

ALASKA LEGISLATURE COMMITTEE FILES 1983 - 1984 8672

2715 SLC HB 246 (FILE 3)

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

Maine -- For both open and closed-end credit, either 30% on part of unpaid balance up to \$300, 21% on part of unpaid balance over \$300 up to \$1,000, and 15% on part of unpaid balance over \$1,000, or 18% on the unpaid balance, whichever is greater. [9-A, 2.401(2), 9-B-842(2) (R)]

Oklahoma -- For both open and closed-end credit, either 30% on part of unpaid balance up to \$600, 21% on part of unpaid balance over \$600 up to \$2,000, and 15% on part of unpaid balance over \$2,000, or 21% of unpaid balance, whichever is greater.
For loans involving a cash advance of \$400 or less, in lieu of above rates, a lender may charge specified dollar amounts scaled to size of loan. [13A-3-508(A)]

Utah -- For closed-end credit, either 36% on part of unpaid balance up to \$840, 21% on part of unpaid balance over \$840 up to \$2,800; and 15% on unpaid balance over \$2,800, or 18% on entire unpaid balance, whichever is greater. Upon a finding that these charges are below the prevailing market rates and unduly restrict the availability of credit to consumers, the commissioner may increase the maximum finance charge to a rate not over 10% above the average yield on 2-year U.S. securities during the prior 5 weeks. (Until July 1, 1985, there are no rate maximums on open-end credit.) [70B-3-508, 7-9-20(e), 7-1-306]

Wisconsin -- The greater of 18% per year or 6% in excess of interest rate on 6-month U.S. Treasury bills. On open-end consumer loans, parties may agree to higher rate if yield on 2-year U.S. government securities exceeds 15% per year on 5 successive Thursdays. For loans and renewals made on or after November 1, 1981 and before November 1, 1984 or after October 31, 1987, state-chartered credit unions charge the same rate of interest as federal credit unions. [\$422.201, 138.041(2)]

Interest rate subject to state's usury law:

Massachusetts -- The rate on loans of \$6,000 or less cannot exceed the limit established by the small loans regulatory board pursuant to Ch. 140, §100. The maximum rate of charge for any loan of \$6,000 or less is 23% per annum on the unpaid balance, according to the actuarial method, plus an administrative fee of \$20 upon the granting of the loan. [Ch. 140.100, 114A, 114B; Ruling Deputy Commissioner of Banks, Re: Order of Small Loans Regulatory Board, eff. 10/17/80]

Missouri -- On "small loans" (i.e., loans of \$2,500 or less, not made as permitted by other statutes, and not secured by a lien on real estate, non-processed farm products, livestock, farm machinery or crops) the maximum interest rate is: 26.6% per annum on the first \$800; 15% per annum on the next \$1,700. The maximum rate is 10% per annum on the balance over \$2,500. [§408.100, 408.190]

Other Acts:

Arkansas -- Interest rate may not exceed that permitted by the state constitution (17% on consumer loans). [§67-913(c), §67-916(1)]

Maryland -- The permanent rate is 1-1/2% per month on the unpaid balance. But until July 1, 1985, a credit union may charge up to 2% per month on the unpaid balance. If the rate exceeds 1-1/2% per month, certain restrictions apply in the Commercial Law Article of a consumer protection nature. [§6-507]

North Dakota -- Statute authorizes State Credit Union Board to approve a maximum loan rate in excess of 18% per annum. The Attorney General ruled, July 8, 1981, that the State Board may establish an unlimited loan rate. The State Board issued a regulation, November 1, 1981, declaring the credit union loan rate may not exceed the lawful rate of other state regulated lenders. Such lenders have no maximum loan rate. [§6-06-18; Reg. 13-03-09-01; OAG 81-71]

Ohio -- Maximum rate is 1-1/2% per month on unpaid balance. But until January 1, 1985, a credit union may charge an annual percentage rate up to 25%. [§1733.251]

Federal pre-emption of state rate ceilings:

A 1980 Federal law provides for pre-emption of any state constitutional or statutory usury rate provision. A credit union insured by the National CU Administration may charge an interest rate up to 1% in excess of the discount rate on 90-day commercial paper at the Federal Reserve bank in its district or the rate allowed by its state law, whichever is greater. [12USC 205(g)]

Federal Credit Unions -- Federal act provides a maximum rate of 15% per annum on the unpaid balance. However, the NCUA Board may authorize a higher rate for periods up to 18 months under certain conditions. The Board has set 21% per annum as the maximum rate until November 12, 1984. [12USC§107(5), 12CFR§701.21-1A]

Usury: Going legitimate?

As interest-rate ceilings rise or disappear, consumers may lose some hard-won protections.

Borrowers and lenders both have important needs, described by Sir Francis Bacon as "the one, that the tooth of usury be grinded that it bite not too much; the other, that there be left open the means to invite moneyed men to lend for the continuing and quickening of trade."

The delicate balance of those two needs now seems to be shifting. Driven by eager lenders, many state legislators and members of Congress appear intent on wiping the concept of usury off the books. If they succeed, consumers will be doubly hurt: Borrowing costs, already extraordinarily high, could soar higher still; vital consumer protections, painfully won over recent years, could be eroded or lost altogether.

Over the last 50 years or so, the states have stitched together a complex patchwork of laws and regulations governing consumer credit. Until recently, one common thread has been the existence of a usury ceiling—a rate of interest, set by law, that a lender cannot exceed.

Within each state, lenders are subject to different usury ceilings depending on the kind of credit activity they engage in—auto installment sales, retail installment sales, revolving credit sales, bank loans, and finance company loans, for example. (The table opposite illustrates how state rate ceilings vary for two types of credit transactions.)

The usury ceiling tied to a particular kind of credit activity is linked—strongly in some states, less so in others—to the degree of consumer protection that creditors engaging in that activity must provide. In general, the higher the usury ceiling, the greater the protection.

For example, most states allow creditors to charge a higher Annual Percentage Rate (APR)* on small loans than on large loans, provided that borrowers also get more protection. The creditors can choose whether to charge higher rates and offer more protection, or to settle for lower ceilings that carry less protection.

Michigan lenders, for instance, can charge up to 31 percent on loans up to \$500 (13 percent above \$500). In return, such lenders must calculate the interest rate in a prescribed fashion; can lend no more than \$3000; must refrain from cer-

* The Annual Percentage Rate most accurately expresses the interest rate charged.

tain advertising claims; and must not require "wage assignments," under which borrowers agree in advance that their pay will go directly to the lender if they default. Alternatively, lenders can abide by a 18.5 percent ceiling and ignore those protections.

In states that tie usury ceilings and consumer protections together, high-interest loans often carry controls on such provisions as permissible fees and charges, balloon payments, refinancing terms, and the method of calculating the interest rate.

Bumping the ceiling

As interest rates rose and stayed high, state lawmakers began hearing complaints from creditors that the rates they wanted to charge for consumer credit were bumping up against the usury ceilings. If the ceilings weren't raised (or, more to the lenders' liking, eliminated), the lenders claimed, they would have no choice but to curtail consumer credit.

There was a grain of truth to the claim; loans to consumers have been curtailed. During the 19 months from the end of 1979 to August 1981, the amount of outstanding consumer installment debt—total short-term loans (excluding mortgages)—grew from \$312-billion to \$321-billion, an annual increase of less than 2 percent. During the 1970's, by comparison, outstanding installment debt grew almost 12 percent annually.

The current credit slowdown can be blamed, in part, on a drop in demand, a natural result of high interest rates. But many lenders have restricted the supply of consumer credit. Many banks, for example, have become fussier about their loan customers. In Wisconsin, where an 18 percent APR is the limit on consumer loans, bankers are generally making loans primarily to existing customers.

Other banks use another technique. In March of last year, Bankers Trust of South Carolina tightened the statistical profile it uses to screen credit applicants, dropping the percentage of approvals from 78 percent to 70 percent.

But lenders who argue that they must curtail consumer credit to avoid losses protest too much. Banks that have reduced their level of consumer-credit activity have done so mainly because com-

mercial lending is more profitable, not because they can't make money on consumer credit.

Complaints from retailers and credit-card issuers about low usury ceilings should be viewed with the same skeptical eye. In practice, retailers have been reluctant to raise their charges for revolving credit, even when allowed to, for fear of driving customers away. New York State furnishes an illuminating example of why credit-card issuers cannot be taken literally. When New York removed all restrictions on credit-card finance charges late in 1980, one would have assumed, from the card issuers' repeated claim that the old 18 percent limit was oppressive, that they would immediately hike their finance charges to a much higher level. In fact, most still charge 18 percent.

Instead of raising rates, credit-card issuers in many states are charging fees not in the APR calculation. Many now charge an annual fee of \$10 to \$20.

And an increasing number of card issuers are charging a transaction fee every time the card is used. Crocker Bank in California, for example, already levies a 12-cent fee. Other issuers are changing the terms even for users who have avoided finance charges by paying promptly. The approach varies. Several New Jersey banks have begun charging interest from the date of billing to the date of payment. Banks elsewhere are charging interest from the date a purchase is posted to the merchant's account. Tennessee, Alabama, and Missouri residents who hold a Visa or MasterCard from First Tennessee Bank in Memphis will have to pay a monthly "maintenance fee" between 50¢ and \$1.50 if they pay off the outstanding balance when billed.

What's behind the drive

Creditors are pushing to do away with usury ceilings for several reasons:

- Creditors would like to eliminate any future threat that usury ceilings will interfere with credit activity. If ceilings are simply lifted to some intermediate level consistent with current market rates, creditors fear that they would have to return to state legislators, hat in hand, to ask for another increase if interest rates climb still higher. From the credi-

including purchases by credit card.

Second, Arkansas retailers have raised their prices to offset the effect of the 10 percent ceiling. If an Arkansas and a West Virginia retailer each sell a \$1000 video recorder with 24-month financing, the West Virginia retailer will probably charge an 18 percent APR, the highest allowed in that state. The Arkansas retailer, limited to 10 percent, is likely to raise the price of the recorder by about \$82. So both retailers receive about the same amount each month.

Third, most credit-card issuers located outside Arkansas can levy charges controlled by the state where they are based, not by the state where the holder lives. Thus a card issuer based in New York could charge Arkansas residents 20 percent or even more. Even Arkansas-based card issuers have continued to do business, making up for the 15 percent limit by raising the fee charged to merchants.

Beyond those specifics, the general picture in Arkansas differs little from other states. A 1981 study by the Credit Research Center of Purdue University analyzed the effects of the 10 percent ceiling on credit use and availability, comparing credit patterns in Little Rock with those in similar cities in Illinois, Louisiana, and Wisconsin. The study concluded that, "overall, the data . . . do not support the hypothesis that credit is less readily available in Arkansas than in other credit markets—and they are particularly inconsistent with the hypothesis that low-income borrowers receive less credit in Arkansas." The central reason, the researchers found, is that Arkansas has shifted their credit use away from banks and thrifts, where credit has become more difficult to obtain, to "point of sale" sources—retailers, bank cards, and, in some cases, pawn shops.

The Arkansas experience was confirmed to some degree in West Virginia where, until last spring, the APR ceiling for consumer loans from banks was 12 percent. Yet an officer of the West Virginia Bankers Association affirmed that many banks had active loan programs before the APR went to 18 percent.

The dark side of the coin

In states where usury ceilings have been removed, abuses have appeared—particularly if the state did not beef up its consumer-protection provisions.

Arizona, for example, removed its ceilings for most kinds of loans in April of 1980. Never known as a state with vigorous consumer protections ("We're laissez-faire, otherwise known as anything goes," says state banking official Roy Schuetze, his tone ironic), Arizona has become a haven for "carpetbagger" mortgage brokers from California.

These brokers are arranging second trust deeds (which are like second mort-

gages) secured by the borrower's home. The second trusts carry interest rates of 30 to 40 percent or more; the finance charges include excessive loan-origination fees that usually amount to 15 to 20 percent of the loan. The loans are generally written so that payments are for interest only; a balloon payment for the entire loan comes due in as little as seven months. If a borrower can't make the balloon payment, the usual practice is for the broker to "flip" the loan—refinance the whole thing—and include a new origination fee. Borrowers who may want to pay off the loan early must pay a heavy prepayment penalty—a requirement that many states flatly forbid.

Elsewhere, some small loan companies in Texas are charging 200 percent on certain loans. In Oklahoma, creditors can charge more than 170 percent on one kind of small loan. By any standard, such rates and practices are unconscionable.

What should be done?

Removing usury ceilings can easily lead to the kind of serious abuses now current in Arizona. Not only would interest rates be free to soar, but, in the opinion of some state consumer-protection officials, it might encourage wage assignments and other such unsavory loan practices. What's more, it's unnecessary. Where economic conditions clearly restrict lenders' ability to make loans at a reasonable profit, the remedy is to raise ceilings, not abolish them. Wiping them out without strengthening existing consumer protections is doubly objectionable.

The Interagency Task Force on Thrift Institutions, a team of Federal banking officials assigned to study the future of thrifts, last year concluded that eliminating "restrictive [emphasis ours] usury limits would be in the public interest." But the task force warned: ". . . it is important that unwary borrowers be protected from unscrupulous lenders. This is a major reason that usury laws have persisted—to protect the consumer when disclosure requirements are not a sufficient safeguard."

Reconciling the needs of borrowers and lender is entirely practicable. Maine, for example, allows most creditors to charge 30 percent on loans up to \$540, but less for loans above that amount. That's more generous than many other states allow. But an additional provision stipulates that if a loan with an APR of more than 18 percent has a balance remaining after 37 months, the interest rate must then drop to 8 percent, even if the loan is refinanced. Why? "To prevent consumers from getting locked into high-interest, long-term loans," says Barbara Alexander, superintendent of the Maine Bureau of Consumer Protection. Without such a provision, the borrowers

might end up being "flipped," as happens in Arizona.

The table on the previous page suggests that creditors may be far better off than their piteous cries would lead lawmakers to believe.

The dangers of pre-emption

Federal pre-emption of state usury ceilings, as proposed in the Lugar-LaFalce bill, would abolish even those state ceilings that are above current market rates, remove the ability of each state to set ceilings tailored to its residents, expose consumers to increased risk of default and bankruptcy because of high credit costs, and wipe out a host of strong state consumer-protection laws.

The bill, as drafted, would apparently do away with state controls on maximum finance charges, prepayment penalties, the way that interest rates are calculated, late fees, and balloon payments. The bill's supporters say the measure would have such a sweeping effect, claiming that various credit provisions would be exempted from Federal pre-emption. The language of the bill, however, is very broad. "Their intent is to make the language look like something other than what it is," charges Maine's Barbara Alexander.

The bill is widely opposed by consumer groups. Another opponent is the American Conference of Uniform Consumer Credit Code States, a group of 11 states that have adopted all or part of the Uniform Consumer Credit Code (UCCC). The UCCC's framework of suggested rate ceilings and consumer protections, while balancing the needs of both consumers and lenders, tends to tip in favor of lenders. Even so, Kathleen Goodpasture Smith, a South Carolina state consumer-affairs official, speaking for the conference, told Congress in July that the bill would wipe out most borrower protections in UCCC states.

"Federal pre-emption of the UCCC would be disastrous for consumers and would not be the quick fix for creditors that some may believe," she cautioned. "State rate and charge limitations are so completely intertwined with consumer-protection provisions that the two concepts cannot be separated. . . . with higher rate ceilings, more consumer-protection provisions are necessary."

