.730
Nevada Thrift Companies Act

Nev. Rev. Stat. § 97.015, (§ 97.195)
Retail Instalment Sales of Goods and Services.

Nev. Rev. Stat. § 97.015, (§ 97.245)
Retail Instalment Sales of Goods and Services

NEW HAMPSHIRE

Legal:

Contract:

N.H. Rev. Stat. Ann. § 336:1
\$6 on \$100 a year.

N.H. Rev. Stat. Ann. § 336:1
No limit

CONSUMER USURY AND CREDIT OVERCHARGES

Judgment: *N.H. Rev. Stat. Ann. § 336:1*
6% unless otherwise
specified in instrument up
to contract rate.

Small Loans: *N.H. Rev. Stat. Ann.*
§ 399-A:1
Small Loan Law

**Savings & Loans and
Cooperative Banks:
Second Mortgages:
Auto Finance:** *N.H. Rev. Stat. Ann.*
§ 381-A:1
Retail Instalment Sales of
Motor Vehicles

NEW JERSEY

Legal: *N.J. Rev. Stat.* No statutory
provision

Contract: *N.J. Rev. Stat.*
14%; 14.5% on loans
secured by realty with 1 to
6 dwelling units; no limit
for loans purchased by
governmental organiza-
tions.

Judgment: *N.J. Rev. Stat.*
No statutory provision

Small Loans: *N.J. Rev. Stat. § 17:10-1*
Small Loan Law

**Bank Instalment Loans:
Sales Finance Direct:** *N.J. Rev. Stat. § 17:3B-1*
N.J. Rev. Stat. § 17:16C-1,
(§ 17:16C-1)
Retail Instalment Sales Act
of 1960

Auto Finance: *N.J. Rev. Stat. § 17:16C-1,*
(§ 17:16C-1)
Retail Instalment Sales of
1960

Other Goods: *N.J. Rev. Stat. § 17:16C-1,*
(§ 17:16C-1)
Retail Instalment Sales Act
of 1960

Home Repair: *N.J. Rev. Stat. § 17:16C-62*
Home Repair Financing
Act

**Second Mortgage Loans:
Improvement Loans by
Savings and Loans Ass'ns:
Insurance Premium
Finance:** *N.J. Rev. Stat. § 17:16D-1.*
Insurance Premium Financ-
ing Company Act

**Bank Revolving Loan
Credit:
Revolving Charge:** *N.J. Rev. Stat. § 17*
Retail Charge Accounts
-Laws 1971, ch. § 409

NEW MEXICO

Legal: *N.M. Stat. Ann. § 56-8-3*
10%

Contract: *N.M. Stat. Ann. § 56-8-11*
Variable; home loan rate
higher

Judgment: *N.M. Stat. Ann. § 56-8-4*
10%

Small Loans: *N.M. Stat. Ann. § 58-15-1*
Small Loan Business
N.M. Stat. Ann. § 58-15-31
Small Loan Act of 1955

**Bank Instalment Loans:
Auto Finance:** *N.M. Stat. Ann. § 58-7-1*
N.M. Stat. Ann. § 58-19-1
Motor Vehicle Sales
Finance Act

Other Goods: *N.M. Stat. Ann. § 56-1-1,*
(§ 56-1-2.1 effective until
7-1-81)
Retail Instalment Sales
N.M. Stat. Ann. § 59-8-1,
(§ 59-8-7.1 effective until
7-1-81)
Insurance Premium Financ-
ing Act

Revolving Credit: *N.M. Stat. Ann. § 56-1-1,*
(§ 56-1-3.1 effective until
7-1-81):
Retail Instalment Sales
N.M. Stat. Ann. § 58-7-4.

NEW YORK

Legal: *N.Y. Gen. Oblig. Law § 501*
(consol.)
N.Y. Banking Law § 14-a
(consol.)
Banking Board Regulations
§ 304.1 - Interest rates.
16% absolute limit
18% on business and
agricultural loans over
\$25,000 by banks or trust
companies; no limit, loans
over \$2.5 million.

Contract: *N.Y. Civ. Prac. Law § 5004*
(consol.)
5%

Judgment: *N.Y. Civ. Prac. Law § 5004*
(consol.)
5%

Small Loans: *N.Y. Banking Law § 44,340*
(consol.)
Small Loan Law

**Bank Personal & Improve-
ment Loans:
Improvement Loans by
Savings Banks & Savings &
Loan
Associations:** *N.Y. Pers. Prop. Law § 301*
(consol.)
Motor Vehicle Retail Instal-
ment Sales Act

Auto Finance: *N.Y. Pers. Prop. Law § 301*
(consol.)
Motor Vehicle Retail Instal-
ment Sales Act

**Other Goods Finance:
Insurance Premium
Finance:** *N.Y. Banking Law § 554*
(consol.)
Insurance Premium
Finance Agencies
N.Y. Pers. Prop. Law §
401, (§ 413) (consol.)
Retail Instalment Sales Act

Revolving Credit: *N.Y. Pers. Prop. Law §*
401, (§ 413) (consol.)
Retail Instalment Sales Act

**Education Loans:
Bank Loan Revolving
Credit:** *N.Y. Pers. Prop. Law §*
401, (§ 413) (consol.)
Retail Instalment Sales Act

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

NORTH CAROLINA

Legal: *N.C. Gen. Stat. § 24-1*
8%

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

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

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

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

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

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

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

Second Mortgages on
Dwellings: *N.C. Gen. Stat. § 53-176.1*

Auto Loans By Licensed
Lenders: *N.C. Gen. Stat. § 58-55*

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

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

Contract:

Judgment:

Small Loans:

Instalment Sales:

Second Mortgage:
Bank Instalment Loans:

Insurance Premium
Finance:

Revolving Credit:

Bank Revolving Credit:

Open End Loans:

Ohio Rev. Code Ann.
§ 1343.01
8%; any rate on loans over
\$100.00; any rate for
securities pledges as col-
lateral; real estate mort-
gages, 16%.

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

Ohio Rev. Code Ann.
§ 1321.01
Small Loan Law

Ohio Rev. Code Ann.
§ 1317.01
Retail Instalment Sales

Ohio Rev. Code Ann.
§ 1107.26

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

Ohio Rev. Code Ann.
§ 1317.01, (§ 1317.11)
Retail Instalment Sales

Ohio Rev. Code Ann.
§ 1107.27

Ohio Rev. Code Ann.
§ 1321.16
(effective 7-14-81)

NORTH DAKOTA

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

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

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

Small Loans:
Small Loan Law

Consumer Finance Act: *N.D. Cent. Code § 13-03-1.1*
Consumer Finance act

Bank Instalment Loans:
(Repealed effective 7-1-81)

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

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

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

OKLAHOMA

Legal:

Contract:

Judgment:

Supervised Loans:

Regulated Loans:
Consumer Loans in
General:
Revolving Loan::

Non-Consumer or Non-
Consumer Related Loans:
Consumer Sales Finance:

Revolving Credit:

Okla. Stat. tit. 15, § 266
6%

Okla. Stat. tit. 15, § 266
See rates specified in con-
sumer sections of UCCC.

Okla. Stat. tit. 12, § 727
10% unless otherwise
specified in interest up to
contract rate; personal in-
jury damages, 6% added
for period of suit.

Okla. Stat. tit. § 14A,
§ 3-508
Oklahoma UCCC

No provision

Okla. Stat. tit. 14A, § 3-201
Oklahoma UCCC

Okla. Stat. tit. 14A, § 3-201
Oklahoma UCCC

Okla. Stat. tit. 14A, § 3-605
Oklahoma UCCC

Okla. Stat. tit. 14A, § 2-201
Oklahoma UCCC

Okla. Stat. tit. 14A, § 2-207
Oklahoma UCCC

OHIO

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

CONSUMER USURY AND CREDIT OVERCHARGES

OREGON

Legal: *Or. Rev. Stat. § 82-010*
9%

Contract: *Or. Rev. Stat. § 82-010*
10%; any rate, more than \$50,000; no limit for loans purchased by government organizations from national or state banks; 12% loans secured by real estate.

Judgment: *Or. Rev. Stat. § 82.010*
9%

Consumer Finance Act: *Or. Rev. Stat. § 725.010*

Bank Instalment Loans: *Or. Rev. Stat. § 708.480*

Auto Finance: *Or. Rev. Stat. § 83.510*
Motor Vehicle Retail Instalment Sales Act

Insurance Premium Finance: *Or. Rev. Stat. § 746.405*
Premium Financing

Revolving Loan: *Or. Rev. Stat. § 2 Laws 1977 S.B. 1085*
Or. Rev. Stat. § 725.340
Consumer Finance Act

PENNSYLVANIA

Legal: *Pa. Stat. Ann. tit. 41, § 101, (§ 201) (Purdon) Act of January 30, 1974*
6% to \$50,000

Contract: *Pa. Stat. Ann. tit. 41, § 101, (§ 301) (Purdon) As of January 30, 1974*
Variable rate for residential mortgages; no rate, principal obligations over \$50,000, secured principal amount of \$50,000 or less other than residential, corporate loans, unsecured noncollateralized loans over \$35,000 and business loans over \$10,000; state banks 14% and institutions 18%.