CU agrees. In their rush to accommodate creditors, many Federal lawmakers seem to be overlooking the basic consumer protections often provided by the same consumer-credit laws that govern usury ceilings. If state ceilings are abolished, as they would be under the Lugar-LaFalce bill, is it likely that the states will take positive action to reinstate those protections? Or are the people's representatives prepared to let the tooth of usury bite too much?

tors' viewpoint, that's uncertain and inefficient. Tomorrow's politicians may be less pliant than today's, and relief in the form of a new law can take weeks or months to pass.

● Ceilings are an obstacle to the introduction and success of variable-rate loans, in which the interest rate charged moves up or down during the term of the loan in step with a prearranged index. Variable-rate loans shift the burden of rising interest rates from the lender to the borrower, so creditors are enthusiastic about the idea. But usury ceilings prevent loan rates from rising without limit.

● Banks—especially large banks—want to operate across state lines. Interstate consumer banking is now restricted to credit cards. If interstate banking is allowed at some point, it would be much easier if the crazy quilt of state usury ceilings didn't exist, since banks could charge what they wanted, anywhere.

Timing is also significant. The current economic climate lends some support to the creditors' case for eliminating ceilings; if interest rates fall significantly, the lawmakers' interest in granting relief to creditors will fall, too.

So, besides lobbying in the states, creditors are pressing their case in Congress. A bill pending in both the House and Senate would wipe out all state usury ceilings on consumer credit, though a state would have three years in which to override sections of the law by passing its own limits. The bill has little chance of approval on its own in the House, but its sponsors—Representative John J. LaFalce (D., N.Y.) and Senator Richard G. Lugar (R., Ind.)—contemplate attaching it to another banking bill that has garnered broad support.

What the states have done

In 1980, as the prime rate moved past 20 percent, 42 states lifted or eliminated their usury ceilings; this year some of them went even further. Other states took action in 1981 for the first time. Ten states now permit banks that issue credit cards to charge any interest rate. Thirteen states, to all intent, no longer limit the interest rate that banks charge on consumer loans.

Several states, including Delaware, Nevada, and New Mexico, have completely wiped out all interest-rate restrictions for all classes of lenders. Most states, however, have elected to lift rather than abolish their ceilings, and to apply the higher rates only to certain classes of creditors.

Many states are still grappling with the usury question. New York lawmakers, for example, are likely to face a proposal to raise or abolish the state's criminal usury ceiling of 25 percent. (Consumer-credit interest rates aren't specifically regulated in New York but charging any rate above

25 percent is a criminal act.) Alaska's legislature will also be making a decision whether to remove interest-rate ceilings on all types of retail credit. South Carolina is likely to rewrite its consumer-credit laws extensively next year, with a good chance that some consumer-credit ceilings will be raised. And Arkansas voters will decide in November of next year, in the fourth such referendum since 1968, whether the state's constitutional usury ceiling of 10 percent should be lifted to 17 percent.

"The pressure is on to raise ceilings in those states that have not done so," says Robert E. Gibson, president of the National Foundation for Consumer Credit, sponsor of more than 200 nonprofit credit counseling centers around the country. "I think those states will act quickly."

The arguments of creditors for higher ceilings are shaky, since usury ceilings,

even admittedly low ones, don't necessarily dry up consumer credit. Moreover, states that have eliminated rate ceilings, or raised them significantly, have attracted lenders engaging in borderline practices.

The case of Arkansas

When lenders complain that low ceilings force them to restrict consumer credit, they invariably bring up Arkansas as an example. With a 10 percent usury ceiling written into the state constitution, Arkansas is hardly a lender's paradise—that's true. But it needs a closer look.

First, most banks and thrift institutions (savings-and-loan associations, primarily) in Arkansas are permitted by Federal law to lend at one percentage point above the Federal discount rate—giving them the right (in September, as this is written) to charge a 15 percent APR on loans,

How state ceilings vary

The table below illustrates state-to-state differences in the maximum Annual Percentage Rate (APR) for two kinds of credit transactions—bank personal loans and retail installment purchases. The first column shows the highest legal APR for a hypothetical personal loan of \$2000, repaid over 24 months, taken from a bank. The second column shows the highest legal APR for a hypothetical purchase of \$500, financed for 12 months, from a retail store. The table was compiled with the help of Financial Publishing Co., a supplier of consumer credit information to the financial trade. All terms were current as of late September.

State	Bank personal loan	Retail installment purchase	State	Bank personal loan	Retail installment purchase
Alabama	21.35%	26.60%	Montana	No limit	No limit
Alaska	19	19	Nebraska	19%	18%
Arizona	No limit	No limit	Nevada	No limit	No limit
Arkansas	15 (1)	10	New Hampshire	No limit	No limit
California	22.76	19.72	New Jersey (2)	30	30
Colorado	22.95	24.03	New Mexico (2)	45	45
Connecticut	No limit	21	New York (3)	25	25
Delaware	No limit	No limit	North Carolina	22.05 (1)	24
District of Columbia	15 (1)	No limit	North Dakota	No limit	No limit
Florida	20.05	21.46	Ohio	22.42	21.80
Georgia	16.43	23.19	Oklahoma	24.67	30
Hawaii	31.13	28.80	Oregon	No limit	No limit
Idaho	28.43	36	Pennsylvania	15	24
Illinois	No limit	No limit	Rhode Island	21	21
Indiana	27.15	36	South Carolina	24.76	34.91
Iowa	21	21	South Dakota	18	21.46
Kansas	17.73	20.43	Tennessee	15 (1)	17.96
Kentucky	18.02	No limit	Texas	24 (4)	24 (4)
Louisiana	34.84	24	Utah (2)	45	45
Maine	24.67	30	Vermont	20.53	18
Maryland	23.35	22	Virginia	No limit	24
Massachusetts	23	21.46	Washington	20.05 (3)	22.05 (3)
Michigan	15 (1)	21.43	West Virginia	18	18
Minnesota	18.5	No limit	Wisconsin	14.4	18
Mississippi	21.57	24	Wyoming	22.95	33.03
Missouri	21.76	26.62			

(1) Federally insured banks, thrifts, and credit unions can charge an APR of 15% (1% above the "Federal discount rate"), although the state ceiling is lower.

(2) No specific regulation of consumer-credit interest rates, but charging any APR above amount indicated constitutes criminal usury.

(3) Rate on 6-month Treasury bills (16.05%, as of September 14) plus 6%, or 16%, whichever is more.

(4) Twice the rate on 6-month Treasury bills, but no less than 18% or more than 24%.

(5) Rate on 6-month Treasury bills plus 4%.

(6) Rate on 6-month Treasury bills plus 6%.

**American Financial Services Association
Summary of Consumer
Credit Laws and Rates**

January 1983



National Conference of State Legislatures
1125 Seventeenth Street, Suite 1500
Denver, Colorado 80202

AMERICAN FINANCIAL SERVICES ASSOCIATION
SUMMARY OF CONSUMER CREDIT LAWS AND RATES

Addendum June 1, 1983

<u>Arizona</u>	Disability (14-day retro.): \$1.82 - 12 mos.; \$2.57 - 24 mos.; \$3.23 - 36 mos.
<u>California</u>	Consumer Finance Lender and Personal Property Broker: rates deregulated over \$5,000. Effective Jan. 1, 1984.
<u>Georgia</u>	Loans deregulated over \$3,000; Second Mortgage Loan Act repealed. \$10 NSF charge.
<u>Hawaii</u>	Industrial Loan Act: points allowed but APR may not exceed maximum permitted rate.
<u>Idaho</u>	U3C: All rates deregulated.
<u>Kansas</u>	21% alternate rate extended to 7/1/85.
<u>Maryland</u>	New sales and loan laws: 24% per annum for installment and open-end credit.
<u>Michigan</u>	Deregulated rates for home mortgages extended to 4/1/85.
<u>Minnesota</u>	Regulated Loan and Industrial Loan Acts: points allowed but APR may not exceed maximum permitted rate.
<u>Mississippi</u>	Alternate usury rate: 5% over FRB discount rate.
<u>Montana</u>	Consumer Finance: APR rebates over 61 mos. No max. ceiling. Sales and Other Regula- ted Lenders: "Sunset" on deregulated rates deleted. Loans and Sales: APR rebates over 61 months. Usury Rate (New): 5% over Prime Rate.
<u>New Mexico</u>	"Sunset" on deregulated rates deleted. Small Loan Law: No precomp.
<u>New York</u>	Rate deregulation and other "sunsets" extended to 5/30/87.

* Addendum to be inserted in the American Financial Services Association's Summary of Consumer Credit Laws and Rates, dated January 1983.

North Carolina

Consumer Finance Act: Rate "sunset" deleted. Alternate rate (84 mos. max.): APR equivalent of 30-18% per year @ \$1,000 to \$7,500 and 18% per year to \$10,000. \$10 NSF charge.

Ohio

Consumer Finance Act (correction): No max. maturity; no C & A; max. \$5,000.

Oklahoma

U3C: Dollar amounts increased 10% (7/1/83).

Rhode Island

Small loan law ceiling increased to \$5,000, maximum maturity 60 months. Second Mortgage Loan Law: points allowed but APR may not exceed maximum permitted rate.

South Dakota

Consumer Finance Act: Ceiling deleted.

Texas

Dollar amounts increased effective July 1, 1983: (a) add-on loan rates 18% to \$840, 8% to \$7,000; (b) other goods 12-10-8% @ \$1,400 and \$2,800; (c) revolving sales 1 1/2-1% @ \$1,400.

Utah

U3C: Alternate rate 19.6% until 60 days after 1985 session adjourns.

American Financial Services Association Summary of Consumer Credit Laws and Rates

January 1983

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EXPLANATORY NOTE

This chart is compiled on the basis of (1) the laws, (2) official administrative interpretations, (3) legal opinions of attorneys who are personally familiar with the laws in the different states, and (4) personal knowledge of operating routines. It was necessary to oversimplify and generalize to present the information in this abbreviated chart form. Local counsel may be consulted for further information as to each state statute and details shown on this chart. There are statutory and official administrative rules as to advertising, other and related businesses, security, other charges (such as security recording fees), record-keeping, disclosures to customers and similar matters.

The maximum rate shown in the second column from the left under **CONSUMER FINANCE AND RELATED LOAN LAWS** is the monthly or yearly rate on unpaid principal balances unless otherwise stated. "Precomputation" means that the unpaid balance rate or rates may be precomputed on scheduled monthly balances instead of actual balances, subject to rebate for prepayment in full. "Add-on" and "Discount" rates are for the contract period without regard to installment payments. Add-on is computed on and added to the original amount lent. Discount is computed on and deducted from the face amount of the note. When there are two sets of rates stated in the second column, the first is the statutory maximum fixed by the consumer finance (small loan) law; and the second is the maximum established by another law under which consumer finance licensees frequently operate.

Default, Deferment, Conversion. One-time default charges (commonly 5% of installment or based on Rule of 78) are generally permitted after a grace period (commonly 10 days). Deferment charges (instead of default charges, to bring an account up to date) generally are based on the Rule of 78 or the equivalent Finance Charge for the deferment period. "Conversion" allows charging the contract rate or Federal APR on the original or net balance (instead of default or deferment charges). The general method for rebating unearned Finance Charges upon prepayment in full is shown; some states require additional rebates for prepayment before first due date or for substantial partial prepayment. Fees are usually not rebated. "APR" rebates are based on the Truth in Lending Annual Percentage Rate.

In the Credit Insurance column, "NAIC" refers to statutes which give Insurance Commissioners some control of credit insurance premiums and which are based on a model bill of the National Association of Insurance Commissioners. Unless otherwise stated, the life rate is charged per \$100 per year and the total amount repayable; the disability rate is charged per \$100 of the total amount repayable (not per year). The credit insurance rates which are stated are the highest rate generally charged by the insurance companies which provide insurance to consumer finance licensees. Generally speaking, these credit insurance rates are also the prevailing rates for other consumer installment credit.

In the first column under **OTHER CONSUMER LOAN LAWS**, "Revolving Loan and Credit Card Law" refers to laws which permit lenders to charge monthly rates on unpaid balances for cash advances and for credit sales. This chart does not include the various state laws which permit or involve special rates for credit unions, savings banks, savings and loan associations, pawnbrokers, and similar types of special cases. It does include the recent state laws authorizing or limiting insurance premium financing and loans secured by second mortgage on dwellings. The junior mortgage lending laws are designated "Second Mortgage Loan Law."

SALES FINANCE AND REVOLVING CREDIT RATES

Unless otherwise indicated:

- (1) Sales finance rates are annual dollar add-on rates. The term "unpaid balance rate" refers to the same method of computing rates on unpaid balances as under consumer finance laws.
- (2) Two or more motor vehicle rates show first the new car rate followed by the higher rates for older models. Each rate is a flat (not graduated) rate that applies to the entire contract.
- (3) The rates for all goods or other goods are graduated @ the size states, with the highest rate applicable to any amount financed up to the first amount stated and the lower rate or rates applicable to any portion or portions of the amount financed in excess thereof.
- (4) The revolving credit rate is computed on monthly unpaid balances graduated @ the size stated.
- (5) A bracketed figure following the maximum rate is the minimum (min.) or the acquisition (acq.) charge or both as may be indicated.
- (6) In the case of revolving credit, the bracketed figure is the minimum monthly charge.
- (7) "All goods" refers to a law which applies to automobiles and other consumer goods. "Other goods" refers to a law which does not apply to automobiles.

The summary of **USURY LAWS** omits many exceptions, such as business loans or loans to corporations. Rates are yearly, unpaid balance rates, unless otherwise stated. The new Federal "usury law" (effective April 1, 1980) is summarized on page 22.

State Disclosure Laws which seek to conform state requirements to federal requirements are indicated in boldface on the left hand page.

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
ALABAMA Supervisor, Bureau of Loans, State Banking Dept.	3% to \$200, 2% to \$749. On loans of \$75 or less \$1 for each \$5 loaned.	25 mos.	Precomp.	Default Deferment Conversion	Rule of 78	Yes	\$749	Life, \$1.00. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
	Consumer Credit Act: 15% per year add-on to \$750, 10% to \$2000, and 8% over \$2000; or 18% per year on unpaid balances. Revolving Credit: 1 1/4%-1 1/2% @ \$750.	24 1/2 mos. to \$300. 36 1/2 mos. to \$1000. None over \$1000.	Add-on	Default Deferment	Rule of 78	No	None	
Interest Surcharge: 2% (max. \$20) for all loans.								
ALASKA Department of Commerce	3% to \$850 and 2% to \$10,000; or APR equivalent. Over \$10,000, no limit.	24 1/2 mos. to \$1000, 48 1/2 mos. to \$2500, 60 1/2 mos. to \$5000. None over \$5000.	No	Default		Yes	\$25,000	Life, 60c. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
ARIZONA Superintendent of Banks	3% to \$300, 2% to \$600, 1 1/2% to \$1000. Over \$1000: 2 1/2% to \$300, 2% to \$1000, 1 1/2% to \$1500, 1% to \$10,000; or 1.625%. To \$1500, 1% document preparation fee.	24 1/2 mos. to \$1000, 36 1/2 mos. to \$2500, 48 1/2 mos. to \$4000, 60 1/2 mos. to \$6000. None over \$6000.	Precomp.	Default Deferment Conversion	APR	No	\$10,000	Life, 44c. Disability (14-day retro.): \$2.43-12 mos. \$3.43-24 mos. \$4.30-36 mos. NAIC
ARKANSAS	See Usury Law							Life, 75c. Disability (14-day retro.): \$2.39-12 mos. \$3.16-24 mos. \$3.69-36 mos.
CALIFORNIA Commissioner of Corporations	Consumer Finance Lender: 2 1/2% to \$225, 2% to \$900, 1 1/2% to \$1650, 1%, APR equivalent; or 1.6%. Variable rate based on FRB discount rate to \$10,000; 5% fee (max. \$50) to \$2500 until 1/1/84. Revolving credit not permitted. No max. above \$10,000. Companion "Small Loan Law" is inoperative.	24 1/2 mos. to \$1500, 36 1/2 mos. to \$2500, 48 1/2 mos. to \$4000, 60 1/2 mos. to \$6000, 84 1/2 mos. to \$10,000.	Yes	Default Deferment Conversion	Recom- putation	No	None	Life, 40c-50c depending on insurance volume. Disability (14-day retro.): \$2.42-12 mos. \$3.43-24 mos. \$4.30-36 mos. (higher rates for real estate loans)

Compliance with Regulation Z satisfies sales finance disclosure provisions.