Judgment: *Pa. Stat. Ann. tit. 1, § 782 (Purdon) Act of 1700*
6%

Consumer Discount Loan Act: *Pa. Stat. Ann. tit. 7, § 6201, (§ 6213) (Purdon) Consumer Discount Company Act* 6%

Bank Instalment Loans: *Pa. Stat. Ann. tit. 7, § 309 (Purdon)*
Banking Code of 1965

Auto Finance: *Pa. Stat. Ann. tit. 69, § 601 (Purdon)*
Motor Vehicle Sales Finance Act

Other Goods: *Pa. Stat. Ann. tit. 69, § 1101, (§ 1501) (Purdon)*
Goods and Services Instalment Sales Act

Improvement Loans:

Pa. Stat. Ann. tit. 73, § 500-101 (Purdon)
Home Improvement Finance Act

Revolving Loan Credit:

Pa. Stat. Ann. tit. 7, § 6201, (§ 6217.1)

Revolving Charge Credit:

(Purdon) Consumer Discount Company Act
Pa. Stat. Ann. tit. 69, § 1101, (§ 1904)
(Purdon)

Bank Revolving Loan:

Goods and Services Instalment Sales Act
Pa. Stat. Ann. tit. 7, § 309 (Purdon)
Banking Code of 1965

PUERTO RICO

Legal:

P.R. Laws Ann. tit. 31, § 4591

Contract:

6\$ each \$100
P.R. Laws Ann. tit. Personal loans 17%; instalment loans 9 1/2%; mortgage loans, variable rates; all other loans, 17%. Interest Rate and Financing Charges Regulatory Board, Regin No. 21-A, Art. 3.

Judgment:

P.R. Laws Ann. tit. 31, § 4591.

Small Loan:

\$6 on \$100
P.R. Laws Ann. tit. 10, § 941

Auto Finance:

Small Personal Loan Act
Rules and Regulations of Puerto Rico, Title 10, Chapter 36 Maximum Credit Service Charges in Instalment Sales of Motor Vehicles, Part I, § 1-3.

Retail Instalment Sales:

Rules and Regulations of Puerto Rico, Title 10, Chapter 36.
§ 773-61: Household Furniture

Personal Loans:

Part I, § 1-2 Industrial, Agric. & Construction Machinery
§ 773-61: Commercial Electric Fixtures

Revolving Credit:

Usury Preemption Override - Laws 1980, Act 3, Eight Special Session, § 3.
Rules and Regulations of Puerto Rico, Title 10, Chapter 36
Maximum Service Charges for Revolving Account Credit Plan, Part I, § 1-5.

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

RHODE ISLAND

Legal: *R.I. Gen. Laws § 6-26-1*
6% on \$100

Contract: *R.I. Gen. Laws § 6-26-2*
21%

Judgment: *R.I. Gen. Laws § 6-26-1*
\$6 on \$100 unless otherwise specified in instrument up to contract rate.

Small Loans: *R.I. Gen. Laws § 19-25-1*
Small Loan Law

Loans and Investment Companies: *R.I. Gen. Laws § 19-20-9*
Loan and Investment Company Instalment Loans

Savings Bank Instalment Loans: *R.I. Gen. Laws § 19-9-5(b)*

Second Mortgages:

Instalment Sales Finance: *R.I. Gen. Laws § 6-27-1, (§ 6-27-4)*
Truth-in-Lending and Retail Selling Act

Revolving Credit: *R.I. Gen. Laws § 6-27-1, (§ 6-27-4)*
Truth-in-Lending and Retail Selling Act

SOUTH CAROLINA

Legal: *S.C. Code § 34-31-30*
6%

Contract: *S.C. Code § 34-31-30*
8%; more over \$50,000, no limit over \$500,000; commercial banks, variable

Judgment: *S.C. Code § 34-31-20*
8.75%

Restricted Loans: *S.C. Code § 34-29-140*
Consumer Finance Law

Supervised Loans: *S.C. Code § 37-3-508*
Consumer Protection Code

Consumer Credit Sales: *S.C. Code § 37-2-201*
Consumer Protection Code

Consumer Loans in General: *S.C. Code § 37-3-201*
Consumer Protection Code

Non Consumer Loans: *S.C. Code § 37-3-605*
Consumer Protection Code

Bank and Other Instalment Loans: *S.C. Code § 37-8-233*
Consumer Protection Code

Auto Finance: *S.C. Code § 37-2-211*
Consumer Protection Code

Insurance Premium Finance: *S.C. Code § 38-27-10*
Insurance Premium Service Companies

Revolving Charge: *S.C. Code § 37-2-207*
Consumer Protection Code

Revolving Loan: *S.C. Code § 37-3-201*
Consumer Protection Code

Bank Revolving Loan: *S.C. Code § 34-13-120*
Consumer Protection Code

SOUTH DAKOTA

Legal: *S.D. Compiled Laws Ann. § 54-3-5*
Until 7-1-81 12%; after 7-1-81, 18%

Contract: *S.D. Compiled Laws Ann. § 54-3-7; until 7-1-81 12%.*
S.D. Compiled Laws Ann. § 54-3-5; after 7-1-81 18%.

Judgment: *S.D. Compiled Laws Ann. § 54-3-5; until 7-1-81, 12%.*
S.D. Compiled Laws Ann. § 54-3-5; until 7-1-81, 12%.
7-1-81 7-1-82. 15% Laws 1981 § 1.
After 7-1-82 10%, Laws 1981 § 3

Small Loans: *S.D. Compiled Laws Ann. § 54-4-1*
Instalment Repayment Small Loan and Consumer Finance Act

Instalment Loan Act: *S.D. Compiled Laws Ann. § 54-5-2*

Instalment Sales: *S.D. Compiled Laws Ann. § 54-3A-1 (§ 54-3A-3 effective until 6/30/83)*
Consumer Instalment Sales Contracts

Auto Finance: *S.D. Compiled Laws Ann. § 54-7-1 (§ 54-7-36 effective until 7-1-83)*
Motor Vehicle Instalment Sales Law

Bank Revolving Loan Credit: *S.D. Compiled Laws Ann. § 51-24-12 (§ 51-24-13 effective until 7-1-81)*
Bank Loans

Revolving Charge: *S.C. Compiled Laws Ann. § 54-11-5 (rate listed in § 54-11-6.3 charges on 7-1-83)*
Revolving Charge Accounts

TENNESSEE

Legal: *Tenn. Const. Ann. art XI, § 7*
10%

Contract: *Tenn. Const. Ann. § 47-14-103*
18%; state banks, 14%. Variable rate for home loans.

Judgment: *Tenn. Const. Ann. § 47-14-121*
8%

Industrial Loans: *§ 8(2), Laws 1979, Ch. 204*
Industrial Loan and Thrift Companies Act

Bank Instalment Loans: *Tenn. Code Ann. § 45-433*

Revolving Credit: *Tenn. Code Ann. § 47-11-101, (§ 47-11-104C)*
Retail Instalment Sales Act

CONSUMER USURY AND CREDIT OVERCHARGES

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

TEXAS

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

UTAH

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

Consumer Loans in General: *Utah Code Ann.* § 70B-3-201
 Utah UCCC
 Revolving Loans: *Utah Code Ann.* § 70B-3-201
 Utah UCCC
 Consumer Sales Finance: *Utah Code Ann.* § 70B-2-201
 Utah UCCC
 Revolving Charge: *Utah Code Ann.* § 70B-2-207
 Utah UCCC
 Non-Consumer or Non-Consumer Related Loans: *Utah Code Ann.* § 70B-3-605
 Utah UCCC

VERMONT

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

VIRGINIA

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

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

Bank Instalment Loans: Va. Code § 6.1-330.13:1
 Savings & Loan Home:
 Repair Loans
 Instalment Sales: Va. Code § 6.1-330.21
 Consumer Credit
 Insurance Premium Financing: Va. Code § 38.1-735
 Insurance Premium
 Finance Companies
 Second Mortgages:
 Bank Check Credit: Va. Code § 6.1-330.19
 Consumer Credit
 Revolving Loan & Charge Credit: Va. Code § 6.1-330.20
 Consumer Credit

VIRGIN ISLANDS

Legal Rate: V.I. Code tit. 11 § 951 et. seq.;
 Tit. 13 § 347

WASHINGTON

Legal: Wash. Rev. Code § 19.52.010
 6%
 Contract: Wash. Rev. Code § 19.52.020
 12%
 Judgment: Wash. Rev. Code § 4.56.110
 10% unless contract provides otherwise up to 12%.
 Consumer Finance Act: Wash. Rev. Code § 31.06.010
 Consumer Finance Act
 Industrial Loans: Wash. Rev. Code § 31.04.100
 Industrial Loan Company Law
 Instalment Finance - All Goods: Wash. Rev. Code § 63.14.010, (§ 63.14.130)
 Credit Disclosure Act
 Insurance Premium Finance: Wash. Rev. Code § 48.56.010
 Insurance Premium Finance Company Act
 Revolving Credit: Wash. Rev. Code § 63.14.010, (§ 63.14.130)
 Credit Disclosure Act

WEST VIRGINIA

Legal: W. Va. Code § 47-6-5
 \$6 upon \$100
 Contract: W. Va. Code § 47-6-5
 \$8 upon \$100; variable rate for nonprecomputed secured loans; state banks, 14%.
 Judgment: No statutory provision
 Small Loans: W. Va. Code § 46A-1-101, (§ 46A-4-107)
 West Virginia Consumer Credit & Protection Act
 Industrial Loans: W. Va. Code § 31-7-11
 West Virginia Industrial Bank and Industrial Loan Company Act

Bank and Other Instalment:
 Second Mortgages:
 Instalment Sales - Other Goods:
 Auto Finance:
 Revolving Charge & Loans:
 Revolving Loan:

WISCONSIN

Legal:
 Contract:
 Judgment:
 Discount Loan Act:
 Consumer Act:
 Instalment Loans:
 Insurance Premium Finance:
 Auto Finance:
 Revolving Credit:

W. Va. Code § 47-6-5a.
 W. Va. Code § 46A-1-101, (§ 46A-3-101)
 West Virginia Consumer Credit & Protection Act
 W. Va. Code § 46A-1-101, (§ 46A-3-101(6))
 W. Va. Code § 46A-1-101, (§ 46A-3-103)
 West Virginia Consumer Credit & Protection Act
 W. Va. Code § 46A-1-101, (§ 46A-3-106)
 West Virginia Consumer Credit & Protection Act.