APR =
annual
percentage
rate.

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND
REVOLVING CREDIT LAWSUSURY
LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Consumer Credit Act	[Bank and other financial institutions may charge rates on opposite page.]	None	All Goods (Consumer Credit Act)	\$15-10-8 @ \$750, \$2000 (min. \$4-6 @ \$25)	ALABAMA 8%; No limit over \$5,000 (after 7/1/87, over \$25,000).
Insurance Premium	\$10 plus 9% per year add-on (\$20 max.)	None	Revolving Credit (Consumer Credit Act)	1 1/4%-1 1/2% @ \$750 (min. 50¢/mo.)	
Revolving Loan	1 1/4% per month to \$750 and 1 1/2% on any remainder plus \$15 annual credit card fee.	None			
Installment Loan	6% per year discount (max. 11.8% per year on unpaid balances). (Applies to banks and others).	\$10,000	All Goods	\$10-9 @ \$1000 (min. \$12-10 @ 6 mos.) (acq. \$25 motor veh., \$10 other goods)	ALASKA 5% above Federal Reserve discount rate; \$25,000 or more, no limit.
Bank Credit Card	1 1/2% per month on first \$1000, 1% on any remainder (\$1 per month min.) plus fee of the lesser of 3% of cash advance or \$12 (min. \$3).	None	Revolving Credit	1 1/2, 1% (or variable) @ \$1000 (min. \$1/month)	
Insurance Premium	\$10 plus 15% per year on unpaid balances.	None			
Industrial Bank	10% per year (discount for one year)	\$1000	Motor Vehicle	No limit.	ARIZONA No limit
Installment Loan	No limit. APR rebate.	\$5000	Other Goods	No limit.	
Revolving Loan	No limit.	None	Revolving Credit	No limit.	
Insurance Premium	\$15 plus any agreed rate	None			
See Usury Law					ARKANSAS 5% over FRB discount rate; 17% per year for consumer loans and sales.
Industrial Loan	2% per month to \$1000 and 1% on any remainder, on unpaid balances; 1.6% on unpaid balances; or variable rate based on FRB discount rate to 1/1/85. Fee of 5% (max. \$50) to \$2500 from 1/1/83 to 1/1/85. Revolving credit permitted.	5% of capital and surplus except 20% for secured loans	Motor Vehicle	1.2% per mo. add-on to \$3,000 and 1.1% on entire balance over \$3,000 to 1/1/84; or 1.6% per mo. on unpaid balances to 1/1/84.	CALIFORNIA 18%; 10% for consumer loans, except real estate. Banks and other are exempt by Constitution.
Insurance Premium	2% per month to \$1000, 1% on remainder (\$25 min.).	None			
Personal Property Brokers	Same as Consumer Finance Lenders, except for fee and variable rate.	None	Other Goods	\$11 (after 1/1/84, \$10)-8 @ \$3000 (after 1/1/84, \$1000) (min. \$12-10 @ 8 mos.)	
Commercial Finance Lenders	No limit for commercial loans of \$5000 or more.	None	Revolving Credit	1.6% (after 1/1/84, 1.5%), 1% @ \$3000 (after 1/1/84, \$1000) (min. \$1/month)	

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Uniform Consumer Credit Code	[Banks, industrial loan corporations, and other supervised financial organizations may charge the maximum rates stated on opposite page.]	\$25,000 No Limit if secured by real estate.	All Goods (UCCC)	Unpaid balances rate: 25% per year to \$630, 20% to \$2100, 15% to \$25,000; or 21% per year. (min. \$5, 7.50, 15 @ \$75 & \$500)	COLORADO 45% except supervised loan rates for "consumer related" loans to \$30,000.
			Revolving Credit (UCCC)	21% per year (min. 50¢/mo.)	
Industrial Bank	(1) 6% per year discount, (2) \$1 for each \$50 or fraction thereof levied but not more than \$10.	\$10,000 (or based on capital or deposits)	Motor Vehicle	Precomputed on unpaid balances: 18%-19%-21½% after 10/1/83, (16-16½-21½% per year)	CONNECTICUT 12% Banks and S&L associations are exempt; no limit over \$5,000 for real estate loans.
Savings Banks	No limit	\$15,000			
Insurance Premium	16% per year (after 1/1/84, 12% per year) plus \$10 per agreement.	None	Other Goods	Precomputed on unpaid balances; 21% per year (after 10/1/83, 18% per year) (min., acq. \$15)	
Revolving Credit	18% (after 3/1/83, 15%) per year on unpaid balances.	None	Revolving Credit	1½% (after 10/1/83, 1¼%)	
*Same rate for motor vehicle purchase loans.					
Bank Consumer Loan	No limit.	None	Motor Vehicle	No limit.	DELAWARE 5% over Federal Reserve discount rate; no limit over \$100,000 except for home mortgages.
Second Mortgage Loan	No limit.	None	Other Goods	No limit.	
Bank Revolving Credit	No limit.	None	Revolving Credit	No limit. (min. \$1/mo.)	
Installment Loan	21% per year on unpaid balances; 15% for real estate loans (applied to banks and S & L's).	None	Motor Vehicle (unpaid balance rates)	21.5-23.5-27-28.33% (min. \$25)	DISTRICT OF COLUMBIA 8%; 15% for real estate mortgages.
Insurance Premium	6% per year add-on plus \$10.	None	Revolving Credit	1½%	
Industrial Bank	(1) 18% per year on unpaid balances, (2) 2% of loan (\$50 max.)	Secured loans—25% of capital and surplus; unsecured loans—10% same	Motor Vehicle	\$10-11-15-17 (min. \$25)	FLORIDA 18%; 25% over \$500,000.
			Other Goods	\$12 (min. \$12-7.50-5 @ \$50 & \$25; acq. \$15)	
Bank Consumer Loan	(1) 18% per year on unpaid balances, (2) 2% of loan (\$50 max.) (3) min. \$15; \$10 for single payment.	\$50,000	Home Repair	\$10 (\$25 min.)	
			Revolving Credit	1½% (min. \$1/mo.)	
Bank Revolving Loan and Credit Card	1½% per month on unpaid balances.	\$10,000			
Insurance Premium	\$20 plus 12% per year add-on (Special rates for financing by insurance companies and agents).	None			

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
GEORGIA Industrial Loan Commissioner	Industrial Loan Act: 10% a year discount for 18 months, add-on for longer maturities; fee of 8% of first \$600 and 4% of excess plus \$2 per month; 5% for default of 5 days.	36½ months	Discount and fee	Default	Rule of 78. Not over 5% per month	Yes	\$3000	Life, 75c decreasing term, \$1.70 level term. Disability (3-day retro.): \$3.05 per year per \$5 monthly benefit; (7-day retro.): \$2.10 per year per \$5 monthly benefit.
HAWAII Director of Regulatory Agencies, Deputy Bank Examiner	Industrial Loan Act: 14% per year discount for first 18 months, 10.5% for next 12 months, 7% for next 12 months, 4% for remaining months to 48 months; transfer of equity fee; or 24% per year on unpaid balances. Revolving credit: 24% per year. (Temporary rate increase to 7/1/85.)	20 mos. to \$5000 (unsecured) and \$7500 (pers. prop.); 15 yrs. for real estate and other secured loans.	No Discount	Default Deferment	Contract Rate	Yes Yes	\$300 None	Life, 60c. Disability (14-day retro.): \$2.61-12 mos. \$3.53-24 mos. \$4.18-36 mos.

Regulation Z made controlling over state disclosure laws.

IDAHO Commissioner of Finance	UCCC 36% per year to \$840 24% to \$2800, 18% to \$70,000; or 21% per year. Revolving credit: 21% per year.	25 mos. to \$840. 37 mos. to \$2800. None over \$2800.	Yes	Default Deferment Conversion	Rule of 78 to 61 mos.; APR over 61 mos.	No	\$70,000 No limit if secured by real estate.	Life, 60c. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC
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UCCC requires same disclosures as Regulation Z. Regulation Z disclosures deemed compliance with state disclosures.

ILLINOIS Department of Financial Institutions	Consumer Finance Act: no limit.	None	Precomp.	Default Deferment Conversion	Rule of 78	Yes	\$3000	Life, 65c. Disability (14-day retro.): \$2.20-12 mos. \$2.80-24 mos. \$3.35-36 mos. \$3.90-48 mos. NAIC
	Consumer Installment Loan Act: no limit. (Applies to banks)	121 mos.	Precomp.	Default Deferment Conversion	Rule of 78	No	\$10,000	NAIC

Compliance with Regulation Z satisfies comparable provisions of consumer credit laws.

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Installment Loan	9% per year add-on. (Applies to banks and others.)	None	Motor Vehicle	\$10-13-15-17 (min. \$25)	GEORGIA 10½%, 2½% over long term U.S. bond rate for real estate loans; \$100,000 or more, no limit.
Bank Credit Card	(1) 1½% per month on unpaid balances. (2) \$5 per advance or 5% thereof up to \$25. (3) Collection suit expenses. (4) \$12 annual fee.	None	Other Goods	13¢ per \$1 (min. @ \$12, 7.50, 5 @ \$50 & \$25; acq. \$15)	
Second Mortgage Loan	(1) 9% per year add-on. (2) 10% of loan or \$50 to \$1500 for expenses. (3) no limit over \$5000.	None	Revolving Credit	1.75% (min. \$1/mo.)	
Insurance Premium	\$20 plus 12% per annum add-on.	None			
Bank Consumer Loan	Industrial Loan Act rates.	See Sec. 308 -14.7	All Goods	Industrial loan rates (min. \$10 on balances under \$100, acq. \$10) 72 mos. max. maturity.	HAWAII 12%; no limit over \$750,000 or for purchase money home mortgages.
Credit Card	1½% per month on unpaid balances until 7/1/85.	None	Revolving Credit	2% (1½% for credit cards), until 7/1/85.	
Installment Loan	6% per year discount. (Applies to banks and others.)	\$3500	All Goods (UCCC)	Unpaid balance rate: 36% per year to \$840, 24% to \$2800, 18% to \$70,000; or 21% per year. (min. \$5-7.50 @ \$75)	IDAHO Unless covered to UCCC, 13% for home mortgages; 21% for "consumer related" loans to \$70,000.
Uniform Consumer Credit Code	[Banks and other supervised financial organizations may charge the maximum rates stated on the opposite page. Others may charge 18% per year simple interest for loans and revolving credit.]	\$70,000 No limit if secured by real estate.	Revolving Credit (UCCC)	21% per year (min. 50¢/mo.)	
Installment Loan	(1) 9% per year add-on* or APR equivalents (\$15 min. on loans of \$300 or more repayable in 6 to 181 months.) (2) \$5 on loans up to \$800.	\$25,000	Motor Vehicle	No limit. (acq. \$25)	ILLINOIS 9%; no limit on residential real estate loans and installment sales; max. 3% points if rate over 8%.
			Other Goods	No limit. (acq. \$12)	
			Revolving Credit	No limit.	
Revolving Loan	(1) 1½% per month.* (2) 25¢ per each loan or credit extension or \$20 annual fee (applies to banks and others).	None			
Insurance Premium	10% per year add-on plus \$20 if amount financed is less than \$500, \$30 to \$1000, and \$40 over \$1000.	None			

*No limit on rate for loans by banks, S & L's, credit unions, and licensed lenders.

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
INDIANA Department of Financial Institutions	UCCC: 36% per year to \$660, 21% to \$2200, 15% to \$55,000; or 21% per year. Revolving credit; 21% or graduated rates.	25 mos. to \$660, 37 mos. to \$2200. None over \$2200.	Yes	Default Deferment Conversion	Rule of 78	No	\$55,000 No limit if secured by real estate.	Life, 65c. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC

UCCC requires same disclosures as Regulation Z. Regulation Z disclosures deemed compliance with state disclosure.

IOWA Superintendent of Banking	3% to \$500, 2% to \$1200, 1½% to \$2000, (Rate set by State Banking Board.)	25 mos. to \$300, 37 mos. to \$1000. None over \$1000.	Precomp.	Default Deferment	APR	Yes	\$2000	Life, 65c. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
State Auditor	Industrial Loan Act: 10% per year discount plus fee of \$1 per \$50 (\$40 max.)		Discount and fee	Default Deferment	APR	Yes	20% of capital.	

KANSAS Consumer Credit Commissioner	36% per year to \$540, 21% to \$1800, 14.45% to \$25,000; or 21% per year (after 7/1/83, 18%) Revolving loans permitted. (min. \$5-7.50 @ \$75.	25 mos. to \$420, 37 mos. to \$1400. None over \$1400.	Yes	Default Deferment Conversion	Rule of 78 to 61 mos; APR over 61 mos.	No	\$25,000 No limit if secured by real estate.	Life, 65c. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
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UCCC requires same disclosures as Regulation Z. No penalties allowed if creditor complies with Administrator's rules.

KENTUCKY Commissioner of Banking	3% to \$1000, 2% to \$3000. Over \$3000, 2% on entire balance.	60½ mos. to \$3000, 120 mos. to \$1500.	Precomp.	Default Deferment Conversion	Rule of 78	Yes	\$15,000	Life, 60c. Disability (14-day retro.); \$2.02-12 mos. \$2.93-24 mos. \$3.85-36 mos. NAIC
	Industrial Loan Act: 8% per year add-on or discount plus fee of \$1 per \$50 to \$2000; 5% up to \$5 per installment for default of 10 days. (See A.G. C.R. No. 72-374 re rates.)	See Bank Loans on opposite page.	Interest and fee	Default Deferment	Rule of 78	Yes	\$10,000	

General Law requires same disclosures as Regulation Z. Reg. disclosure deemed compliance with state disclosure.

LOUISIANA State Bank Commissioner	36% per year to \$1400, 27% to \$4000, 24% to \$7000, 21% on any remainder; plus \$25 fee (min. \$15-\$25 @ \$200). Rate limited to 18% per year 12 months after maturity. Revolving credit permitted.	None	Yes	Default Deferment Conversion	Rule of 78	No	None	Life, \$1.00. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
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Licensed lenders and others may charge above rates on sale contracts (other than auto) acquired within 15 days of sale.