Wis. Stat. § 138.04
 \$5 upon \$100; state banks, federal loan rate.
 Wis. Stat. § 138.05
 \$12 upon \$100; rate inapplicable to loans made on or after 4/6/80 and before 11/1/81, unless made by a savings and loan, or to loans over \$150,000 except where secured by one-to-four family residence.
 Wisc. Stat. § 814.04
 12%
 Wisc. Stat. § 138.09
 Wisc. Stat. § 421.101, (§ 422.201)
 Wisconsin Consumer Act
 Wisc. Stat. § 138.05
 Wisc. Stat. § 138.12(1)
 Insurance Premium Finance Companies
 Wisc. Stat. § 218.01
 Wisc. Stat. § 421.101, § 422.201
 Wisconsin Consumer Act.

WYOMING

Legal:
 Contract:
 Judgment:
 Consumer Supervised Loans; Licensed Lenders:
 Consumer Regulated Loans:
 Consumer Loans in General:
 Non-Consumer & Non-Consumer Related Loans:
 Consumer Sales Credit:
 Consumer Related Sales Credit:

Wyo. Stat. § 40-14-106
 7%
 See rates specified in consumer sections of UCCC.
 No statutory provision.
 Wyo. Stat. § 40-14-348
 Wyoming UCCC
 Concept not adopted by Wyoming
 Wyo. Stat. § 40-14-310,
 Revolving loan included.
 Wyo. Stat. § 40-14-358
 Wyo. Stat. § 40-14-212
 Wyo. Stat. § 40-14-257

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CREDIT CARDS IN THE U.S. ECONOMY: Their Impact on Costs, Prices, and Retail Sales

A Study by the Board of Governors of the Federal Reserve System



CREDIT CARDS IN THE U.S. ECONOMY: Their Impact on Costs, Prices, and Retail Sales

A Study by the Board of Governors of the Federal Reserve System

Submitted to the Committee of Banking, Housing, and Urban Affairs
of the United States Senate

and

the Committee on Banking, Finance and Urban Affairs
of the United States House of Representatives

Pursuant to Section 202 of the Cash Discount Act of 1981

July 27, 1983

CREDIT CARDS IN THE U.S. ECONOMY:
THEIR IMPACT ON COSTS, PRICES, AND RETAIL SALES

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CREDIT CARDS IN THE U.S. ECONOMY:
THEIR IMPACT ON COSTS, PRICES, AND RETAIL SALES

1. INTRODUCTION AND SUMMARY

By at least the beginning of the 1970s the personal credit card had become a fixture in the nation's economy. Card use had spread rapidly after World War II, and accelerated with the development of the bank credit card in the late 1950s. Today almost 600 million credit card accounts exist in the United States, and seven out of ten households possess at least one credit card. Outstanding balances on credit card accounts total more than \$75 billion.

Despite the widespread use of credit cards, opinion has been divided on their economic significance. In response to a Congressional request for a report on the economic impact of credit cards--deemed necessary to evaluate a law that encouraged the offering of price discounts for payment by cash--this study examines the impact of credit cards on the costs that merchants and creditors incur, on the pricing of goods sold by retailers, and on the volume of retail sales. The Congress asked for information on these issues to help ascertain whether and to what extent credit card users are subsidized by cash customers when both pay the same prices for goods and services.

1.1. Scope of Study

While some background is provided (in Chapter 2) on the history, characteristics, and use of different types of credit cards, the primary focus of the study is on the costs to retailers associated with credit card transactions, compared with the costs of cash and check transactions, and on the question of how credit cards affect the sales of retailers--topics that

were of central concern in the discussions that led to the study request. The study also seeks to provide the Congress with up-to-date information on the prevalence of discount-for-cash programs, and current attitudes of both retailers and consumers toward such programs. The study provides no recommendations regarding legislation to promote discounts for cash or surcharges for credit, in view of the Congressional request for an informational rather than an advisory study.

The report draws upon existing studies, where applicable, and also presents findings of special surveys of households and retailers undertaken expressly for this report. The Federal Reserve Board sponsored questions about consumer response to discounts for cash on two regular household surveys conducted by the Survey Research Center at the University of Michigan. The Board also commissioned a survey of retail organizations about their perceptions of relative costs of cash, check, and credit card transactions, and on their practices and views concerning the offering of price discounts to customers who pay cash.

1.2. Origin of Study

In 1974, the Congress amended the Consumer Credit Protection Act (more commonly referred to as the Truth in Lending Act) to encourage merchants to offer discounts to customers who pay for purchases with cash instead of credit cards. The amendments, contained in the Fair Credit Billing Act of 1974, were based on a conviction that credit card transactions were more costly for merchants to handle than were cash transactions. Recognizing also that in the long run selling costs must be recovered in the prices that merchants charge, the Congress concluded that cash buyers were subsidizing credit buyers in the customary situation where both faced an identical retail

price for a given item at a given store. The amendments sought to encourage discounts by (1) prohibiting card issuers from contractually forbidding merchants to offer cash discounts and (2) exempting cash discounts of up to five percent from the requirement of disclosure as finance charges under federal law.¹ The Federal Reserve Board was to administer these provisions as part of its general responsibilities under the Truth in Lending Act.

In implementing the exemption of cash discounts from treatment as finance charges under the Truth in Lending Act, the Board encountered the question as to whether the Congress intended this special treatment to apply to both discount and surcharge pricing systems. The Board requested guidance from Congress on its legislative intent, and the Congress responded in 1976 by specifically defining the terms "discount" and "surcharge" as, respectively, a reduction from and an addition to the "regular price." "Regular price" was not defined, but the Congress clearly specified that a discount was not equivalent to a surcharge, and prohibited the imposition of surcharges until February 27, 1979. The particular mechanics of establishing a two-tier price system had to involve discounts from the credit price for cash customers rather than surcharges to the cash price for credit customers. In addition, the 1976 amendments provided that discounts offered in accordance with the act and regulation would not be considered credit charges under any state usury or disclosure laws. The surcharge prohibition was extended in 1978 for an additional two years, until February 27, 1981, without change.

1. The Truth in Lending Act requires extenders of credit to provide borrowers with information on the cost of credit expressed on a standardized basis to facilitate comparison shopping among creditors. This act and Federal Reserve regulations specify what should and should not be treated as a finance charge in calculating the annual percentage rate to be disclosed. In general, in credit sale transactions any difference between the cash price and the credit price is to be treated as a finance charge. Under these circumstances, especially in light of state laws setting maximum interest rates on consumer credit, merchants and card issuers were reluctant to price goods separately for sale by cash or by credit.

In 1981 Congress further amended the cash discount provisions in the Truth in Lending Act and once again extended the surcharge prohibition. The principal amendments (1) eliminated the 5 percent limit on discounts that were exempt from treatment as a finance charge, thus authorizing unlimited discounts, and (2) removed language that directed the Board to issue regulations concerning the offering of discounts. The surcharge prohibition was extended until February 27, 1984, but only after considerable debate and the addition to the Act of a requirement that a study be prepared by the Federal Reserve Board concerning credit cards.¹

While the primary focus of decision in early 1984 apparently was to be whether to continue or to remove the surcharge prohibition, the Congress requested a study that would go beyond a comparison of surcharges and discounts to a fundamental examination of the economic merits of two-tier pricing--by whatever mechanism achieved. It was remarked several times in the Senate floor discussion that relatively little evidence had been put forth to substantiate the belief that credit transactions were more costly to retailers than cash transactions; that, in fact, the main study of credit cards familiar to the senators--a 1968 Federal Reserve study--had found that credit cards exerted little upward pressure on costs of retailers.²

1. For the currently effective amendments to the Truth in Lending Act regarding discounts for cash, see: 15 U.S.C. §1666f (1982) (Pub. L. No. 90-321, Title I, §167, as added Pub. L. No. 93-495, Title III, §306, October 28, 1974, and amended Pub. L. No. 94-222, §3(c)(1), February 27, 1976, 90 Stat. 197; Pub. L. No. 97-25, Title I, §101, July 27, 1981, 95 Stat. 144.) The text of the Cash Discount Act of 1981 is provided in Appendix A.

2. Board of Governors of the Federal Reserve System, Bank Credit Cards and Check Credit Plans (Board of Governors, 1968), pp. 58-59. This conclusion was based in considerable part on the costs to retailers stemming from bank credit cards compared with the operating costs of store-card plans. If bank-card transactions primarily substitute for store-card transactions, a retailer would likely experience no change (or some decline) in costs. The 1968 study noted that "upward pressure on prices would arise from any massive shift of cash customers to the use of credit cards if there were no offsetting increase in the volume of transactions," but found little evidence that such a shift from cash was likely.

Thus, under Title II of the Cash Discount Act of 1981, the present study was commissioned to provide the Congress with a report on what is known about the impact of credit cards on the economy, particularly with regard to the costs incurred by retailers and the pricing of goods and services. The specific instruction from Congress was as follows:

"the Board of Governors of the Federal Reserve System shall prepare a study, on the basis of a review and analysis of such data and studies as it finds appropriate...on the effect of charge card transactions upon card issuers, merchants, and consumers, including to the extent possible--

(1) the effects of charge card transactions on retail sales;

(2) the effect of charge card usage on consumers and on merchants, including the effects on merchant cost; and

(3) the effect of charge card usage on the pricing of goods and services, with a comparison of the costs resulting from payment by (A) currency and coin, (B) by personal check or similar instrument, (C) by in-house credit plans, and (D) by charge card."

1.3. Summary

As observed above, the fundamental thesis underlying the Cash Discount Act is that credit card transactions are more costly to retailers than cash or check transactions, and that the higher costs of credit cards are incorporated in the prices of goods and services paid by all customers, resulting in a subsidy of credit buyers by cash purchasers.

The most basic challenge to this view would be the assertion that, properly measured, transactions costs for credit cards do not differ from other means of payment, or that the magnitude of difference is negligible. Another counter-argument sometimes proposed to the subsidy thesis is that credit cards generate incremental sales for retailers, so that the additional profits thereby attributable to cards eliminate any need to recover the cost

of credit cards in prices of goods and services. The following chapters discuss these issues, and also examine the current practices and attitudes of retailers toward offering discounts for cash.

Following a brief overview in Chapter 2 describing the types of credit cards available and the incidence of their use among households, Chapter 3 examines the broad question of the impact of credit cards on sales of retailers. Many observers would argue that because consumers are enabled by credit cards to spend beyond the immediate limits of cash or checking account balances, they are more likely to make ill-considered purchases and, in general, to spend more and save less than they would in the absence of credit cards.

This idea was examined in two ways: first, through a survey of households on "impulse" purchases transacted by credit cards; and second, by a review of available research on the link between credit cards and aggregate spending, on the grounds that any broad increase in spending induced by credit cards would be expected to boost aggregate consumption and to reduce the aggregate saving rate. However, neither the household survey nor the macroeconomic studies suggest that any strong, consistent relationship exists between credit cards and incremental sales among retailers as a group.¹ The survey found that many unplanned purchases were transacted by cash, and that many of those transacted through credit cards would likely have been undertaken even without access to a credit card. The limited amount of macroeconomic research available has failed to establish any measurable impact of credit cards on the aggregate saving rate.

1. Whether card-honoring retailers attract sales from other retailers who don't accept credit cards is treated as a minor issue, in view of the widespread acceptance of credit cards. Unless industry-wide sales are increased, gains and losses from credit card sales will net out among retailers, yielding no net additional revenues to offset the higher costs of credit cards.

Chapter 4 examines the costs associated with credit cards and other means of payment, and summarizes a number of relevant studies. It also reports on the results of a survey of retailers conducted this year concerning their perceptions of the relative costs of credit cards, cash, and checks. The weight of the evidence from the survey and other studies is that total net costs to retailers associated with credit cards--including point-of-sale, security-related, and financial costs--are in fact higher than for other types of transactions, typically by about 2 to 3 percent of the transaction amount, a figure which roughly corresponds to the average factoring or servicing fee paid by merchants to issuers of third-party credit cards (or the net credit department deficits of retailers that issue their own credit cards). For most retailers, the costs of check transactions appear to be smaller than for credit cards, and either about the same or larger than for cash. Large retailers were more likely than small retailers to rate both checks and credit cards as more costly than cash.

In Chapter 5, the issue of whether the higher costs of credit cards are included in retail prices is discussed. From a microeconomic perspective, it is concluded that prices in the long run would reflect all such costs that were not recovered directly from credit card users, but that the size of the price effect would be small. In total, the need to cover credit-related costs would likely boost the price of a given item by less than 1 percent. This minimal impact owes in part to the relatively small share of sales transacted by credit cards (around 15 percent through third-party cards in the areas of general merchandising under study).

From a macroeconomic perspective, credit cards could potentially affect economic activity by altering the aggregate propensity to consume and/or the transactions demand for money. Some impact on the equilibrium

level of prices during a period of adjustment to the introduction of credit cards is held possible, but available evidence suggests that such an effect would be small and mostly irrelevant to the long-run processes of economic growth or inflation.

From Chapters 3 through 5, it can be concluded that credit card transactions cost most retailers more than cash (or check) transactions, and that this cost is not offset by higher retail sales volume, but is reflected in the level of prices. As a result it can be said that cash buyers, at least to some extent, subsidize credit card users by paying identical prices.

Chapter 6 examines two possible methods of minimizing the subsidy: (1) removal of government-imposed artificial barriers to coverage of credit card costs via finance charges and other user fees, and (2) establishment of a two-tier price structure involving discounts for cash or surcharges for credit.

Because of revisions in state usury laws and other statutes, card issuers have been in position to shift more of the cost of credit cards onto users recently. Adoption of two-tier pricing appears feasible for most retailers only if they simultaneously raise the base price from which discounts would be calculated, so that the "new" credit price is above--and the discounted cash price only somewhat below--the "old" single price.¹ This conclusion is based on results from surveys of consumer reaction to actual two-tier pricing of gasoline and to hypothetical discounts for cash on durable goods and clothing, as well as implications from the findings on costs in Chapter 4.

A polling of retailers on their current practices and attitudes toward discounts for cash, reported in Chapter 6, found that in the spring of

1. Two-tier pricing through surcharges for credit would ordinarily result in the same structure of credit and cash price as under a discount-for-cash approach.

1983 cash discounts were typically the exception rather than the rule for types of business likely to accept credit cards in addition to other means of payment. About 25 percent of gasoline stations and 5 percent of other retailers offered discounts, with around 40 percent of all retailers surveyed describing discounts for cash as "a good idea." About three out of every ten retailers thought that surcharges for credit constituted a better approach to two-tier pricing than discounts for cash; 70 percent thought surcharges an inferior approach.

2. ECONOMIC CHARACTERISTICS OF CREDIT CARD PLANS

Credit card plans in today's marketplace offer consumers a diverse menu of financial services. As background for the ensuing analysis, the present chapter compares the services currently offered by five major types of credit cards, the cost implications and pricing of these services, and trends in the holding and use of each type of card.¹

2.1. Gasoline Company Credit Cards

Gasoline credit cards are "two-party" arrangements--credit cards that are issued by a vendor for customers to use in making credit purchases primarily or exclusively at the retail outlets of the issuing company.² Most gasoline company credit card programs provide credit for a one-month billing period with no provision for extending repayment over a longer period. Some gasoline companies offer optional extended periods to pay for purchases of more expensive items such as tires, batteries, or repairs.

As a result of the short repayment period, the gross expense to the gasoline companies of financing these receivables is lower, relative to the dollar volume of credit billings, than for credit card programs that offer extended repayment terms.³ However, the rather low average amount of credit purchases at gasoline stations implies that costs of processing credit card transactions tend to be fairly high per dollar of credit sales. Although processing costs are subject to some degree of control, particularly through

1. For further discussion of holding and use of credit cards, see Thomas A. Durkin and Gregory E. Elliehausen, 1977 Consumer Credit Survey (Board of Governors of the Federal Reserve System, 1978).

2. Some gasoline company credit cards can be used to make purchases at stations operating under different brand names. Also, accommodations and meals at specified lodging establishments and restaurants can be charged on some gasoline company credit cards.

3. An offsetting factor is the relatively low amount of finance charge revenue generated by this type of credit card plan.

implementation of more efficient automated procedures that capture economies of scale, financial costs are mainly determined by market conditions and are largely beyond the control of credit card issuers.

Pricing of gasoline credit cards has consisted mainly of a finance charge applied to past-due balances. Thus, there has been no explicit charge for credit services used by credit customers that pay in full within the initial billing period. In the past few years, however, some gasoline companies have offered auto or travel clubs, for which membership fees are charged, consisting of credit card plans combined with travel-related services. Apart from this specialized development, no gasoline company has yet initiated a cardholder fee for its regular credit card program.

Since late 1981, some gasoline companies have begun programs that offer lower prices to customers who pay in cash rather than by credit card. Dealers who choose to participate in these programs generally charge customers about 3 to 5 cents per gallon less than the posted price if payment is made in cash; as a result, all credit card users help to defray at least part of the cost of providing credit card services. Several gasoline companies have also begun charging their dealers a handling fee--typically about 3 percent of amounts due from customers--for processing credit card billings.

The proportion of families that holds one or more gasoline company credit cards has remained stable, overall, in recent years at slightly above one-third (table 2.1). The dropoff in 1981 to 30 percent likely reflects short-term adjustments resulting from the 1979-80 gasoline shortage and associated price increases, as well as the temporary impact of the consumer credit restraint program that was in effect during the first half of 1980.

Use of gasoline credit cards has followed a generally similar pattern (table 2.2). About one-third of families has used gasoline company

TABLE 2.1

CREDIT CARD HOLDING
(Families Holding Cards as Percent of All Families)

Type of Credit Card	Year			
	1977	1978	1981	1982
Any	63	64	66	70
Gasoline	34	34	30	35
Bank	38	40	45	51
General purpose ¹	8	10	14	14
Retail store	53	50	57	63
Other ²	6	5	7	n.a.

1. Travel and entertainment cards.

2. Includes airline cards, car-rental cards, and others not classified elsewhere.

n.a.--not available

Source: Data collected for the Federal Reserve Board by the Survey Research Center, University of Michigan.

TABLE 2.2

CREDIT CARD USE
(Families Using Cards as Percent of All Families)

Type of Credit Card	Year				
	1971	1977	1978	1981	1982
Any	50 ³	60	62	62	n.a.
Gasoline	33	31	32	27	31
Bank	19	35	37	39	47
General purpose ¹	5	7	9	12	13
Retail store	45	50	48	51	57
Other ²	n.a.	4	3	5	n.a.

1. Travel and entertainment cards.

2. Includes airline cards and car-rental cards.

3. Data for 1970.

n.a.--not available

Source: 1970 Survey of Consumer Finances, 1971-72 Surveys of Consumers, and data collected for the Federal Reserve Board by the Survey Research Center, University of Michigan.

credit cards since the early seventies. Some indication of reduced usage in 1981 likely reflects the aftereffects of gasoline shortages and government policies to restrain certain types of credit use.

2.2. Bank Credit Cards¹

By contrast, bank credit cards are "third-party" arrangements in which the company that provides the financial service has no affiliation with the buyer or the seller of the goods and services purchased with the credit card. Bank credit cards offer highly flexible credit terms. Customers who can qualify for a fairly large credit limit--those who have a good credit history and adequate income--can incur relatively large indebtedness on such an account. Also, by choosing to pay less than the entire balance, account holders can stretch out repayments over an extended period of time. Thus, the bank credit card can be used to satisfy fairly large needs for immediate credit, and--if desired--to scale repayments to available income. Furthermore, bank credit cards are widely accepted for purchases of a large variety of goods and services, and can also be used to obtain cash at many financial institutions.

The gross financing cost incurred by a typical bank credit card issuer per dollar of credit billings likely exceeds that of most gasoline credit card programs, since a lower proportion--slightly less than three-fifths--of bank card customers usually pays the entire balance when billed. Processing costs are lower relative to the volume of bank credit card billings, owing to the larger average dollar amount of bank credit card transactions.