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Uniform Consumer Credit Code	[Banks, industrial loan corporations and other supervised financial organizations may charge the maximum rates stated on the opposite page.]	\$55,000 No limit if secured by real estate.	All goods (UCCC)	Unpaid balance rate: 36% per year to \$660, 21% to \$2200, 15% to \$55,000, or 21% per year. (min. \$5-7.50 @ \$75)	INDIANA Only UCCC 21% rate for "consumer related" loans to \$55,000.
			Revolving Credit (UCCC)	21% per year (min. 50¢/mo.)	
Consumer Credit Code	21% per year on unpaid balances. (Applies to banks and other supervised financial organizations.)	\$25,000.	Motor Vehicle	Precomputed monthly interest: 1 1/2-2 1/4 %	IOWA 2% over U.S. bond rate; over \$25,000, any rate for consumer loans or real estate purchases or improvements.
			Other Goods	21% per year on unpaid balances (min. \$5-7.50 @ \$75)	
Revolving Loan	1 1/2-1 3/4 % per month @ \$500 (min. 50¢/mo.)		Revolving Credit	1 1/2-1 3/4 % @ \$500 (min. 50¢/mo.)	
UCCC	18% per year to \$1000, 14.45% to \$25,000; or 21% per year to 7/1/83. (Applies to supervised financial organizations.)	\$25,000 No limit if secured by real estate.	All Goods	Unpaid balance rates: 21% per year to \$300, 18% to \$1000, 14.45% to \$25,000; or 21% to 7/1/83 (min. \$5-7.50 @ \$75)	KANSAS 15%; 1% over yield on federal mortgages for real estate loans and sales; no limit for variable rate real estate loans.
Insurance Premium	\$10 plus 12% per annum add-on.	None	Revolving Credit	1.75-1.5-1.2% per month @ \$300 & \$1000; or 1.75% to 7/1/83 (min. 50¢/mo)	
Bank Consumer Loan	(1) 8% per year discount (up to 5 yrs. and 32 days) or add-on (up to 10 yrs. and 32 days). (2) \$1 for each \$50 or fraction thereof on first \$800.	None	Motor Vehicle	\$11-13-15 (acq.\$25)	KENTUCKY 4% over FRB discount rate (19% max.), no limit over \$15,000.
			Other Goods	No limit (acq. \$10)	
Insurance Premium	\$10 plus 8% per year add-on.	None	Revolving Credit	No limit.	
Bank Revolving Credit	1 1/2 % per month.	None			
Consumer Credit	[Banks and other supervised financial organizations may charge the maximum rates stated on the opposite page. Others may charge 10% per year simple interest.]	None	Motor Vehicle (precomputed on unpaid balances)	1 1/2-2 1/2-2 3/4 % (after 9/30/84, 1 1/2-1 3/4-2 1/4-2 1/2 %) plus \$25 fee (min. \$25)	LOUISIANA 12%; no limit on discount for business loans; 17% for home seller loans.
Credit Card	1 1/2 % per month plus fee of 4% of cash advance.	None	Other Goods (unpaid balance rate)	24-18-12% per year @ \$1750 & \$5000 to \$25,000, or 18%, plus \$25 fee (\$25 acq. for first half of term) (min. \$5-7.50 @ \$75)	
Motor Vehicle Loan	Motor vehicle sales finance rates apply to auto loans made within 60 days of purchase.	None			
Insurance Premium	\$10 plus maximum rates stated on opposite page.	None	Revolving Credit	1 1/2 %	

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
MAINE Superintendent of Bureau of Consumer Protection	18% per year. (min. \$5, \$7.50, \$25 & \$75-250) Revolving credit permitted. Unique restrictions make higher rates generally inoperative (30% per year to \$660, 21% to \$2200 15% to \$55,000). Most licenses have ceased business.	25 mos. to \$660 37 mos. to \$2200. None over \$2200.	Yes	Default Deferment Conversion	Rule of 78 to 48 mos.; APR over 48 mos.	No No	\$55,000 No limit if secured by real estate.	Life, 43c. Disability (14-day retro.); \$2.29-12 mos. \$2.98-24 mos. \$3.52-36 mos. NAIC

General law requires same disclosures as Regulation Z.
Granted FRB Exemption.

MARYLAND Bank Commissioner	To \$2000: 2 1/4 to \$1000: 2% to \$2000: 2%. (Temporary rate increase until 7/1/85.)	30 1/2 mos. to \$700. 38 1/2 mos. to \$2000. 72 1/2 mos. to \$5000	No			No	\$6000	Life, 56c (52c over 48 to 96 mos.) Disability (14-day retro.); \$2.00-12 mos. \$2.73-24 mos. \$3.45-36 mos. NAIC
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MASS. Commissioner of Banks	23% per year plus \$20 annual fee. Rate Fixing Board. (6% a year 12 months after maturity.)	None	Precomp.	Default Deferment	Rule of 78 to 54 mos.; APR over 54 mos.	Yes (by rule)	\$6000	Life and Disability each 50c per \$100 per year.
	General Interest Law: 20% per year over \$6000 except for Second Mortgage Loan Law or if notify Attorney General.	None	No			No	None (over \$6000)	

General disclosure law is almost a copy of Regulation Z.
Granted FRB exemption.

MICHIGAN Financial Institutions Bureau, Department of Commerce	31% per year to \$500. 13% to \$3000*, or 18% on entire balance.	None	No			No	\$3000	Life only, 50c. Disability (14-day retro.); 12 mos. \$2.20 (actuarial equivalent for longer maturities)
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*except loans secured by motor vehicles 2 or less model years old.

Compliance with Regulation Z satisfies consumer finance, sales finance, and home improvement law disclosure provisions.

OTHER CONSUMER LOAN LAWS
SALES FINANCE AND REVOLVING CREDIT LAWS
USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
UCCC	[Banks, industrial banks, and other supervised financial organizations may charge the maximum rates stated on the opposite page.]	\$55,000 No limit if secured by real estate.	Motor Vehicle	Unpaid balance rate: 18%-20%-23.5%	MAINE None
			Home Repair	18% on unpaid balances (min. \$25) (15% after 5/7/83)	
Credit Card	1½% per month.	\$55,000	Other Goods	Unpaid balance rates: 30% per year to \$660, 21% to \$2200, 15% to \$55,000, or 18% (min. \$5, \$7.50, \$25 @ \$75-\$250)	
			Revolving Credit	1½% (min. 50¢/mo.)	
Installment Loan	24% per year on unpaid balances if not secured by real estate (after 7/1/85, 18%). (Applies to banks and others.)	None	Motor Vehicle (unpaid balance rates)	24% (after 7/1/85, 21.5-23.5)-27%	MARYLAND 8%; no limit for first home mortgages; no limit over \$5000 for business loans.
Credit Card	2% (after 7/1/85, 1½% per month on first \$700, 1% on any remainder). (Applies to any financial institution including banks.)	None	Other Goods (unpaid balance rate)	24% per year (after 7/1/85, 22-18% per year @ \$1000) (min. \$10-8 @ 8 mos.)	
Second Mortgage Loan	(1) 24% per year on unpaid balances (after 7/1/85, 16%). (2) 2% fee or \$250.	None			
Insurance Premium	\$20 plus discount of 1.15% per mo.	None	Home Repair	None	
			Revolving Credit	2% (after 7/1/85, 1½-1% @ \$700)	
Bank Consumer Loan	Same as for consumer finance companies to \$6000; no limit over \$6000.	\$30,000 (eff. 1/1/84, \$40,000)	Motor Vehicle	\$12	MASS. 20%. Banks and other regulated lenders exempt.
Revolving Credit	1½% per month.	None	Other Goods	\$12	
Industrial Loan	12.5% per year @ \$500 discount.	\$10,000	Revolving Credit	1½% (min. 50¢/mo.)	
Second Mortgage Loan	1½% per month on loans over \$1500; assessed value of home not over \$40,000.	None (over \$1500)			
Insurance Premium	23% per year on unpaid balances plus \$16 fee.	None			
Bank Installment Loan	(1) 12.83% per year (2) 2% fee (\$15 max.) (3) Max. maturity 84 mos. and 32 days.	10% of capital and surplus	Motor Vehicle (unpaid balance rates)	16.5-19-22% (after 12/1/83, 12.83-16.25-21.25%) (min. \$15)	MICHIGAN 7% except certain home mortgages or land contracts until 12/31/83.
			Other Goods	\$12-10 @ \$500 (min. \$10, acq. \$10)	
Second Mortgage Loan	Over \$3000, 18% per year on unpaid balances (after 12/31/83 15%) plus 2% fee (max. \$200).	None			
Bank Revolving Loan and Credit Card	1½% per month on unpaid balances; max. 5% seller discount for credit cards, plus annual fee.	10% of capital and surplus	Home Repair	\$8 (min. \$12) or alternate rates	
			Revolving Credit	17% per mo. (min. 70¢/mo.)	
Insurance Premium	\$18 plus 12% per year add-on, except \$15 or \$17 on amounts less than \$100.	None			

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
MINNESOTA Commissioner of Banks	Regulated Loan Act: 33% per year to \$350, 19% over \$350; or 21.75% on entire balance.	None	Precomp.	Default Deferment Conversion	APR	Yes	\$35,000	Life, 60c. Disability (14-day retro.): \$2.61-12 mos. \$3.12-24 mos. \$3.52-36 mos. NAIC
MISSISSIPPI State Comptroller of Banks	36% per year to \$800, 33% to \$1800, 24% to \$4500, 12% over \$4500. Dollar amounts subject to changes based on FRB discount rate to 6/30/84.	None except 3 to 12 mos. to \$99	Precomp.	Default	Rule of 78	Yes (by reg.)	None	Loans over \$99 only Life, 90c. Disability. (by regulation)
MISSOURI State Comptroller of Banks	2.218% (\$15 per \$100 a year add-on) to \$800, 1.25% to \$2500, 10% per year on balances over \$2500, plus fee of 5% (max. \$15).	None	Precomp.	Default Deferment Conversion	Rule of 78	No	None	Life, 60c. Disability (14-day retro.): \$2.18-12 mos. NAIC (proposed)
<i>Re Reg. 2 and state disclosure compliance, see 1969 Missouri Attorney General Opinion No. 271.</i>								
MONTANA Department of Business Regulation	Add-on rate: \$20 a year per \$100 to \$500, \$18 to \$1000 and \$12 to \$7500. 2% per month on unpaid balances over \$7500. On loans of \$90 or less \$1 for each \$5. Revolving credit: 24% per year.	21 mos. to \$300 25 mos. over \$300 37 mos. to \$2500. None over \$2500.	Add-on	Default Deferment	Rule of 78	No	\$25,000	Life over \$300, 60c. Disability over \$300 (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-30 mos. NAIC
NEBRASKA Director of Banking	24% per year to \$1000, 23% on remainder (after 9/30/85, 24% to \$1000, 18% to \$5000, 18% over \$5000), plus 7% fee to \$200 and 5% over (max. \$500). Revolving credit permitted. (See also usury law.)	36 mos. to \$3000, none over \$3000.	Precomp.	Default Deferment Conversion	Contract Rate	Yes	None (\$7000 after 9/30/85)	Life, 64c. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC

General law requires disclosure of annual or monthly interest rate or annual add-on rate.

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Bank Consumer Loan	12% per year on unpaid balances; or 4½% over FRB discount rate.	\$35,000 (\$25,000 for savings)	Motor Vehicle	\$10 (after 7/31/83, \$8-11-13 plus \$3 for older models (acq. \$15)	MINNESOTA 8%; no limit for first home mortgage until 8/1/84, or over \$100,000.
Industrial Loan	See opposite page for rates permitted.	10% of capital and surplus			
Insurance Premium	\$10 plus 8% per year add-on to \$300, 6% over \$300.	None	Revolving Credit	1½% or, if yearly sales less than \$25 mill., 1½%	
Bank Revolving Credit	1% per month plus \$15 annual credit card charge; or 1½% per month.	None			
Installment Loan	7% per year (after 6/30/84, 6%) add-on. (Applies to banks and others.)	None	Motor Vehicle	(Unpaid balance rates) 14*-21-26.75-28.75% per year- (after 6/30/84, 14-18.46-24-26.75%) (min. \$25, acq. \$10).	MISSISSIPPI 10%*; 15% over \$2500 to corporations and over \$250,000 to partnerships.
Bank Consumer Loan	(1) 12% per year add-on (after 6/30/84, 10%) or 75¢ per month on loan up to \$100-\$15 min. (2) \$1 for each \$100 or fraction thereof lent.	\$2500	Other Goods	24-21% per year @ \$2500	
Revolving Credit	Same as revolving sale rates.	None	Mobile Homes	25% per year to \$1000, 18% to \$2500, 15% over \$2500.*	
			Revolving Credit	1¼% (after 6/30/84, 1½-1¼-1% @ \$800, \$1200) (min. 50¢/mo.)	
*or 5% over FRB discount rate to 6/30/84					
Installment Loan	See opposite page. (Applies to banks and others.)	None	Motor Vehicle	\$10-13 to \$7500 (min. \$25, acq. \$25)	MISSOURI 10%; or 3% over U.S. long-term bonds.
Second Mortgage Loan	1.67% per month on unpaid balances, plus 2% fee.	None	Other Goods	\$15-12-10 @ \$750 & \$1000, no limit on part over \$7500 (min. \$12)	
Credit Card	22% per year to \$1000, 10% per year over \$1000.	None	Revolving Credit	18% per year (min. 70¢/mo.)	
Regulated Lenders	No limit until 7/1/83 (does not apply to consumer finance licenses).	None	Motor Vehicle	No limit (after 7/1/83, \$7-9-11-min. \$20)	MONTANA 10%; or 4% over FRB discount rate to \$150,000 or 5% over to \$300,000. No limit over \$300,000 or for banks and others.
Bank Consumer Loan	After 7/1/83, annual discount rates: 11% on first \$300, 9% on next \$700, and 7% on any remainder (\$20 min.)	None	Other Goods	No limit (after 7/1/83, \$11-9-7 @ \$300, \$1000-min. \$20)	
Insurance Premium	\$12.50 plus 21% per year on unpaid balances.	None	Revolving Credit	No limit (after 7/1/83, 1½%-min. 50¢/mo.)	
Industrial Loan & Investment Company	19% per year on unpaid balances—precomputation permitted.	20% of capital surplus, capital notes and debentures	All Goods	Unpaid balance rates: 18% per year (min. \$10)	NEBRASKA 16%; no limit for real estate, business or agricultural loans by regulated lenders or over \$25,000. (min. \$10)
Bank Consumer Loan	19% per year on unpaid balances—precomputation permitted (min. \$7.50).	None	Revolving Credit	1¼-1½% per mo. @ \$500	
Bank Credit Card	18% per year plus \$20 annual fee.	None			

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	RERATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
NEVADA Superintendent of Banks	No limit.	24½ mos. to \$1000. 36½ mos. to \$2500. 48½ mos. to \$4000. 60½ mos. to \$6000. 72½ mos. to \$7500. 84½ mos. to \$10,000.	Precomp.	Default Deferment	Rule of 78	Yes	\$10,000	Life, 65¢. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC
NEW HAMPSHIRE Bank Commissioner	2% to \$600, 1½% to \$1500, no limit on larger loans. (Rate drops to 12% a year 3 months after maturity.)	24 mos. to \$600. 36 mos. to \$1500, none over \$1500	No			Yes	\$10,000	Life, based on term: 47¢ -12 mos. 89¢ -24 mos. \$1.29-36 mos. Disability (14-day retro.): \$1.96-12 mos. \$2.43-24 mos. \$2.73-36 mos. NAIC
<i>General law requires disclosure of "finance charges, expressed in dollars, rate of interest, or monthly rate of charge, or a combination thereof".</i>								
NEW JERSEY Commissioner of Banking & Insurance	30% per year. Revolving credit permitted.	36½ mos. to \$1000. 48½ mos. to \$2500. 60½ mos. to \$5000	No			Yes	\$5000	Life, 44¢-64¢ depending on insurance volume. Disability (14-day retro.): \$1.80-12 mos. \$2.16-24 mos. \$2.38-36 mos. NAIC
<i>Compliance with Regulation Z satisfies inconsistent disclosure provisions of laws noted herein.</i>								
NEW MEXICO Commissioner of Banking	No limit (after 7/1/83, 3% to \$150, 2½% to \$300, 1½% to \$1000, 1¼% to \$2500). Rate drops to 10% a year one year after maturity, entry of judgment, 90 days after a bankruptcy adjudication followed by discharge, or 90 days after borrower's death.	None	Precomp.	Default Deferment Conversion	APR	Yes	\$2500	Life, 65¢. Disability (14-day retro.): \$2.35-12 mos. \$3.25-24 mos. \$4.15-36 mos. NAIC
	Installment Loan Law: No limit (after 7/1/83, 8.75% per year add-on; min. \$2 per month or \$10; \$15 fee).	None	Precomp.	Default Deferment	Rule of 78	No	None	
<i>Regulation Z disclosure deemed compliance with sales finance disclosure provisions.</i>								
NEW YORK Superintendent of Banks	No limit (after 6/30/83, 2½% to \$100, 2% to \$300, 1½% to \$900, 1¼% to \$2500).	24½ mos. to \$300, 36½ mos. to \$1400, 48½ mos. to \$2500, 60 mos. over \$2500 (by regulation)	Precomp.	Default Deferment	Rule of 78	Yes	\$4000 (after 6/30/83, \$2500)	Life, 49¢. Disability (14-day retro.): \$3.15-12 mos. \$4.44-24 mos. \$5.34-36 mos. (litigation pending) NAIC
	Licensed lender second mortgage loans (by rule): No limit, until 6/30/83.	None	Precomp.	Default	APR	Yes	None (over \$4000)	

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Bank Consumer Loan	8% per year discount on loans up to \$500. and 7% on larger loans.	\$1500	All Goods	No limit	NEVADA No limit.
Thrift Companies	No limit.	15% of capital and surplus	Revolving Credit	No limit	
Mortgage Broker	12% per year or 3.5% over prime (if over 9%).	\$200,000			
Second Mortgage Loan	No limit; max. 18% per year 6 mos. after maturity. Revolving credit permitted.	\$35,000	Motor Vehicle	No limit (min. \$25. acq. \$25)	NEW HAMPSHIRE No limit.
Insurance Premium	No limit.	None			
Bank Consumer Loan	30% per year.	\$25,000	Motor Vehicle	(Unpaid balance rates) 30% per year (min. \$12-10 @ 8 mos., acq. \$15)	NEW JERSEY 16%; 30% criminal usury. (applies to all loans and sales)
Bank Revolving Loan	(1) 30% per year. (2) \$15 annual fee.	None	Other Goods	30% per year (min. \$12-10 @ 8 mos., acq. \$15)	
Second Mortgage Loan	30% per year	None	Home Repairs	30% per year (min. \$12. acq. \$15)	
Insurance Premium	30% per year	None	Revolving Credit	30% per year	
Installment Loan	See opposite page. (Applies to banks and others.)	None	Motor Vehicle	No limit (after 7/1/83. \$9 75-10-12-14) (min. \$25)	NEW MEXICO No limit. After 7/1/83, loans 10%; unsecured loans. 12%; or 3% over FRB discount rate, and variable rate for home mortgages
Revolving Credit	No limit (after 7/1/83, 1 1/2% per month to \$500. 1 1/3% on remainder; 1 1/3% for cash advances).	None	Other Goods	No limit (after 7/1/83. (\$12-10-8 @ \$300 & \$1000-min. \$10)	
Insurance Premium	No limit (after 7/1/83, 8.75% per year add-on. \$2 per month or \$10 min.).	None	Revolving Credit	No limit (after 7/1/83. 15¢-13 1/2¢ per \$10 @ \$500-min. 70¢/mo.)	
Bank Installment Loan	No limit (after 6/30/83, 6% per year discount to 37 months, 5.25% to 61 months, 5% over 61 months-\$10 min.).	\$25,000	Motor Vehicle	No limit (after 6/30/83. \$7-10-13) (acq. \$15)	NEW YORK 16%; 25% criminal usury. (not clear if applies to regulated loans and sales)
Bank Revolving Loan	No limit on rate or card fee (after 6/30/83, 1 1/2% to \$500, 1% on remainder).	\$25,000	Other Goods	No limit (after 6/30/83. \$10-8 @ \$500-min. \$12-10 @ 8 mos.)	
Insurance Premium	14% per year add-on plus \$10 (after 6/30/83, 10% plus \$8) (\$15, \$12, \$10, and \$8 min.).	None	Revolving Credit	No limit on rate or card fee (after 6/30/83. 1 1/2%-1% @ \$500) (min. 70¢/mo.)	

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
NORTH CAROLINA Commissioner of Banks	3% to \$600, 1 1/4% to \$3000 (after 7/1/83, 3% to \$300, 1 1/2% to \$3000). (6% per year after maturity.)	25 mos. to \$600, 37 mos. over \$600 to \$1500, 49 mos. to \$2500, 61 mos to \$3000.	No			Yes	\$3000	Life, 80c. Disability (14-day retro.); \$2.42-12 mos. \$3.30-24 mos. \$4.18-36 mos.
	Optional rate: 16% per year "effective rate" or 6% over 6-mos. U.S. T-bill rate to 7/1/83 (\$10 per loan or \$1 per payment min.) on loans to \$5000.	60 mos.	Yes	Default Deferment	Rule of 78	Yes	\$5000	
	"Motor vehicle" licensees: Add-on: \$15 a year per \$100 to \$500, \$11 to \$1000, \$9 to \$1500, or 16% a year simple interest between \$1500 and 3000.	48 mos.	See rate column	Default Deferment	Rule of 78	Yes	\$5000	
NORTH DAKOTA Department of Banking and Financial Institutions	2 1/2% to \$250, 2% to \$500, 1 1/4% to \$750, 1 1/2% to \$1000.	24 1/2 mos.	Precomp.		Rule of 78	No	\$1000	Life, 75c. Disability (14-day retro.); \$2.61-12 mos. \$3.53-24 mos. \$4.18-36 mos. NAIC
	Consumer Finance Act; no limit over \$1000. Revolving credit permitted.	None	No			No	\$15,000	
OHIO Division of Consumer Finance in Dept. of Commerce	28% per year to \$1000, 22% on remainder; or equivalent APR. Revolving credit permitted.	25 1/2 mos. to \$500, 37 1/2 mos. to \$1000, 49 1/2 mos. over \$1000	Add-on	Default Deferment Conversion	Rule of 78	Yes	\$3000	Life, 65c. Disability (14-day retro.); \$2.23-12 mos. \$2.81-24 mos. \$3.21-36 mos.
	Second Mortgage Act; 21% per year. Revolving credit permitted.	None	Precomp.	Default Deferment Conversion	Rule of 78 to 61 mos.; APR over 61 mos.	No	None	
<i>Until Jan. 1, 1985, an alternate 25% per year for laws on this and opposite page is permitted; except for usury law.</i>								
OKLAHOMA Administrator of Consumer Affairs	UCCC: 30% a year to \$600, 21% to \$2000, 15% to \$45,000; or 21% per year. Special rates for loans to \$100. Revolving credit permitted.	25 mos. to \$600, 37 mos. to \$2000.	Yes	Default Deferment Conversion	Rule of 78	No	\$45,000 No limit if secured by real estate.	Life, 85c. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos.
<i>Regulation Z adopted by Consumer Affairs Commission under UCCC. Granted FRB exemption</i>								
OREGON Superintendent of Banks	No limit. Revolving credit permitted.	None	Precomp. for loans for 62 mos.	Default Deferment Conversion (to 62 mos.)	Recomputation	Yes	\$50,000	Life, 55c-1 yr. Disability (14-day retro); \$2.65-12 mos. \$3.75-24 mos. \$4.69-36 mos.
<i>Regulation Z disclosure deemed compliance with sales finance disclosure provisions.</i>								

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Installment Loan	16% or 6% over 6-mo. U.S. T-bill rate for non-real estate loans to \$5000 or real estate loans to \$25,000 (\$10 per loan or \$1 per payment min.) (Applies to banks and others.)	\$25,000	All Goods (precomputed unpaid balance rate; stepped by amount financed, rather than graduated.)	24-22-20-18% @ \$1500, 2000, 3000 (min. \$5); 16% (real est. security); min. for autos: 18-20-22-29%, based on age. (\$25,000 max.)	NORTH CAROLINA 16% or 6% over 6-mo U.S. T-bill rate (by rule) to \$25,000; no limit over \$25,000 or over \$10,000 for first home mortgages.
Revolving Loan and Credit Card	Revolving loans: 1 1/2% per month to \$5000, 1% on remainder. Credit card financing: 1 1/2% per month. (Applies to banks and others.)	None			
Second Mortgage Loan	(1) 18% per year or 5% over FRB discount rate on unpaid balances. (2) 181 mos. max. maturity. (3) actual closing costs.	\$25,000	Revolving Credit	1 1/2%	
Insurance Premium	\$15 plus 12% per year add-on.	None			
Bank Credit Card	1 1/2% per month.	None	All Goods (Precomputed unpaid balance rate) Revolving Credit	No limit. (acq. \$15) No limit.	NORTH DAKOTA 5-1% over U.S. T-bill rate (by rule); no limit for regulated lenders or over \$35,000.
Bank Consumer Loan	10% per year discount; or 18% per year on unpaid balances.	10% of capital and surplus	All Goods	18% per year on unpaid balances; or to \$700, \$8 plus 50¢ per mo. for first \$50 and 25¢ per mo. for each next five \$50 (acq. \$10)	OHIO 8%; no limit over \$100,000; 3% over FRB discount rate for real estate mortgages.
Bank Credit Card	1 1/2% per month on unpaid balances. (min. \$1/mo.)	10% of capital and surplus	Revolving Credit	1 1/2% (min. \$1/mo.)	
Insurance Premium	\$10 plus 10% per year add-on unpaid (1% per month on revolving credit balances.)	None			
Uniform Consumer Credit Code	[Banks and other supervised financial organizations may charge the maximum rates stated on opposite page.]	\$45,000 No limit if secured by real estate.	All Goods (UCCC) Revolving Credit (UCCC)	Unpaid balance rate: 30% per year to \$600, 21% to \$2000, 15% to \$45,000, or 21% per year. (min. \$5-7.50 @ \$75) 21% (min. 50¢/mo.)	OKLAHOMA 45%
Bank Consumer Loan	No limit.	\$50,000	Motor Vehicle	No limit (acq. \$15)	OREGON 12% or 5% over FRB discount rate; no limit over \$50,000, for first home mortgages, or for banks and others.
Bank Credit Card	No limit and default charge.	\$50,000	Other Goods	No limit (acq. \$10-15-25-50 @ \$100-250-500)	
Insurance Premium	\$10 plus 1 1/2% per month on unpaid balances.	None	Revolving Credit	No limit	

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
PENNSYLVANIA Secretary of Banking	To \$5000: 9½% per year discount for 48 months, 6% for remaining period, plus max. fee of \$100 (\$1 for each \$50 or fraction); 1½% per month for default or deferment, 2% per month (no pre-comp.) for revolving and installment loans to \$5000. See rules re installment loans over \$5000.	60½ mos. for discount loans	Discount and fee	Default Deferment	Rule of 78	No	None	Life, (based on term): 50¢-1 yr. \$1.38-3 yrs. \$2.20-5 yrs. Disability (14-day retro.): \$2.13-12 mos. \$2.71-24 mos. \$3.11-36 mos. NAIC
PUERTO RICO Secretary of Treasury	Prime rate as add-on (by rule).	None	Add-on	Default Deferment	Rule of 78	Yes	\$1500	Life, 75¢. Disability.
RHODE ISLAND Director of Business Regulation	Rate on entire balance: 3% on loans to \$300, 2½% on loans between \$300 and \$800 and 2% on larger loans.	25 mos. to \$1000; 37 mos. over \$1000	No			Yes	\$2500	Life, 50¢. Disability. (14-day retro.): \$1.49-12 mos. \$2.96-24 mos. \$3.51-36 mos. NAIC
	Second Mortgage Loan Law: 21% per year simple interest.	None	No			No	None	
SOUTH CAROLINA State Board of Financial Institutions and Dept. of Consumer Affairs.	Supervised Lenders: no limit. Revolving lending permitted.	25 mos. to \$480, 36 mos. to \$1600. No limit over \$1600	Precomp.	Default Deferment Conversion	Rule of 78 61 mos.; APR over 61 mos.	Yes	\$40,000 No limit if secured by real estate.	Life, 75¢. Disability (14-day retro.): \$2.00-12 mos. \$2.80-24 mos. \$3.50-36 mos.
SOUTH DAKOTA Dept. of Banking and Finance	No limit. \$2 min. in certain cases. (10% per year 8 mos. after maturity). Revolving credit permitted.	24½ mos. to \$1000; 38½ mos. to \$2500; 60½ Mos. to \$5000. None over \$5000	No			No	\$30,000	Over 100, Life, 60¢. Disability (14-day retro.): \$1.98-1 yr. \$3.42-3 yrs. \$4.23-5 yrs.

Superintendent of Banking authorized to "administer and enforce" Reg. Z

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Bank Consumer & Revolving Loan	6% per year discount (max. 10 years and 15 day); 1% per month on unpaid balances for loans; 1¼% per month for purchases; or 5% over FRB discount rate.	\$10,000 or first \$10,000 of larger loans	Motor Vehicle	(Unpaid balance rates) 18-21% per year. (min. \$10)	PENNSYLVANIA 6%, no limit over \$50,000; variable rate for home mortgages.
			Other Goods	18% (after 3/29/85, 15% per year) (min. 70¢/mo. for 6 mos.)	
Second Mortgage Loan	1.85% for loans over \$5000. Revolving credit permitted. No max. maturity.	None	Home Repairs	\$8 (min. \$12)	
			Revolving Credit	1.5% (after 3/29/85 and for gas credit cards, 1¼%) (min. 70¢/mo. for 6 mos.)	
Installment Loan	9.5% per year add-on to 36 months (by rule).	None	All Goods	Motor Vehicles 10-11-12%. Electric fixtures, household 12%; commercial, 10% household furniture, 13%.	PUERTO RICO 10½% for variable home mortgages. (by rule)
Credit Card	2.17% per month on unpaid balances (17% per year for cash advances) (by rule).	None	Revolving Credit	1.7%	
Loan and Investment Company	(1) 8% per year discount (except 21% on real estate loans). (2) \$1 for each \$50 or fraction thereof lent (21% per year on unpaid balances for real estate loans).	15% of capital and surplus or \$10,000, whichever is larger.	All Goods	21% per year simple interest (min. \$10, acq. \$10)	RHODE ISLAND 21% or 9% over U.S. T-bill in 25%.
Bank	21% per year. Regulated by Department of Business Regulation primarily as to investments.	\$10,000	Revolving Credit	21% per year simple interest (min. 50¢/mo.)	
General Interest Law	21% per year or 9% over U.S. T-bill index.	None			
Educational Loan	21% per year.	None			
General License	21% per year. Applies to all lenders not licensed under other laws.	None			
UCCC	No limit.	\$40,000 No limit if secured by real estate. \$7,500	Motor Vehicle	No limit	SOUTH CAROLINA Any rate for first purchase money home mortgages by supervised lenders or supervised financial organizations.
Restricted Lender	To \$150: \$2.50 per mo. To \$1000: add-on of \$20 per \$100 per year to \$100, \$18 to \$300, \$11 to \$500, \$9 to \$1000. Fee not over 7% or \$28 plus \$1 per month. Over \$1000: \$7 add-on plus fee not over 5% or \$200, plus \$1 per month.		Other Goods	No limit (min. \$5-\$7.50 @ \$75)	
Insurance Premium	\$15 plus 1% per month add-on.	None	Revolving Credit	No limit (min. 50¢/mo.)	
Bank Revolving Loan and Credit Card	No limit.	None	Motor Vehicle	No limit	SOUTH DAKOTA No limit.
			Other Goods	No limit	
			Revolving Credit	No limit	