1. Although the term "bank" credit card is commonly used, it obscures the growing diversity of institutions and organizations offering such services. "Bank" cards now are issued by finance companies (through commercial banks that may be subsidiaries), savings and loan associations, and credit unions. Some nonfinancial organizations such as the American Automobile Association have made arrangements with commercial banks to issue bank credit cards to members in the name of the organization.

Banks processing credit card receivables deduct a percentage of all credit card billings--called a "merchant discount" fee--for handling credit card slips submitted by the retailers. In turn, card-issuing banks charge other banks an "interchange" fee for clearing transactions billed to the accounts of customers of the card-issuing bank. Such fees help compensate card-issuing institutions for expenses of record keeping, billing customers, non-payment by customers, and fraudulent use of credit cards.

Customer pricing of bank credit cards has changed substantially in recent years. Before the mid-1970s, most banks relied entirely on a finance charge on customer credit card balances that remained unpaid after the initial billing period. Recent changes in financial and regulatory conditions have caused many banks to implement periodic fees for maintaining customer credit card accounts. As market interest rates increased during the late 1970s, the costs of funding credit card services rose significantly. Although faced with rising costs, banks in many states were unable to increase revenue derived from finance charges because of binding statutory rate ceilings.

A related factor was the gradual phaseout of regulatory limitations on deposit rates mandated by the Depository Institutions Deregulation and Monetary Control Act of 1980. The costs of funds acquired from bank customers increased as banks began to pay higher rates to attract and retain savings and time deposits, and as banks started to offer new transactions accounts that--unlike regular checking accounts--paid interest on deposits. Finally, from March 1980 through early July 1980, the credit restraint program administered by the Federal Reserve at the direction of President Carter imposed a special deposit requirement that caused some banks and other credit card issuers to experience additional costs of providing revolving credit.

To offset these cost pressures, many banks adopted periodic fees in an effort to boost current revenues and to re-price credit card services on a basis better suited to an environment in which customer deposit rates are unrestricted.¹ Some banks have pursued means of boosting revenues other than through imposing periodic fees, such as charging for each transaction billed to a credit card account and assessing penalties for late payments, for replacement of lost cards, or for balances that exceed credit limits. Other banks have increased merchant discount fees or customer finance charges, where competitive and regulatory conditions have permitted such action, or have started charging interest from the date that transactions are posted to an account rather than after an initial billing cycle.

A variant of the bank credit card offered by some institutions is the so-called "gold card." This specialized type of "premium" bank credit card combines the features of the regular bank credit card with a larger credit line and a package of additional services that may include accident insurance, lost credit card service, hotel and car rental discounts, and free travelers checks. Fees charged cardholders for gold card services typically exceed the range of fees on regular bank credit card accounts, but ordinarily are less than the fees charged for general purpose (travel and entertainment) cards.

One-half of all families in the United States now holds one or more bank credit cards, up from nearly two-fifths in 1977 (table 2.1). The proportion of families holding a bank credit card has expanded continually, as has the percentage of families that uses bank credit cards, which rose from one-fifth in 1971 to nearly one-half in 1982 (table 2.2).

1. As providers of "third-party" credit card services, issuers of bank credit cards cannot fall back on profits from the sale of goods and services financed with such credit cards to cover some costs of providing credit card services.

2.3 General Purpose Credit Cards¹

This type of third-party credit card is oriented toward more affluent customers able to pay a larger annual membership fee for access to premium credit card services. Since higher income requirements must be met to qualify for general purpose credit cards, an element of prestige may be attached to carrying such cards as well as some presumption that cardholder creditworthiness is less subject to question than with other credit cards. Therefore, these programs appeal to customers who travel and/or entertain frequently, for whom an easily accepted credit card with a relatively high credit limit can be especially convenient.

A variety of ancillary services is typically offered as part of a general purpose credit card package. Travel accident insurance, discounts on travelers checks, on hotel accommodations, and on car rental, and access to check cashing or cash advances from company or affiliated offices or from card-activated cash dispensers are examples of these additional services.

In addition to membership fees, card issuers also derive revenues from merchant discount charges paid by retailers. Another important feature of general purpose credit cards is the requirement that balances be repaid within 30 days after billing. Thus, although the average balance for such accounts may be large, credit remains outstanding for only a relatively short period of time, so that gross financing costs incurred by the card issuers are kept fairly low in relation to the volume of billings.

"Gold cards" for a select clientele were first developed as variants of general purpose credit cards. As with bank credit card plans that later adopted this strategy, these gold card plans provide additional services and a larger credit limit at a higher fee and with a more stringent income requirement.

¹ Also frequently referred to as "travel and entertainment cards." Major issuers of such credit cards include American Express, Carte Blanche, and Diner's Club.

Gold cards also permit repayment of balances over an extended period, in contrast to regular travel and entertainment cards that require payment within 30 days of billing.

General purpose credit cards are held by almost 15 percent of families, up sharply from only 8 percent in 1977 (table 2.1). The percentage of families that uses general purpose credit cards has almost doubled since 1977 (table 2.2).

2.4 Retail Store Credit Cards

Two-party credit cards issued by retail stores are the most widely held and used type of credit card. Over three-fifths of families in the United States held some kind of retail store credit card in late 1982 (table 2.1), and most of these families used such cards to some extent (table 2.2). Holding and use of retail store cards have continued to expand in recent years, even though retail credit cards have long been available and despite increasing competition from third-party credit cards, some of which now are accepted by many leading department stores and specialty shops.

Retail store cards typically offer lower credit limits and have less demanding credit qualification requirements in comparison with third-party credit cards. Of course, use of retail credit cards is limited to the variety of merchandise carried by the issuing merchant. Retail revolving credit plans usually provide customers the option of repaying over an extended period of time. Typically, three-fifths of retail credit card customers usually pay the entire balance billed to their accounts, about the same proportion of non-revolvers as is found with bank credit cards.

Retail credit card plans may be administered and financed either "in-house" by the retailer or by an outside firm that contracts with the retailer to furnish "private label" credit card services. All costs of

operating in-house credit card plans are borne directly by the retailer. In-house credit card plans derive revenues from finance charges on credit card balances that are not repaid before the end of a billing cycle. Retailers have not adopted the strategy followed by many commercial banks of charging periodic fees for access to credit card services. To some extent, retail establishments may have more leeway than financial institutions in pricing credit card services, since--except under conditions of intense price competition--some costs of providing credit cards may be recouped from profits on sales of merchandise.

Except for the fact that credit cards bearing the retailer's name are issued to its customers in both cases, private label and in-house credit card plans differ in most respects. Indeed, private label retailer credit card plans more closely resemble bank credit card programs. A bank or a finance company vendor agrees to conduct and finance a credit card program for the retailer, in return for a fee analogous to the merchant discount fee paid to banks by retailers who accept bank credit cards. Private label credit card plans are used mainly by small- and medium-sized retail firms that prefer to purchase the managerial experience and the legal and financial resources of a large financial organization instead of bearing the expense of developing such capabilities internally.

2.5 Other Credit Cards

The remaining category of credit cards used by consumers is highly specialized and appears to be growing slowly. Such credit cards mainly are issued by some airlines and car-rental firms. About 7 percent of families held this type of credit card in 1981 (table 2.1) and about 5 percent used it to some extent (table 2.2).

The larger car-rental firms offer credit card accounts that have no annual fees and require full payment by the end of each billing period. Some companies provide credit card accounts only for businesses. A number of major airlines provide credit card plans that are available to individuals, permit extended payments, and have no periodic fees. In addition, many carriers accept Universal Air Travel Plan credit cards, although this account is mainly available for business travel and requires full payment during each billing period.

The revenue, cost, and usage characteristics associated with the major types of credit card plans reviewed in this chapter reflect efforts by card issuers to provide financial services that appeal to customers with varied financial requirements. To simplify the discussion in the following chapters, the analysis distinguishes mainly between third-party credit cards and in-house credit cards, with some separate attention to gasoline company credit cards. In the next chapter, in addition, the contrast is sharpened between transactions use--a feature of all credit cards--and longer-term borrowing, which occurs only with credit cards that permit extended payment terms.

3. IMPACT OF CREDIT CARDS ON CONSUMER SPENDING

3.1. Patterns of Credit Card Usage

Approximately two-thirds of the households in the United States hold credit cards of some type, as noted in Chapter 2, but the use made of these credit cards varies substantially among households. Two basic contrasting patterns of usage may be described as "convenience use" for transactions purposes and "installment use" for borrowing activity.

Credit cards enable their holders to make purchases on a deferred payment basis. To some card holders, especially "convenience users," the significance of this payment deferral mechanism is that it permits them to carry smaller amounts of cash than might otherwise be necessary (or to obtain cash less frequently), sometimes provides an easier means of transacting a purchase than a personal check, and generates receipts that may facilitate merchandise returns or expense reimbursement. The use of a credit card also provides short-term "bridge" credit between paychecks or in advance of other receipts of funds.

Bridge credit in small amounts is essentially a convenience that helps a card user to adapt to nonsynchronous flows of income and expenditures. To the "installment user," the credit card offers an attractive means to obtain credit on a more extended basis. Payment for purchases may be stretched over several billing periods in accordance with account agreements which commonly require minimum periodic payments of 5 to 10 percent of the total amount owed. In this respect, credit cards are more an alternative to fixed-amount installment sales contracts or personal loans than to drawing down cash or checking account balances.

The advantages of borrowing by credit cards are several. For instance, card users may borrow in the exact amount they wish to spend (within their credit limit). In contrast, personal loans generally are available only for some minimum amount. Installment sales contracts are likewise usually limited by creditors to some minimum feasible size, such as for a major appliance or set of furniture. Also, credit card users make only one credit application, at the time they request a card, and thereafter can borrow with ease (as long as they meet a minimum payment schedule); installment sales contracts and personal loans, on the other hand, usually require a separate time-consuming process of application and approval for each extension of credit.

Of further benefit to installment users of credit cards is the payment flexibility of most credit card accounts. Card holders may routinely repay any portion of the balance owed, from the minimum amount required up to the entire balance, at any time. Other forms of installment credit generally specify a fixed monthly payment established at the signing of the contract. On such loans, a smaller than scheduled payment may place the loan in delinquent status and trigger penalty fees. Partial or full prepayments may result in rebates of prepaid interest on a basis not particularly advantageous to the borrower. Even for installment users, then, "convenience" is an important attribute of credit cards--convenience in borrowing, primarily, rather than convenience in transacting.

Not every card holder fits neatly into one usage category or the other. Convenience users who ordinarily pay credit card bills in full may sometimes repay by installments--for example, after making an especially large purchase. Installment users, in turn, may at times pay off credit card debts in full--for example, after receiving a large tax refund. Nevertheless,

card holders generally can be classified into one category or the other according to their customary payment habits. From responses to questions concerning repayment practices on credit card accounts contained in the Board's 1977 Consumer Credit Survey, it appeared that about half of U.S. card holders were convenience users and the other half installment users.

3.2. Impact of Credit Cards on Expenditures

Isolating the impact of credit cards on consumer spending is difficult. Credit cards are so widely held, and the volume of business transacted through cards is so large, that it seems only reasonable to suppose that credit cards affect the way people spend. Using a credit card to make some unplanned purchase, or a purchase larger than intended, is perhaps a widely shared experience. Yet the precise nature and magnitude of the credit card's impact on spending remain elusive. Do credit cards in fact cause overall spending to be larger than would otherwise be the case? Or do they primarily affect the timing of purchases? Or perhaps the composition, rather than the total amount, of consumer spending?

The relevance of these issues to the discount-for-cash debate stems most directly from the possible offset to credit card costs at card-honoring retailers that may arise from any increase in sales volume associated with acceptance of credit cards. Any effect of credit cards on individual spending behavior would seem to carry some implications for aggregate spending as well. Examining the relationship between credit cards and aggregate consumption, therefore, can help in assessing whether the relationship of credit card use and sales volume at retail stores is significant. If use of credit cards stimulates aggregate spending, retailers as a group should derive increased sales; but if card use has no appreciable impact on total spending, then retailers as a group would realize no net sales gain to offset the

industry-wide costs of honoring credit cards. Of course, merchants who honor credit cards might gain sales from those who do not accept them, but that situation becomes less likely as credit cards reach a mature stage of development and retailer acceptance of credit cards becomes widespread.

The macroeconomic impact of credit cards is an important issue in its own right. Any factor that may influence spending habits of consumers is relevant to public policy concerns focused on the general level of prices and the scale of economic activity. However, these issues--to be discussed briefly in Chapter 5--appear secondary to the fundamental concern with consumer equity embodied in the Cash Discount Act, which is to identify and to minimize any possible subsidy of credit card users by cash users.

Microeconomic evidence. One way to gain insights into how credit cards affect consumer spending is to question a representative sampling of persons about their spending and card use habits. Some information of this type was surveyed in Chapter 2, and more recent survey results concerning unplanned purchases are discussed below.

Credit cards are sometimes believed to induce people to spend more than they otherwise would by weakening the discipline on spending imposed by in-pocket cash or checking account balances. Accordingly, many retailers feel that they can boost their sales by accepting credit cards, and critics sometimes assail the card for promoting ill-considered outlays that could lead to financial problems for some households.

As suggested above, however, the common view that credit cards influence spending does not necessarily imply greater spending in total, for either a given household or in the aggregate. It may be that only the timing or the composition of spending is affected. The convenience user, for example, may buy on one day what he would otherwise wait a week or so to buy, with no

difference in his total spending during the period. The installment user, of course, would likely alter the timing of his purchases more substantially, since without a credit card he might have to save for a purchase for a considerably longer time than would a convenience user.

For any credit card purchase, a compositional effect may be linked with the timing effect. Insofar as the credit card purchase must ultimately be paid for by transferring funds, the card user may at some point cut back on other expenditures, with no direct long-term impact on his overall spending. An article of clothing purchased by credit card--perhaps on impulse--might be "paid for" later by forgoing an alternative clothing purchase, or by sacrificing some unrelated expenditure, such as an expensive dinner.

To obtain some notion of the possible link between credit cards, unplanned or impulsive purchases, and changes in a household's total spending, the Federal Reserve commissioned the Survey Research Center to include several special questions on this subject in its January 1983 monthly survey of households. The answers to these questions did not indicate an especially strong connection between credit card usage and household spending, a result consistent with the finding from other surveys that about one half of card-holding households typically use cards for convenience rather than to augment purchasing power on a longer-term basis through installment use.

In the January 1983 survey, respondents were first asked if in the past three months they had made any purchase larger than \$20 that they "had not planned to shop for when [they] went into the store." Respondents were then asked, for each instance mentioned, what they had purchased, the price of the item, why they had made the purchase, and whether they had done so with cash, check, or credit card. Those who had used a credit card were

then asked if they would have purchased the item had they not had a credit card, and, if not, whether they would have purchased the item within the next few months.

Forty-one percent of the survey respondents indicated that they had made at least one unplanned purchase of \$20 or larger in the preceding three months. About 40 percent of those respondents reported more than one unplanned purchase. The most common unplanned purchase fell in the broad category of clothing, jewelry, and personal items, followed by household items including major durables. Hobby, recreational, and educational items comprised the next largest category. The purchased items covered a broad price range. Twenty-five and thirty dollars were the most frequently mentioned amounts (for the first purchase discussed), but 35 percent mentioned purchase amounts of \$100 or more, and almost 7 percent reported purchases of \$500 or more.

For each unplanned purchase, respondents were asked "what was the main reason that you decided to purchase the item at that time?"¹ Not surprisingly, nearly half the respondents answered that they "needed/wanted/liked" the item purchased. After all, any purchase presumably is made in order to meet some perceived need or desire, even if the perception of that need develops only a few moments in advance of the purchase. Some of the other responses were also need-related--for example, some said the item was purchased to replace an older item that was "worn out" or "needed replacing anyway." The primary reason for purchase not directly related to need was attractive pricing of the item, variously described as being "on sale," a "bargain," or a "good deal." Thirty percent of the respondents cited this reason. Thirteen percent said they bought the item as a gift or "to surprise

¹ Reasons given for purchase were unprompted; i.e., respondents answered in any manner they chose, and not, for instance, by selecting their answer from a list of possible reasons.

someone." Reasons mentioned by less than 2 percent of the respondents were that they "had extra money" or that the item "was hard to find" elsewhere or at other times.

TABLE 3.1
UNPLANNED PURCHASE ACTIVITY

	Number of Responses	As Percent of:	
		Category Responses	Total Responses
<u>Total Responses</u>	<u>644</u>	<u>100.0</u>	<u>100.0</u>
No unplanned purchase	380	59.0	59.0
Made unplanned purchase	264	41.0	41.0
<u>How Paid for Unplanned Purchase</u>	<u>259¹</u>	<u>100.0</u>	
"Other"	8	3.1	1.2
Cash	135	52.1	21.0
Check	46	17.8	7.1
Credit card	70	27.0	10.9
<u>Behavior If Had No Credit Card</u>	<u>70</u>	<u>100.0</u>	
Buy at same time	40	57.1	6.2
No purchase at time	30	42.9	4.7
<u>Subsequent Behavior</u>	<u>30</u>	<u>100.0</u>	
Purchase within few months	19	63.3	3.0
No purchase at all	11	36.7	1.7

1. Five respondents making unplanned purchases did not provide information about method of transaction.

Responses to household survey, 1983.

A particularly interesting result of the survey is that only slightly more than one-fourth of those making an unplanned purchase used a credit card to do so (see table 3.1). Unfortunately, no "control group" data exist on the proportion of planned purchases made by credit card in the relevant categories (clothing and personal, household goods, hobby and recreational). Still, a frequency of one card purchase in four would not seem to establish a particularly

strong relationship between unplanned purchases and credit card use.¹ A full 70 percent of the unplanned purchases were made either by cash (52 percent) or by check (18 percent). About 3 percent were made by other, unidentified, means. When purchases were classified by size, the incidence of card use appeared to increase as purchases became larger, but not to a striking extent. For unplanned purchases above \$100, 31 percent were transacted by credit card compared with 25 percent for transactions of \$100 or less.

In all (considering only the first item mentioned), 70 respondents made an unplanned purchase by credit card. Forty of these purchasers (57 percent) said they would have made the purchase at the time even if they had not carried a credit card--they were not asked how--and 30 respondents (43 percent) said they would not have made the purchase at that time without their credit card. Finally, the 30 respondents who would not have made the purchase were asked if they would have made it within the next few months--19 said yes, they would have, and 11 said no.

Responses to hypothetical questions, of course, have considerable limitations. Statements as to what one would do if circumstances were different entail varying degrees of reliability for different respondents. Still, in the absence of a compelling reason to suspect a large bias in the answers provided, the survey results suggest that in only a small number of cases might credit cards ultimately prove decisive in the completion of an unplanned purchase. Seventy-three percent of the unplanned purchases studied were transacted by means other than credit card; another 15 percent would

1. In the Board's 1983 survey of retailers, among stores accepting credit cards, about 22 percent of total sales at clothing stores were transacted by card, and about 16 percent of furniture and appliance store sales were by card. This survey is discussed in Chapters 4 and 6.

have been made at the same time even without access to a card; another 7 percent would have been carried out at some later time. Only 4 percent of all the completed purchases (11 of 259), or 16 percent of credit card purchases (11 of 70), would never have been made without a credit card, in the judgment of the purchasers themselves.