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
TENNESSEE Commissioner of Insurance and Banking	Industrial Loan Act: 7½% per year discount (max. 18% per year on unpaid balances) plus fee of 4% or \$2 to \$20, 50¢ per \$5 to \$75, and \$7.50 for larger loans, and monthly fee of \$1.50 to \$300 and \$1 for larger loans.	24 mos. to \$300. 36 mos. to \$1000. Over \$1000, 120 mos.	Discount and fee	Default	Contract Rate	No	10% of net worth	Life, 75¢. Disability (14-day retro.): \$2.39-12 mos. \$3.16-24 mos. \$3.69-36 mos.
TEXAS Commissioner of Credit	Add-on rates: \$18 a year per \$100 to \$810, \$8 to \$6750, or formula rate. Special rates for loans to \$270. Revolving credit permitted. Consumer Credit Code, Ch. 4: \$8 per year add-on or formula rate. Revolving credit permitted.	37 mos. to \$1500, 49 mos. to \$3000, 63 mos. over \$3000. None	Add-on Add-on	Default Deferral Default Deferral	Rule of 78 Rule of 78	No No	\$6750 (by rule) None	Life, 58¢. Disability (14-day retro.): \$2.23-12 mos. \$2.81-24 mos. \$3.21-36 mos. NAIC
UTAH Commissioner of Financial Institutions	UCCC: 36% per year to \$840, 21% to \$2800, 15% to \$70,000; or 21%* per year. Revolving credit permitted.	25 mos. to \$840, to \$2800. None over \$2800.	Yes	Default Deferral Conversion	Rule of 78 to 61 mos.; APR over 61 mos	No	\$70,000 No limit if secured by real estate.	Life, 60¢. Disability (14-day retro.): \$2.20-12 mos. \$3.00-24 mos. \$3.28-36 mos. NAIC
*18%-60 days after end of 1983 legislative session.								
Regulation Z associated "by reference" by Regulation No. 1 under UCCC.								
VERMONT Commissioner of Banking and Insurance	2% to \$1000, 1% to \$3000; or 1½%. Second mortgages (part of usury law): 18% per year (only over \$3000 for licenses).	48½ mos. 180 mos. (licenses only).	No No			Yes None	\$3000	Life only, 44¢-70¢ depending on insurance volume. Disability (14-day retro.): \$2.37-12 mos. \$2.84-24 mos. \$3.20-36 mos. NAIC
VIRGINIA Commissioner of Banking (Delegated by State Corporation Commission)	3% to \$600, 2¼% to \$1800, 1½% to \$2800, or add-on rate, \$21 a year per \$100 to \$600, \$17 to \$1800, \$13 to \$2800, plus 2% fee. (Rate drops to 6% a year 6 months after maturity or after judgement, or 90 days after borrower's death or bankruptcy.) Rates and ceiling set by Commission.	21 mos. to \$500, 31 mos. to \$1000, 43 mos. to \$1500, 49 mos. to \$2800.	Add-on	Default Deferral Conversion	Rule of 78	Yes	\$2800	Life, 55¢. Disability NAIC

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Bank Consumer Loan	6% per year discount (or add-on).	None	Motor Vehicle	None	TENNESSEE Variable rates for home mortgages (over 121 mos.) and other loans. (max. 18%)
			Other Goods	\$11.75 (after 7/1/83, \$10-8-6 @ \$500 & \$5000) (min. \$12.50, acq. \$15)	
			Revolving Credit	17.5¢ per \$10 (after 7/1/83, 15¢) (min. 70¢/mo.)	
Banks, S & L Assns. & Credit Unions	[These lending agencies may make loans under the Installment Loan Law and the Home Mortgage Loan Law, and banks and S & L associations may be licensed to charge the Consumer Finance Law rates. These "Laws" are Chapters of the 1967 Consumer Credit Code.]		Motor Vehicle	\$7.50-10-12.50-15-18 or formula rate (min. \$25, acq. \$25)	TEXAS Formula rate: max. 28% for business loans over \$250,000.
			Other Goods	\$12-10-8 @ \$1350 & \$2700 or formula rate (min. \$12-9-6 @ \$75 & \$25)	
Second Mortgage Loan	8% per year add-on or formula rate. (Consumer Finance licensees may operate under this law.)	None	Home Repairs	Same as for other goods plus extra charges allowed for second mortgage loans.	
Insurance Premium	Maximum rates stated on opposite page.	None			
Credit Card	18% per year to \$1500; 12% to \$2500, 10% over \$2500; or formula rate.	None	Revolving Credit	15-10¢ per \$10 @ \$1350 or formula rate (min. 75¢/mo.)	
Uniform Consumer Credit Code	[Banks, industrial loan corporations and other supervised financial organizations may charge the maximum rates stated on opposite page. Others may charge 21%* per year simple interest for loans and revolving credit and 50¢ per month minimum or annual credit card fee for revolving credit.]	\$70,000 No limit if secured by real estate.	All Goods (UCCC)	Unpaid balance rate: 36% per year to \$840, 21% to \$2800, 15% to \$70,000 or 21%* per year. (min. \$5-7.50 @ \$75)	UTAH No limit.
			Revolving Credit (UCCC)	No limit (min. 50¢/mo.)	
Installment Loan (part of usury law)	(1) 24% per year to \$1000, 12% over \$1000; or 18%. (2) Max. 48½ mos., except 8 yrs. for home improvements.	None	Motor Vehicle	(unpaid balance rates) 18-20% per year	VERMONT 12%; any rate for first home mortgages.
Revolving Credit	1½-1¼% @ \$500 plus annual bank card fee.	\$5000	Other Goods	1½-1¼% per mc. @ \$500 (min. \$10)	
Insurance Premium	1½% to \$500 and 1¼% on remainder.	None	Revolving Credit	1½-1¼% @ \$500 (min. 50¢/mo.)	
Industrial Loan Companies	(1) no limit. (2) 2% of loan.	20% of capital and surplus.	All Goods	No limit (min. \$25)	VIRGINIA 8%, except first mortgage loans and, over \$5000, business loans.
Bank Consumer Loan (section of usury law)	No limit; 2% fee.	None	Revolving Credit	No limit (min. 50¢/mo.)	
Revolving Loan	No limit.	None			
Second Mortgage Loan	(1) 9% per year, add-on or any rate on unpaid balances. (2) 2% of loan (\$1 min.) (3) Cost of specified services. (4) No max. rate over 122 mos.	None			
Insurance Premium	\$15 plus 1% per month.	None			

CONSUMER FINANCE AND RELATED LOAN LAWS

STATE AND SUPERVISOR	MAXIMUM RATE	MAXIMUM MATURITY	PRECOMP. ADD-ON DISCOUNT	DEFAULT DEFERMENT CONVERSION	REBATE	C&A	LOAN SIZE LIMIT	CREDIT LIFE AND DISABILITY INSURANCE WHERE PERMITTED
WASHINGTON Supervisor of Banking	2½% to \$500, 1½% to \$1000, 1% to \$2500.	48½ mos.	Precomp.	Default Deferment Conversion	Rule of 78	Yes	\$2500	Life, 60c. Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC
	Industrial Loan Act: 10% per year discount (or APR equivalent) plus 2% fee (\$2 min. fee) and 50c per month. Real estate loans: 25% APR over 2 years.	24 mos., none for real estate security.	Discount and fee	Default	Rule of 78	Yes	15% of Capital and Surplus.	
WEST VIRGINIA Commissioner of Banking and Attorney General	36% per year to \$500, 24% to \$1500, 18% to \$1600. Revolving credit permitted (min. 50c/mo.).	36½ mos.	Precomp.	Default Deferment Conversion	Rule of 78 to 36 mos.; APR over 36 mos.	Yes	\$1600	Life, 65c. Disability (14-day retro.); \$2.65-12 mos. \$3.35-24 mos. \$4.00-36 mos.
WISCONSIN State Banking Department	Discount Loan Law, Sec. 138.09: 23% per year simple interest under \$3,000; 21% on entire balance if \$3000 or more; or 6% over greater of 6-month or 2-year Treasury rates. No limit from 11/1/84 to 10/31/87 for rates or rebates. Revolving credit permitted.	24½ mos. to \$700, 36½ mos. to \$3000. None over \$3000.	Precomp.	Default Deferment Conversion	Rule of 78 to 48 mos.; APR over 48 mos.	No	None	Life, 40c. Disability (14-day retro.); \$2.23-12 mos. \$2.81-24 mos. \$3.21-36 mos.
WYOMING State Examiner	UCCC: 36% per year to \$300, 21% to \$1000, 15% over \$1000; or 21% per year. Revolving credit: 21% per year.	25 mos. to \$300, 37 mos. to \$1000. None over \$1000.	Yes	Default Deferment Conversion	Rule of 78 to 61 mos.; actuarial over 61 mos.	No	\$25,000 No limit if secured by real estate.	Life, 50c (captives 45c). Disability (14-day retro.); \$2.20-12 mos. \$3.00-24 mos. \$3.80-36 mos. NAIC

Consumer Act requires Reg. Z and other disclosures. No penalties allowed if comply with Administration's rules or interpretations.

UCCC requires same disclosures as Regulation Z. Granted FRB exemption.

	TYPE OF CREDIT	MAXIMUM RATE
UNITED STATES	First home (and mobile home) mortgages	None* (applies to banks and others.)
	Business and agricultural credit over \$1,000	5% over FRB discount rate (to 4/1/83)*
	State Banks, S & L's,	1% over FRB discount rate or state rates*
	National Banks	1% over FRB discount rate or state rates

*subject to state preemption until 4/1/83

OTHER CONSUMER LOAN LAWS

SALES FINANCE AND REVOLVING CREDIT LAWS

USURY LAWS

KIND OF LAW	PRINCIPAL CHARGES	LOAN SIZE LIMIT	KIND OF LAW	MAXIMUM RATES	STATE AND MAXIMUM RATE
Industrial Loan	(1) 10% per year discount; (2) 2% of loan (\$2 minimum); (3) 50¢ per month.	2% of capital and surplus.	All Goods	6% per year over 6-mo. U.S. T-bill rate on unpaid balances (17.5% for 1983) (min. \$10)	WASHINGTON 12% or 4% over U.S. T-bill rate; no limit on business loans.
General Interest	(1) 12% per year simple interest; (2) reasonable charges for expenses and services incident to making loan—for loans to \$500 not more than 4% up to \$15 except \$4 min. (Applies to banks and others.)	None	Revolving Credit	18% per year. (min. \$1/mo.)	
Insurance Premium	\$10 plus 10% per annum add-on.	None			
Installment Loan	6% per year discount (max. 15% APR) or add-on (min. \$5-7.50 @ \$75); rate allowed for national banks; or 18% on unpaid balances.	None (Banks 10% of capital and surplus)	Motor Vehicle	Unpaid balance rates: 18% per year.	WEST VIRGINIA 18% (by rule); 1½% over U.S. bond rate for home mortgages.
Industrial Loan Company	(1) 27% per year to \$2,000, 25% to \$10,000, and 18% on remainder; or (2) 6% per year discount or 21% per year on unpaid balances to \$5000, plus \$1 for each \$50 or fraction thereof lent.	10% of capital and surplus	Other Goods	Unpaid balance rates: 18% per year. (min. \$5-7.50 @ \$75).	
Second Mortgage Loan	(1) 8% per year add-on; or 18% per year on unpaid balances. (2) Expense charge up to 10% of loan (\$150 min.)	None	Revolving Credit	1½ (min. 50¢/mo.)	
Revolving Loan	1½% per month on unpaid balances (min. 50¢/mo.)	\$25,000			
Wisconsin Consumer Act	18% per year on unpaid balances or 6% over 6-mo. T-bill rate. No limit from 11/1/84 to 10/31/87. Revolving credit permitted	\$25,000	Motor Vehicle	Unpaid balance rates (precomp): 18% per year or 6% over 6-mo. T-bill rate. No limit from 11/1/84 to 10/31/87. (min. \$15)	WISCONSIN No limit.
Insurance Premium	Same as above, plus \$6 on balances from \$50 to \$100 and \$10 for balances of \$100 or more. No limit from 11/1/84 to 10/31/87	None	Other Goods	Unpaid balance rate: 18% per year or 6% over 6-mo T-bill rate. No limit from 11/1/84 to 10/31/87 (min. \$5-7.50 @ \$75)	
			Revolving Credit	1½% or variable rate to \$25,000. No limit from 11/1/84 to 10/31/87 (min. 50¢/mo.)	
Uniform Consumer Credit Code	[Banks, industrial loan corporations and other supervised financial organizations may charge the maximum rates stated on opposite page.]	\$25,000 No limit if secured by real estate	All Goods (UCCC)	Unpaid balance rate: 36% per year to \$300, 21% to \$1000, 15% to \$25,000; or 21% per year. (min. \$5-7.50 @ \$75)	WYOMING Only UCCC Supervised Loan rate for "consumer related" loans to \$25,000.
			Revolving Credit	21% per year. (min. 50¢/mo.)	

ANNUAL, PERCENTAGE RATES EQUIVALENT TO VARIOUS ADD-ON AND DISCOUNT RATES ON LOANS REPAYED IN EQUAL MONTHLY PAYMENTS OVER DIFFERENT PERIODS

W. N. Nesbit, Manager of Mathematical Services and Rate Analyst
 Research Department, Household Finance Corporation

Add-on Rate Per Year	Annual Percentage Rate, Different Repayment Periods:							
	6 Mos.	12 Mos.	18 Mos.	24 Mos.	30 Mos.	36 Mos.	48 Mos.	60 Mos.
3%	5.12	5.49	5.61	5.66	5.68	5.68	5.67	5.64
4	6.82	7.30	7.45	7.50	7.52	7.51	7.47	7.42
5	8.52	9.10	9.27	9.32	9.33	9.31	9.24	9.15
6	10.21	10.80	11.08	11.13	11.12	11.08	10.97	10.85
7	11.90	12.68	12.87	12.91	12.88	12.83	12.68	12.50
8	13.59	14.45	14.65	14.68	14.63	14.55	14.35	14.13
9	15.27	16.21	16.42	16.43	16.35	16.24	15.99	15.71
10	16.94	17.97	18.17	18.16	18.06	17.92	17.60	17.27
11	18.62	19.72	19.91	19.87	19.74	19.57	19.19	18.80
12	20.29	21.46	21.64	21.57	21.41	21.20	20.75	20.31
13	21.95	23.19	23.36	23.26	23.05	22.81	22.30	21.79
14	23.62	24.91	25.06	24.92	24.68	24.40	23.82	23.25
15	25.28	26.62	26.75	26.58	26.30	25.98	25.32	24.68
16	26.93	28.33	28.43	28.22	27.89	27.53	26.80	26.10
17	28.58	30.03	30.10	29.85	29.48	29.07	28.26	27.50
18	30.23	31.72	31.76	31.46	31.04	30.59	29.70	28.88
19	31.88	33.40	33.41	33.06	32.60	32.10	31.13	30.24
20	33.52	35.07	35.05	34.65	34.14	33.60	32.54	31.58
21	35.15	36.74	36.68	36.22	35.66	35.07	33.94	32.92
22	36.79	38.40	38.29	37.79	37.17	36.54	35.32	34.23
23	38.42	40.06	39.90	39.34	38.67	37.99	36.69	35.53
24	40.05	41.70	41.50	40.88	40.16	39.43	38.05	36.82

Discount Rate Per Year	Annual Percentage Rate, Different Repayment Periods:							
	6 Mos.	12 Mos.	18 Mos.	24 Mos.	30 Mos.	36 Mos.	48 Mos.	60 Mos.
3%	5.20	5.66	5.87	6.01	6.13	6.23	6.41	6.59
4	6.96	7.60	7.92	8.14	8.32	8.50	8.82	9.15
5	8.74	9.58	10.01	10.33	10.61	10.88	11.40	11.96
6	10.53	11.58	12.15	12.59	12.99	13.38	14.17	15.04
7	12.33	13.61	14.34	14.92	15.47	16.01	17.15	18.45
8	14.15	15.68	16.58	17.33	18.06	18.79	20.39	22.26
9	15.98	17.78	18.88	19.83	20.76	21.73	23.91	26.61
10	17.83	19.91	21.24	22.12	23.60	24.85	27.77	31.58
11	19.69	22.08	23.65	25.09	26.57	28.18	32.04	37.39
12	21.56	24.28	26.14	27.87	29.70	31.73	36.80	44.33
13	23.42	26.52	28.68	30.76	33.00	35.53	42.15	52.84
14	25.36	28.80	31.30	33.77	36.48	39.63	48.26	63.67
15	27.29	31.12	33.99	36.90	40.16	44.06	55.31	78.19
16	29.23	33.48	36.76	40.16	44.07	48.87	63.63	99.15
17	31.18	35.88	39.61	43.57	48.24	54.13	73.65	133.09
18	33.16	38.32	42.55	47.14	52.69	59.93	86.07	199.98
19	35.15	40.81	45.57	50.87	57.46	66.35	102.10	—
20	37.15	43.34	48.69	54.80	62.60	73.54	123.88	—
21	39.18	45.92	51.92	58.92	68.15	81.67	155.80	—
22	41.22	48.55	55.25	63.27	74.19	90.98	208.24	—
23	43.28	51.23	58.69	67.87	80.79	101.79	312.50	—
24	45.35	53.97	62.25	72.73	88.05	114.58	—	—

To convert any annual rate to a monthly rate divide by 12.