Unplanned purchases, of course, represent only a fraction of total purchases. If the above proportions are reasonably accurate, it seems likely that far less than 4 percent of all purchases--planned and unplanned--could be described as sales that would never have taken place at all without credit cards. Moreover, even for those unanticipated purchases identified as entirely dependent on credit cards, it is still not possible to say that they represent a net addition to total spending. In the absence of the card-dependent purchases and subsequent payment for them, it may be that different purchases would have been made at some point, so that the total spending and total saving of the individuals would have been the same over time in either case.

Macroeconomic evidence. If individuals alter their spending behavior as a result of holding credit cards, summation of individual outlays should result in a corresponding alteration of aggregate consumption spending. If such a link could be detected, it would tend to substantiate the argument that incremental sales from credit cards offset the purportedly higher cost of credit card transactions (thereby making it less certain that credit card costs are imbedded in retail prices).

As discussed in the preceding subsection, credit cards could generate changes in the timing, the composition, or the amount of spending. Credit cards could cause incidental variations in the timing of purchases within a short period (e.g., between paydays) and have few significant macroeconomic

effects.¹ Or, through household exercise of the borrowing function, they could assist a more fundamental longer-term shift in the timing and/or the composition of purchases.

The most direct way in which credit cards might influence the total of consumption spending would be by increasing consumer propensities to spend (reducing consumer propensities to save). If consumers are considered to have some desired rate of saving in a cardless environment, then total spending could be enlarged by the existence of cards only if actual saving by consumers fell below the initial desired level. This outcome might seem to hinge upon a widespread lack of consumer self-discipline in saving, resulting in a condition of chronic overindebtedness. An alternative explanation, advanced by T. Russell and also tested by E. Montgomery, is that prior imperfections in credit markets may have created a situation in which consumer borrowing and total consumption were constrained to lower than desired levels.² To the extent that credit cards served to mitigate these imperfections, they would tend to reduce the saving rate and boost consumption.

1. Changes in the timing of purchases due to card use could theoretically affect the cyclical nature of aggregate consumption spending, and therefore economic activity in general. Since credit cards (like all consumer credit instruments) make possible a greater dichotomy between current spending and current income, they could tend to be cyclically destabilizing by boosting spending even further during a boom period, or by retarding spending at other times as repayment obligations impose a competing claim to spending as an end use of current income. On the other hand, credit cards could just as well serve a stabilizing function, for instance, by enabling households to maintain a desired long-run spending path during periods of temporary unexpected short-falls in income. There is little documentation to suggest that these possible cyclical effects are very important in actuality. It is also possible that individual cycles of credit card use and repayment are differently phased and largely cancel out, resulting in little overall impact on economic aggregates.

2. Thomas Russell, The Economics of Bank Credit Cards (New York, Praeger, 1975).

Edward B. Montgomery, "Tests of Alternative Explanations of the Decline in the Personal Saving Rate" (Ph.D. dissertation, Harvard University, 1982).

If credit cards stimulate total spending--whether by relaxing capital market constraints on consumption or by undermining the consumer's will power to save--the impact should be evident in a declining aggregate saving rate as credit cards become more prevalent. During the 1970s, third-party credit cards were gaining broad distribution and use and, by and large, the saving rate did drop somewhat from earlier levels. By itself, however, without regard to the myriad other factors that influence spending, this fact is of little analytical value.

Russell's discussion of the link between credit cards and the saving rate was largely theoretical, in the context of a model in which the consumer arrives at an optimal allocation of lifetime income over time. Credit cards are introduced into the model as one method of diminishing restraints on the ability of younger consumers to borrow in anticipation of future income. For the U.S. economy, however, with its already well-developed consumer credit markets providing other means of obtaining credit, it becomes a difficult empirical question as to what extent credit cards might introduce any further appreciable relaxation of capital market constraints. Also, it should be noted, the Russell model would result only in a redistribution of consumption spending over time, unless total desired lifetime consumption is altered by the existence of credit cards.

In one of the few explicit macroeconomic studies of this issue, Montgomery calculated a maximum possible reduction in the saving rate of 0.3 percentage points during 1978 that might be associated with credit cards.¹ He also concluded from cross-sectional data that credit cards appeared to exert more of a downward impact on the saving rate in 1977 than in 1970

1. Montgomery, "Alternative Explanations," p. 26.

but that the magnitude of the impact was probably very small.¹ G. Garcia, summarizing her investigation of the literature in this area, concluded in 1980 that "the issue of the effects of credit cards on consumption remains a subject for further research...The relationship of credit to the expansion of and inflation in the economy remains to be adequately explained both at the theoretical and empirical level."²

On the whole, the household survey on unplanned purchases discussed above as well as existing macroeconomic research provide little grounds for believing that credit cards generate incremental sales in sufficient volume to offset credit card costs to any measurable degree.

1. Ibid., p. 166.

2. Gillian Garcia, "Credit Cards: An Interdisciplinary Survey," Journal of Consumer Research, vol. 6 (March 1980), p. 333.

4. EFFECT OF CREDIT CARD TRANSACTIONS ON COSTS OF RETAILERS

In Section 202 of the Cash Discount Act, the Congress designated "the effect of charge card usage on merchants, including the effects on merchant costs," as a major topic to be examined in the Federal Reserve study. This part of the report primarily addresses the question of the costs incurred by retailers from credit card transactions, following some further discussion of the impact of credit cards on merchant revenues.

4.1. The Incentive to Engage in Credit Card Transactions

An individual merchant has two obvious possible motivations to sell goods and services on credit. One is to increase sales: without credit, a particular sale might not be completed at all; in addition, the provision of credit through the merchant's own credit plan might establish a bond with the customer, leading to additional future transactions. A second reason for a merchant to sell on his own credit plan might be to enhance revenues by earning finance charges on receivables. Most empirical studies, however, have concluded that the direct variable and overhead expenses of operating a credit program (including the cost of funds) have not been fully covered by finance charge revenues. In practice, the sales generation motive appears to have been the dominant consideration underlying selling on credit.

The provision of open-book credit to known and trusted customers is a practice perhaps as old as retail trade itself. The broadening and formalizing of charge account credit was pioneered by the large full-line department stores in the 1940s and 1950s with the issuing of credit cards to customers for use in the issuing store and its branches. Initially, convenience was the primary attraction to consumers of the store credit card account, since most stores required full payment within the billing period of 30 to sometimes 90 days. In time, major retailers adopted the practice of providing qualified

customers an extended payment option (with finance charges accruing on unpaid balances). As a result, open-ended "revolving credit" began to substitute for longer-term closed-end credit as well as for cash transactions. Third-party card issuers subsequently entered the field by offering cards that could be used at any business that contracted with the issuer for this purpose.

For both in-house and third-party credit card plans, generation of incremental sales above the cash-only volume was the dominant consideration underlying their adoption. In many instances, the strategy may have been defensive--to avoid losing sales to card-honoring competitors--but was nevertheless attuned to achieving higher sales than deemed otherwise possible. It was generally believed that a card-holding customer, unfettered by the limitation of pocket cash or current checking account balance, would spend larger amounts than otherwise likely.

To businesses issuing their own card, the building of customer loyalty was an important sales-stimulating aspect of credit cards. People in possession of a store's credit card might habitually gravitate to that store to shop, and the monthly billing statement served as a convenient vehicle for presenting information about new products and services, special sales, or anything else designed to spur additional purchases.

To smaller businesses, the honoring of credit cards issued by banks or other third parties expanded their sales potential without the necessity for merchants to manage their own credit card plans. Expenses of application review, billing, and collection would be handled for a fee by the third-party issuer operating with the advantage of cost-minimizing economies of scale. Today, any clothing boutique or similar occupant of the modern shopping mall would likely suffer a decided competitive disadvantage if it did not accept credit cards. Even so, it is questionable whether the existence of credit

cards generates any incremental revenues for the retailing industry as a whole.

As discussed in Chapter 3, little support has been found for the view that card-holding consumers over the longer run spend more (save less) of their income than they would without credit cards. But if they do not, then it would seem that card-honoring merchants can benefit only at the expense of nonhonoring merchants. On the other hand, if most merchants honor credit cards, as may be true today, then none enjoys an advantage over any other by doing so, and competition must focus upon other factors such as product differences, pricing, and merchandise return policies.¹ In this situation, any selling costs incurred from honoring cards, above the cost of selling for cash, could be regarded as a net additional cost, in view of the absence of any offsetting incremental sales revenue for the industry as a whole.²

A good analogy to the impact of credit cards on retailers might be found in the grocery store industry's issuance of trading stamps several years ago. The first stores to offer stamps apparently were able to attract customers from competing stores, and to more than cover the costs of stamps through incremental sales volume. However, when others followed suit in self-defense, it became questionable whether any store--or the industry as a whole--benefitted from giving out stamps, since it is unlikely that people began to eat more in order to obtain stamps. In time, grocery stores grew dissatisfied

1. Given the present stage of widespread credit card possession, it is not even clear that card-honoring merchants as a group take net sales away from non-honoring merchants as a group. If non-honoring merchants are able to appeal to price-sensitive cash buyers by offering lower prices, then they may gain as much in sales to such customers as they lose from credit users forced to shop elsewhere.

2. The timing effects associated with card use could redistribute sales among retailers, but this result might be largely random, and likely to "even out" for given retailers over a period of time.

with the expense of administering stamp giveaways, and many customers became suspicious that the cost of the stamps might be imbedded in the prices they were paying. Customers who disliked the bother of collecting and redeeming stamps might legitimately have complained that they were subsidizing the avid stamp collectors by paying the same prices for their groceries. In response to all these negative aspects, some stores dropped their stamp programs and began to advertise heavily a policy of lower prices. Eventually, nearly all grocery stores abandoned trading stamp issuance.

This analogy by no means implies that retailers will some day abandon credit cards, or even that they would be wise to do so. It may well be that the consumer benefits of credit cards--the ability to alter the timing of their purchases, to carry minimal amounts of cash, to borrow for short periods, and so on--are of more substance than the perceived benefits of receiving trading stamps from grocery stores, which was, in essence, an inefficient means for consumers to obtain price discounts. The primary point of the analogy is to illustrate that the apparent gains to particular retailers from offering some service can evaporate if competitors offer an identical service, raising costs but leaving total industry-wide sales unaffected.

If, in fact, the benefit of added sales volume from credit cards is largely illusory on an industry-wide basis, the crucial consideration to the subsidy issue becomes whether credit card transactions are more costly to carry out than cash (or check) transactions. If they are more costly, and those costs are not covered by the finance charges and user fees paid by card holders, then it would appear that cash buyers may indeed subsidize card users by paying identical prices, or that retailers as a group may accept smaller profit margins than otherwise available, or some combination of these outcomes.

4.2. Costs to Retailers of Credit Card Transactions

Comparative costs to retailers of accepting different means of payment have been examined in a small number of earlier studies. Also, in connection with this report to Congress, the Federal Reserve Board conducted a survey of retail businesses on the costs of accepting cash, check, and credit cards. The results of this survey are discussed below.¹

At first glance, it might appear a foregone conclusion that credit card transactions are more costly than other means of payment insofar as merchants pay some percentage of their third-party credit card sales to the card issuers, or incur various costs in operating their own credit card plans that have no corollary in cash transactions. Many retailers tend to view the costs of handling cash transactions as equivalent to the cost of doing business--a sales clerk, for instance, must be on hand to conduct transactions of whatever type. Thus there is a tendency to regard the marginal cost of selling for cash as zero, but this view should not be adopted without critical examination.

There are many elements of cost associated with the handling of a sales transaction. Some costs may be higher for check or credit card transactions, but others may be higher for cash. Included among the relevant cost concepts, for example, would be the time required to complete a transaction, which may in turn influence the number of check-out stations and sales clerks that a store needs. Credit card transactions absorb time because credit slips must be written and frequently some sort of authorization procedure undertaken. Personal checks usually trigger certain time-consuming precautionary steps, such as inspecting and copying down identification data

1. Appendix B provides some information on the specifications of this survey conducted in the spring of 1983.

or summoning a manager from elsewhere in the store to approve acceptance of the check. Cash transactions most likely consume less time than check or credit card transactions, but the counting of cash received, the making of change, and the stocking and replenishment of cash registers with currency and coin are cash-related activities that occupy an employee's time. Time consumed in reconciling sales records with cash, checks, and credit slips on hand may vary with the proportion of sales transacted by each means, and from one business to another.

Security-related expenses comprise a large family of costs in which further variation may be found among the different means of payment. Included in such a concept would be both direct expenses of security precautions plus an allowance for any uncovered risk associated with each transaction medium. An obvious risk, for example, is the possibility of theft. This particular risk is likely to be more pronounced for cash because the full negotiability of cash makes it an attractive target. Acceptance of personal checks entails the risk that the check may be uncollectable, because the writer may not have sufficient funds on deposit or for some other reason. Security risks borne by operators of in-house credit card plans include the costs associated with delinquent and uncollectable accounts.

For a fee, of course, merchants can generally protect themselves from many of these risks. Employment of in-store security personnel, rental of armored car service, use of more technologically sophisticated equipment, payment of bonding and insurance fees, and subscription to a check guarantee service all represent costs that retailers can incur to minimize losses from theft, fraud, and other causes. The costs arising from loss and protection against loss may well differ among the types of payment and among different businesses, and it is by no means obvious which means of transaction carries

the highest security-related costs, or how consistent the allocation of such costs by transaction type would be from firm to firm.

Still other costs to retailers can be associated with the method of transaction. Every method other than cash involves some delay in receipt of funds by the retailer, and therefore an implicit financing cost in forgone interest on the funds eventually to be transferred. And in-house credit card plans involve a broad spectrum of bookkeeping and collection costs. These expenses, of course, may be offset at least partially by finance charge revenues.

Perhaps the most visible transactions cost to retailers is a factoring fee called the "merchant discount"--the fee paid by retailers to third-party card issuers, figured as some percentage of the volume of credit card sales. This fee generally varies between 1 and 5 percent for different merchants, depending chiefly on total credit card sales volume and per unit transaction size. It can be thought of as partly covering various operating expenses that are shifted from the merchant to the card issuer, such as billing and collecting costs that might otherwise arise if in-house card plans were maintained, or the cost of loss and loss prevention associated with cash and check. However, since the card issuer obtains the revenues from finance charges and related fees as well as absorbing the costs of providing credit, the existence of the merchant discount may also reflect some deficiency in the card issuer's coverage of credit costs solely through financing income.

Empirical studies. A number of studies have examined the costs of credit card operations, or compared some aspects of credit costs with the cost of cash and checks. These include a study by Touche Ross & Co. of costs and revenues from revolving credit at department stores in New York, a

study by Payments Systems, Inc. of comparative costs for cash, check and credit transactions, and a study by R. Grant comparing the costs of these modes of transactions in Great Britain.¹

The Touche Ross study collected detailed cost and revenue data for a 12-month period in 1972-73 from 17 retail firms in New York State operating in-house revolving credit plans (generally linked to a store-issued credit card). The analysis covered all costs relating to new accounts processing, account servicing, collection, space and equipment, payroll, and management. Touche Ross also calculated the cost of capital associated with each store's investment in receivables using two alternative methods--one based on each firm's own capital structure and one based on an assumed capital cost rate of 8 percent.

The principal finding of the study was that "retail stores in New York do not collect sufficient finance charge revenues on their revolving credit accounts to cover the costs of extending and servicing such accounts. For the 17 stores surveyed, the deficiency totalled...3.71 percent of credit sales. Each of the 17 stores incurred deficits on their revolving accounts."² Summary cost information from the Touche Ross study is presented in table 4.1. As the table indicates, the cost of capital was the largest component, accounting for about half of total credit costs (based on the

1. Payments Systems, Inc. Cost of Cash: A Strategic Analysis (Atlanta, 1981).

Touche Ross & Co. "Economics of New York State Retail Store Revolving Credit Operation for the Fiscal Year Ended January 31, 1973," in Robert P. Shay and William C. Dunkelberg, Retail Store Credit Card Use in New York. Studies in Consumer Credit, No. 4 (Graduate School of Business, Columbia University, 1975).

Robert M. Grant, "Transaction Costs to Retailers of Different Methods of Payment. Result of a Pilot Study" (Report prepared at The City University, London, 1982; processed).

2. Shay and Dunkelberg, Retail Store Credit Card Use in New York, p. 9.

individualized estimate of capital cost). Personnel costs and bad debt losses were the next largest elements of cost.

TABLE 4.1
 REVOLVING CREDIT REVENUE AND COSTS
 AT 17 NEW YORK RETAIL STORES
 AS A PERCENT OF REVOLVING CREDIT SALES

	All Stores (17)	
	Amount \$(000)	Percent of Sales
NET REVOLVING CREDIT SALES (excluding finance charge revenue)	<u>\$776,453.5</u>	<u>100.00%</u>
FINANCE CHARGE REVENUE (net)	<u>59,033.9</u>	<u>7.60%</u>
CREDIT COSTS:		
Personnel costs:		
New accounts	3,914.3	.50%
Account servicing	8,060.9	1.04
Account collection	3,265.9	.42
Additional sales personnel	999.1	.13
Supporting services	866.8	.11
Management	376.7	.05
Data processing	1,941.2	.25
Total personnel costs	<u>19,424.9</u>	<u>2.50%</u>
Data processing equipment	1,261.0	.16
Credit investigation	1,075.8	.14
Bad debt losses	10,853.5	1.40
Collection agency fees	1,329.1	.17
Credit space and equipment	1,555.4	.20
Postage	3,078.0	.40
Communication	1,161.5	.15
Supplies and other	3,602.5	.46
Cost of capital	44,533.6	5.73
Total credit cards	<u>87,875.3</u>	<u>11.31%</u>
EXCESS/(DEFICIENCY) OF REVENUE OVER COSTS	<u>\$(28,814.4)</u>	<u>(3.71)%</u>
EXCESS/(DEFICIENCY) OF REVENUE OVER COSTS (at 8 percent cost of capital)	<u>\$(16,835.9)</u>	<u>(2.17)%</u>

Source: Touche Ross & Co., "Economics of Revolving Credit," from exhibit II, p. 76.

The Touche Ross study reflected considerable effort to determine relatively precise cost estimates from accounting records and from extensive on-site discussions with store personnel. Although much judgmental estimation was necessary to allocate certain types of costs between credit and non-credit sales, the study did a credible job of establishing that the costs to retailers of revolving credit operations exceeded financing revenues at the stores examined.¹ The study did not address the issue of incremental sales revenue that might be attributable to credit cards, nor did it evaluate the store-card as a marketing tool. The relationship of the deficits incurred on credit card operations to the overall profit margin on goods sold on credit was also outside the scope of the study.

In 1980, Payments Systems, Inc. (PSI) made an extensive study of the costs associated with cash transactions, measured on a per transaction basis. The study compared certain aspects of these costs, termed "handling costs," with corresponding costs for checks and credit cards, and concluded that "the per retail transaction cost of credit cards and cash is near the same--about \$.45--and checks only carry a small margin of higher costs." PSI asserted that "the costs of handling cash are many times higher than previously believed...(thus) retailers should take a new look at operating efficiencies in payment acceptance and at the comparative acceptance of new payment methods."²

1. In evaluating an earlier Touche Ross & Co. study using similar methodology, the National Commission on Consumer Finance found the allocation procedures used by Touche Ross to be reasonable, and accepted the Touche Ross finding that in-house revolving credit plans operate at a deficit. While the Touche Ross studies and National Commission commentary are at least 10 years old, subsequent increases in the cost of capital in excess of finance charges have likely preserved the validity of those earlier findings. See National Commission, Consumer Credit in the United States (Government Printing Office, 1972) p. 145.

2. Payment Systems, Inc., Cost of Cash: A Strategic Analysis, p. viii.