The Annual Percentage Rates above are the same as the "Annual Percentage Rates" required by Federal Regulation Z. They were computed by the actuarial method, which is the same as the United States Rule in all of the above cases because all are repayable in equal monthly payments.

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Capital Shortage, Public vs Private
Allocation of Capital, and Alternative
Ownership systems for Alaska's Oil Wealth

Prepared for The
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I. Capital Shortage and Capital Market Efficiency in Alaska.

In attempting to assess the functioning of rural capital markets in Alaska we looked at a number of different aspects of the problem. I will list these first, then discuss them in turn:

1. Is there a shortage of physical capital in rural Alaska?
2. Do private financial institutions create a shortage of capital by discriminating against rural Alaska? .
3. Is there a capital shortage in Alaska as a whole due to too little competition among financial institutions?
4. Has state regulation of financial institutions created a capital shortage?
5. What effects have state loan programs had on the availability of capital in Alaska?

Now to look at each of these in turn.

1. Shortage of physical or real capital. If private financial institutions have failed to provide enough financing to rural Alaska in the past, then there will be too little real capital there today. This would imply there would be good, high return investment opportunities available, to put the needed real capital in place. We reviewed the limited literature on this subject. Krutilla and Brubaker, two economists from Resources for the Future, studied this question in 1976 and concluded there were few investment opportunities in interior Alaska. Similarly, in 1979, Olson and Tuck, of the University of Alaska, viewing this question in the context of potential investments for Native Corporation funds, concluded sustained economic growth in rural Alaska was extremely unlikely. Finally, the experience of the Native Corporations in trying to locate investment opportunities for the substantial amounts of funds each year since 1973 suggests such opportunities

may be lacking.

This last inference is somewhat controversial. Some have suggested investment opportunities exist, but Native Corporations have not found them for a variety of reasons--preoccupation with problems of internal organization, lack of business experience, lack of managerial skills, and so forth. Perhaps this is the case. All we can say at this point is that we have yet to see any evidence that the supposed investment opportunities do exist.

This issue also serves to point out that if investment opportunities do exist, factors other than capital shortage may keep them from being exploited. In the case of the Native Corporations the capital was clearly there; if good investments were overlooked it was for other reasons.

This point can be generalized. I was told that someone who heard our testimony last year said we couldn't see the trees for the forest. To him, if there was a river full of fish, and no one catching them, that was a capital shortage. That is much too simple a conclusion. There may be many other reasons why no one is harvesting those fish. There may be other lower cost fishing grounds, there may be other higher paying uses of labor time, there may be no market, there may be a market but it may be subject to very restrictive price controls, and so on. We cannot conclude a priori that capital shortage is the problem in every case.

In the same vein, we sometimes hear people complain of a capital shortage for investing in opportunities they claim will be there when a market is developed or transportation costs fall or some other key change occurs. Obviously, this is a bit of a confusion. The investment

opportunities are conjectural. The real shortage is of markets or low cost transport, or something else. Additional financial capital will not make these problems go away. And if these really are the basic problems, then making more capital available is probably just a good way to waste that capital.

We have no trouble compiling a list of factors which may hinder business activity and investment in rural Alaska: (a) lack of investment opportunities, (b) land title problems, (c) insurance difficulties, (d) lack of infrastructure, (e) inadequate collateral, (f) lack of information and expertise, (g) seasonal nature of business opportunities, (h) high costs of everything, including capital, (i) low personal income and wealth in rural Alaska.

We feel that one of these factors, the last one, is of major importance in any policy discussion of capital shortage. Levels of per capita income and wealth in rural Alaska are low, perhaps only one-third as high as in urban Alaska. This means rural Alaskans must settle for fewer goods of all sorts — food, shelter, clothing, luxuries, and credit. The cure for this problem is to increase their wealth and income, not to give them grants of individual goods. Unfortunately, though, we as a nation have just come through a nearly fifty year period, starting with the New Deal, during which it has been fashionable to try to cure poverty with grants of goods and services, rather than grants of income. This approach is almost totally discredited among economists, who are nearly unanimous in arguing that something like a negative income tax should replace current systems of public housing, food stamps, low cost medical care, subsidized credit,

and so forth.

When I was teaching in New York City one of my colleagues was a well known liberal economist, who has in recent years announced himself a socialist. He and I could argue and disagree on hundreds of economic issues, but this was one we could not disagree on: if you want to raise income, give money, not goods and services. If you give money, people are free to spend it on whatever they like; this will allow them to maximize their satisfaction as they see it. If you give goods and services, they are stuck with those particular forms of income, unless they can find ways to sell or trade them for things they prefer more.

Further, in the case of granting subsidized credit, if you give money you raise personal net worth and thus increase the individual's borrowing capacity. If you give credit you put the individual into debt, and further reduce his capacity to borrow.

Thus our strong recommendation: look carefully at the problem of rural Alaska; if they really come down to problems of wealth and income, then subsidize people, not capital or credit. The same dollar amount of subsidy implicit in any state loan program will do more for people if it is given instead as a cash grant.

2. Do private financial institutions discriminate against rural Alaska? Many business people and households in rural Alaska feel they have a more difficult time getting credit than do their urban counterparts. They allege the system discriminates against them. We can find no evidence that this is true. It appears there is no discrimination in deposit interest rates - these are uniform throughout the state. Loan interest rates also appear to be uniform state-wide. Non-price and

conditions could, of course, be used to discriminate against rural borrowers, but the small amount of evidence available suggests to us that such is not the case. What does seem to be the case is that low personal income and wealth, plus the whole host of business problems listed above, mean that rural borrowers are at a disadvantage when standard, uniform criteria are applied in judging loan applications — thus, they get less credit. Finally, the provision of extensive, high cost, probably low profit, branch bank net works to serve rural Alaska suggests discrimination in favor of rural Alaska in the form of subsidized service provision.

We understand some people, though, are suspicious of the branch banks, and see them as a way to suck deposits out of rural Alaska, without putting loans back into the community. However, Federal law prohibits such behavior, and the Federal agencies enforcing the Community Reinvestment Act of 1977 told us all regulated financial institutions in Alaska were in compliance with the law as of the time we were looking at this problem.

What we conclude, then, is that there is no rural/urban split in Alaska's capital markets. Rather, there is a single, unified, statewide capital market. We thus turn our attention next to a consideration of factors effecting capital availability and interest rates statewide as a whole.

3. Is there too little competition in the State's financial markets? Part of the concern about capital shortage in Alaska appears to stem from the observation that, at least from 1968 through the late 1970's loan interest rates charged by commercial banks were generally

higher than those found elsewhere in the U.S. This is seen by some as evidence that competition in this industry is not strong enough to drive interest rates down to "normal" levels. If this argument is correct and there is some degree of monopoly power operative in commercial banking in Alaska, then microeconomic theory predicts output will be restricted in this industry, which translates into a capital shortage.

We find, however, that deposit interest rates as well have been higher in Alaska than in the rest of the country; this cannot be due to monopoly power. Our explanation for the generally higher structure of commercial bank interest rates is that during the time in question Alaska was a capital short region, due mainly to high loan demand caused by the pipeline boom, and as such had to import capital from the rest of the country, paying a premium to cover transactions costs normally associated with inter-regional capital transfers.

While we do not believe the levels of loan interest rates are evidence of lack of competition, we also observe that the spread between deposit and loan interest rates in Alaska has consistently been larger than in the rest of the country. This is a result which would be found if competition was lacking. We also observe that Alaska's commercial banking industry is more concentrated than in other states with similar banking laws. Nationally, in states which like Alaska allow state-wide branching, the two largest banks in the leading SMSA have about 59% of the business (as measured by deposits); in Alaska the figure is 74%. On the basis of these observations we suspect there is too little competition in commercial banking, perhaps leading to

restriction of lending activity and to avoidance of some riskier loans which would be undertaken in a more competitive environment.

The cure for too little competition is more competition. Our suggestions for increasing the amount of competition among Alaska's financial institutions will be given at a later point in this testimony.

4. The effects of state regulation. The regulatory picture in Alaska has been changing recently. Alaskan financial institutions, along with those in the rest of the country have long been subject to Federal ceilings on deposit interest rates. These ceilings, which distort the savings decision and tend to make the financial sector smaller than it should be, are being phased out over a six year period, under provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980. However, until completely eliminated these ceilings contribute to inefficiencies in financial intermediation in Alaska, as elsewhere.

The same Federal Act imposes uniform reserve requirements on all financial institutions either federally insured or eligible for federal insurance. As it is phased in, this Federal requirement will override the reserve requirements Alaska has imposed on its state chartered banks. Our 1980 position that State reserve requirements are unnecessary and unwise remains unchanged. However, the issue of what should be done with these reserve requirements has been taken out of the State's hands by the Federal override.

Until recently, Alaska had had a gross receipts tax on banks. This also was an unwise tax, which interfered with the efficient functioning of financial institutions. Removal of that tax improves

the efficiency of the State's private financial institutions.

There remains, however, a form of state regulation which seriously distorts Alaska's capital markets. This is regulation in the form of loan interest rate ceilings, generally known as usury laws. Usury laws substitute loan pricing by government fiat for price determination in the market place. State usury laws generally are so restrictive that they set interest rates below even competitive levels. This is especially true during times of inflation, such as we have experienced in this country for too many years now. In the typical situation, the quantity of loans demanded is quite large due to the relatively low loan interest rate set by law, but the quantity of funds supplied to financial institutions is low due to Federal deposit interest rate ceilings. There is thus excess demand—a capital shortage—in the market place. Commercial banks attempt to subvert usury ceilings through compensating balance requirements which raise the effective but not the nominal loan rate. At the same time they and other financial institutions institute nonprice rationing to deal with the excess demand. Many factors can serve as the basis for nonprice rationing, but for our purposes it is perhaps most important to note that discrimination is likely to be in favor of conventional, low risk loans, and against unusual, innovative, or risky investment projects which come seeking financing. This, of course, works against new borrowers, aggressive, risk-taking businesses, and firms with new technologies and new products, among others.

Alaska has several usury laws: the Trade Practices Act that applies to all financial institutions except small loan licensees,

the Retail Installment Sales Act, and the Small Loan Act. All three have adverse effects on the functioning of Alaska's capital markets, but the Small Loan Act is by far the most serious. During the period of our study, 1979-80, the provisions of this Act, combining maturity size, and interest rate restrictions, essentially limited loans over \$1,000 to a marginal return of only 12%. Since nearly risk-free money market investments yielded more than that at the time, the Act destroyed any incentive for small loan licensees to make loans larger than \$1,000. As a result, finance companies do very little business in Alaska. Nationally they account for about 6.4% of all financial institution assets, but in Alaska they have only $\frac{1}{2}$ of 1% of such assets. This obviously leaves a sizable hole in the structure of Alaska's financial institutions, and effectively eliminates one source of loans to high risk borrowers.

We have strongly recommended that the state abolish all usury laws, with priority going to elimination of the current Small Loan Act. A new Small Loan Act might allow finance companies to offer uninsured savings and time deposits, which would increase competition between these institutions and commercial banks, savings and loans, and credit unions.

5. State loan programs and capital shortage. State loan programs are instituted to increase the availability of capital at "reasonable" interest rates. In general, with small exceptions, they do not have that effect. Rather, they "crowd in" on private institutions and replace private lending with public lending. This is not just an assertion. It is a simple implication of economic theory, which has

long been recognized in the economics and finance literature, and which is supported by statistical as well as theoretical studies. However, I am going to leave to Professor Fry the task of elaborating on the crowding in effect, and I at this point will leave the conclusion as an assertion.

I ask you to consider what happens in private markets if this assertion is correct. State loan programs are set up and begin lending money, usually at below market, subsidized rates. Borrowers desert private lenders. With less business, private lenders have to reduce the size of their operations. There are economies of large scale operation in financial institutions, which implies, conversely, that there are diseconomies of small scale operations.

Private sector lending becomes more costly, and at more of a disadvantage in competing with state loan programs. Smaller, weaker, institutions fail, and go out of business or are absorbed by other institutions. There is less competition than before, with all the problems that implies. If this line of reasoning is correct, and it is, then state loan programs threaten the viability, and in the extreme, the very existence of private sector financial institutions.

Unfortunately, there are influential people who are not impressed with this conclusion as it stands, and who would have us believe it really makes no great difference if government lending replaces private lending. This is wrong. As I shall attempt to show in a few minutes, political allocation of capital is almost inevitably less efficient than market allocation of capital.

Before we reach that subject, however, it is important to note

another specific problem which tends to arise with one type of government loan program, namely, loans for business purposes. State business loan programs generally involve subsidies, almost always in terms of subsidized, below market interest rates, and often in terms of lenient credit standards. Naturally, such highly favorable terms attract many would-be borrowers - usually, far more than the loan programs can accommodate. Those who run the loan programs must somehow ration their limited funds. Actual rationing schemes which develop may be very complex and involve many elements. Usually, however, a key element is that state loan bureaucrats will attempt to ration loan funds in accordance with their personal theories of economic development. In underdeveloped countries this has classically shown up as heavy subsidization of such things as the steel industry on the naive theory that economic development implies industrialization, and industrialization requires steel. Hence, we find high cost, low productivity, white elephant steel mills in deserts and jungles all over the world. The variety of bureaucrats' economic development theories and fantasies is endless, limited only by their imaginations.

The real danger here is that subsidized credit program rather than harnessing the energy and productivity of the market system, may actually destroy it. The destruction will be at the very heart of the market system, because it will change the very nature of the basic productive unit of that system - the business firm. It will transform the profit or value maximizing firm into a subsidy maximizing firm.

The profit maximizing firm tries to produce products that will sell, tries to hold costs down to increase profits, is constantly alert

for new products, new production methods, new markets— for anything that will give it an edge. The subsidy maximizing firm, on the other hand, doesn't care what it produces, doesn't care whether it holds costs down, or whether it uses capital intensive or labor intensive methods of production. All its energies are devoted to doing whatever will allow it to qualify for subsidies; it produces what is subsidized, it uses lots of whatever inputs are subsidized most generously, it locates wherever it can get the most subsidies. It is alert and aggressive, and looking for opportunity —but opportunity is defined in terms of anticipating where the government subsidy spigot will next open up.

The real tragedy, of course, is that subsidy maximizing firms do not provide a viable economic base for a country. They have no real substance, and when the subsidies stop, they melt away, leaving an undiversified, weakened economy.

We have come a long way — and we have a long way to go yet. I would like at this point to summarize, in two different ways, what we have covered so far. First, a simple summary of the capital shortage question. We find that capital markets in Alaska are unified — there is no urban-rural split. These markets appear to work reasonably well, but do have some specific deficiencies. These deficiencies have specific cures. There is too little competition in some parts of the capital markets; more competition should be encouraged. There is too much regulation of the capital markets; markets should be deregulated. State loan programs are not a cure for capital market problems. Rather, they are part of the problem. All state loan programs should be abolished. The Permanent Fund should not add to the problem by

etting into the loan business, or by funding other state loan programs.

Now, for a second summary of our conclusions so far. I should like to put this in terms of two alternative scenarios for the future of the Alaskan economy. One scenario projects the effects of the state continuing with the policies it now follows. The other projects the effects of making the policy changes we recommend. Up to this point, our discussion has focused on the efficiency of a single sector of the economy — the capital markets — and ignored larger issues related to the state's oil revenues. At this point, though, it will be useful to develop the two scenarios in the context of two alternate ways of injecting state funds into the Alaskan economy. The alternatives to be considered are cash grants, on the one hand, and state loans, on the other.

Scenario one. The State redistributes some part of the oil revenues as cash grants to Alaskans. This results in increased disposable income for Alaskans, which leads to additional spending for personal consumption and for investment in owner-operated businesses. Although a considerable amount of this new spending would go for imports, a significant amount would remain in the State, stimulating economic activity, and giving a multiplied increase in income. Jobs would be created to produce goods and services for which there was a real market demand.

At the same time, increased income would stimulate savings, leading to increased deposits in the State's financial institutions, and thus to increased lending capacity of those institutions. Financial institutions would also face increased demand for loans from expanding businesses, and from consumers wanting to finance consumer durables and housing purchases. For the full effects on private

capital markets to be generated, however, two additional policy steps would have to be taken.

First, a new Small Loan Act would have to be passed to fill in the hole now existing in Alaska's financial system because the current Small Loan Act discourages household and industrial finance companies from operating in the State. A new Small Loan Act should allow the rapid development of financial institutions providing finance to high risk projects. The second step would be to remove the other market imperfections due to current State policy. This would allow the private capital market to respond vigorously and efficiently to meet the growing demands of households and businesses. Specifically, (1) all usury and interest rate ceilings should be removed, so that the interest rate will be free to serve its main social role as the allocator of capital, and (2) all State loan programs should be abolished so that market decisions rather than decisions of State bureaucrats determine who gets capital, where, when, and on what terms. The result of these actions will be an expansion of the private capital markets, increased scale (and thus lower per unit cost) for individual financial institutions, more competition than presently and ultimately the development of a sound, vigorous capital market which will be a key element in Alaska's future development.

In summary, then, Scenario One leads to (1) an expansion of the Alaskan economy, (2) the growth and expansion of those businesses and industries which meet consumer needs and/or produce goods for which there is an external market, (3) increased income and wealth for individual Alaskans, enabling them to make equity investments and borrow larger amounts than previously, and (4) the development and

strengthening of private capital markets in Alaska.

Scenario Two. The State attempts to use its selective credit policy (the policy of granting loans, often at subsidized rates, to selected firms, industries, and individuals) to stimulate the Alaskan economy. Oil revenues are used to to expand existing State loan programs and establish new ones. This puts money in the hands of the favored borrowers and gives an economic stimulus, with a multiplier.

However, the State's lending activity crowds in on the private sector and to a large extent just replaces loans which would have been made by the private capital market. This offsets and nearly eliminates the multiplier effect. Further, as the scale of Alaska's private financial sector shrinks, individual institutions become smaller, and some encounter financial difficulties. The larger established institutions weather the storm, but smaller and newer institutions are hard hit, and competition in lending is reduced. Per unit costs rise as the average size of institutions falls. This leads to increased charges and interest rates to borrowers.

At the same time, the selective credit policy has two undesirable effects: (1) subsidized interest rates give commercial borrowers false signals about the value of capital and so they waste capital, investing in numerous unsound projects, and (2) due to the selective nature of the loan programs economic expansion comes in the industries which the State believes should be expanded, rather than in those which pass the market test of producing output which consumers are willing to buy. Thus, there is no good reason to believe investments made in response to State policy will stand up over the years and contribute to sustained, diversified growth of the State's economy. Since there is no increase

in income there is also no increased savings to serve as a pool of funds for real investment. Further, the Small Loans Act will continue to discourage household and industrial loan companies from operating in the State, thus leaving a hole in Alaska's capital markets.

In summary, then, Senario Two leads to (1) a lesser expansion of the Alaskan economy than does Senario One, (2) long term movement of the economy in a questionable direction as expansion responds to the selective credit policy rather than to real economic forces of the market, (3) increased debt for firms and individuals who borrow from the State, and (4) contraction and weakening of the State's private capital markets.

II. Private vs. Public Allocation of Capital.

One of the key predictions of the section just completed is that state lending will crowd in on private lending, thus tending to substitute government allocation of capital for market allocation. What is the significance of this? Obviously, to persons of "capitalist" ideology this is an undesirable change, but to persons of "collectivist" ideology the change is favorable. We should, though, like to go beyond ideology, beyond mere definitional characterization of one system as good, the other as evil. What we need to do is to judge the two systems in terms of their probable effects on economic efficiency.

It is easiest to begin with the analysis of the marketplace as a system for allocating capital. This is so because for over two hundred years now we have had an economic theory of the workings of markets. In 1776 Adam Smith pointed out in The Wealth of Nations that the Invisible Hand of competition could harness the selfish actions of

individuals and produce results for the common good. That insight is as valid today as it was two hundred years ago. Further, in the time since Adam Smith's day, economists have greatly refined his basic notion, developing very specific and rigorous concepts of economic efficiency, showing in detail that competitive equilibrium will achieve efficiency, developing concepts of market failure to analyze cases where private markets will not lead to efficiency, and finally, working out theories of economic policy to give us a kit of tools to use to correct or reduce market failure. We thus know a great deal about the operation of individual markets and the market system as a whole.

When we apply the basic theory to capital markets we focus on the institutions known as financial intermediaries. These firms intermediate between savers and investors. Thus, they operate in two markets — a savings deposit market and a loan-investment market. (Some intermediaries have contractual rather than deposit relations with savers, e.g., insurance companies, pension funds.) Intermediation consists of providing financial services that satisfy demands in both markets. That is, intermediaries provide size intermediation by, for example, aggregating small deposits and making large loans. They provide maturity intermediation by taking on short term deposits and making long term loans. They provide risk intermediation by offering savers implicit participation in a relatively safe portfolio of loans and investments which individually may be relatively risky. At the same time, they reduce transactions and information costs of financial dealings, and they take advantage of economies of scale and economies of specialization.

If the markets they operate in are competitive, then competition

will force them to produce the economically efficient mix of services (output) and produce each service at its lowest possible cost. Further, the system of financial intermediaries will produce a system of equilibrium interest rates, which will serve to allocate capital throughout the economy, among the competing demanders. These interest rates will give efficient, accurate signals to capital users, and will guide capital to its highest, most productive uses. This, then, in outline, is the case for market allocation of capital.

In the real world, of course, we never achieve perfect institutions. We have already indicated that Alaska's existing capital markets have imperfections. However, methods of reducing these imperfections are well known, and can be implemented. The 1980 Depository Institutions Deregulation Act will improve capital market functioning throughout the country. State deregulation and termination of state loan programs are our suggestions for moving Alaska's capital markets even closer to the results of the competitive model.

Let us turn now to the analysis of a system of political allocation of capital. This is more difficult to analyze because we lack a complete, detailed, theory of the economics of political systems. However, there has developed in recent years a field of the economics of public choice, which provides us with some insight into matters such as the political allocation of capital.

Under a system of political allocation of capital (e.g. a system of state loan programs and state banks) basic decisions will be made through majority rule voting. That is, the legislature and, at a later stage, state bureaucrats, will vote on how much capital the whole system is to have, how much capital shall go to each funding institution,

how much to various individual demanders, what interest rates to charge, what terms and conditions to require of borrowers, and so forth.

Public choice economics has shown that majority rule is often deficient as a decision mechanism on such economic issues. One technical problem, which we need not go into here, is that majority rule decisions taken through a series of pairwise votes may lead to no unique outcome, no unique "will of the voters," but instead may vary with the arbitrary sequence of pairwise votes taken.

Of more practical importance is the problem that simple majority rule ignores the intensity of the voters preference. This is not so in marketplace "voting", where we each vote the intensity of our preference by the amount we are willing to pay for particular goods and services. But in political voting a passionate "no" counts just exactly as much as and no more than a mild "yes". The real danger in such voting is that a majority with little at stake can outvote a minority with much at stake. This means voting can lead to situations where the losers lose more than the winners gain. In such cases no possible redistribution of winnings could compensate the losers and still leave net winnings. Voting can, and in the real world frequently does, approve projects with negative net value.

The following simple example will illustrate the point. Assume five voters, A, B, C, D, and E are to vote on a proposal which would cost \$500. The costs are to be shared equally, so each would have to pay \$100 in extra taxes to finance the project if it is approved. Assume the benefits to the individuals, as they themselves assess them are \$105 each for A, B, and C, and \$50 each for D and E. A, B, and C have a mild interest in seeing the project undertaken — \$5 net value

to each, and will vote in favor of it. D and E are strongly against the project, since each stands to lose \$50, and will vote against it. The project passes, 3 to 2. The political system has voted in a project with total benefits of \$415, but total costs of \$500, for a negative net value of \$85. Or, put more bluntly, the political system has voted to waste \$85 worth of resources.

This example is very realistic and relevant. Real world political systems involve more voters, more issues, logrolling, and so forth, but this sort of outcome is always a possibility. It is not a possibility if the same decision is taken in the marketplace. The dollar votes of consumers A through E would total \$415, cost of production would be \$500, and no profit-seeking firm would willingly produce the good. This is one reason why market decision making on production of private goods is likely to be superior to political decision.

In the previous example all five voters took part in the decision. Let us modify that assumption by calling on a second insight of public choice economics. This is the notion of "rational voter ignorance." That essentially says that information necessary to make good, informed decisions on all issues, public and private, is costly, and that voter/consumers will rationally choose to remain ignorant about issues which they expect to have little impact on them. On other issues where they have a great deal at stake they will pay the price to inform themselves, and will perhaps get involved in political activity once they are informed.

Again, an example will be useful. Assume Legislative Bill A is very important to one person in a thousand who expects to gain \$1,000 if the bill passes, but only pay \$2 in extra taxes as his share of the

cost. The other 999 persons out of a thousand, let us assume, will get no benefit; from the bill, but will each have to pay \$2 in taxes. Now assume all one thousand know it cost them \$5 in time and nuisance to become informed about the effects of any bill. A person who expects to lose a trivial \$2 if the bill passes, will see little if any reason to incur a cost of \$5 to understand the issue more fully. The person expecting a net benefit of \$998, however, will be intensely interested in this bill, and will inform himself about it, at a cost of \$5.

If this person can induce his elected representative to get the bill passed at a cost to him of less than \$993, he will come out ahead. In essence, he will be the only one voting on the bill, since the other 999 citizens will ignore the issue. Replicate this situation in the constituencies of other elected representatives, and you have the strong possibility of passing a bill which costs \$2,000 in taxes for every \$1,000 in benefits generated.

This is the problem of resource misallocation due to special interests in a political system. It is especially acute in a fiscal situation like Alaska's, where the cost to the citizen is not an out-of-the-pocket cost, but instead the opportunity cost of using already collected oil revenues. Recognition of this problem has apparently led to Alaska's recent law requiring that interest rate subsidies be open and above board, rather than hidden. While this is a good law, which will undoubtedly make it more difficult for special interests to arrange subsidies, it should be noted that as long as subsidies are tied to individual prices they will continue to cause resource waste and misallocation.

A third problem with political decisions on economic matters is

that often they force all citizens to consume a standard level of government output, rather than having the option, as in the marketplace to consume more or less of a good than does the average person. I would like more national defense, you would like less, but we both are stuck with the medium amount preferred by the median voter. This is tolerable in the case of defense, which we know cannot be produced in the marketplace; we are willing to put up with this imperfection of government in order to have some defense. It is not tolerable, though, when we have as an alternative a well functioning market which will cater to individual tastes.

The state of Alaska now forces all individuals to save about 10% of "their" share of oil revenues, in the form of allocations to the Permanent Fund. In a few minutes I will develop an alternative which would have allowed individual, market-determination of the savings percentage. Can we have any doubt that there would be variety in individual savings decisions, rather than the uniformity we see today under political determination on this issue?

Another major aspect of public decision making is not related to voting per se, but rather to what happens after the voting, namely, that responsibility for actual operations is turned over to government bureaucracies. In order to understand what that implies about economic efficiency we need a theory of behavior and equilibrium of the bureaucracy, analogous to the theory of the business firm which we use in the theory of markets. Popular thought offers two theories. On the one hand, there is the "public servant" theory. This sees bureaucrats as selfless, hardworking souls, whose only objective is to achieve the public interest, subject to their limited budgets. In this

theory, bureaucracies, reflecting the motives of the bureaucrats, do work in the public interest, which includes improving the economic performance of the private sector. At the other extreme is the "evil bureaucrat" theory. This sees bureaucrats as only out for their own good, as parasites on the public purse and predicts bureaucracies will be expensive and wasteful, and will seldom if ever operate in the public interest.

The emerging economic theory of bureaucracy takes a more general view of bureaucrats and bureaucracies. First, it assumes that bureaucrats, like the rest of us, seek a variety of objectives. The public interest is probably one of those objectives. However, income and wealth, power and prestige, security, and other personal objectives are also sought. The theory notes that achievement of many of these personal objectives is positively correlated with the size of the bureau which the bureaucrat works in. Thus, the bureaucrat will have a strong incentive to take actions which will increase the size of his bureau and its budget.

Up to this point, the theory could be applied to both public and private bureaus. However, the second major building block focuses on the constraints or limits which the parent system places on the bureau and its bureaucrats. Here, public and private bureaus part company. Private business firms seek profits. This gives them a relatively simple, straightforward yardstick to use in judging their various operations, divisions, and so forth. Further, the stockholders of corporations can and do withdraw support from firms with poor profit performance and poor performance of stock's price. These mechanisms combine to keep private bureaucrats from straying too far toward substituting their own personal objectives for those of the parent

organization.

The same is not true of public bureaucracies. They are not judged on simple profitability criteria, but instead are judged in the much more flexible term of the public interest. Also, the ultimate "owners" of the public bureaucracy — the citizens, the taxpayers — cannot just consult the stock market page to find out how well their assets are being managed. In fact, they really have no simple way of monitoring bureaucratic performance. All in all, public bureaucrats are much more free than private bureaucrats to use the resources of the organization for their own ends, rather than for the owners' ends.

Specific models of public bureaucracies tend to focus on one aspect of the loose control the public has over its bureaucrats. That is in cost control. The basic problem here is that funding agencies and legislative oversight committees tend to find it nearly impossible to determine what it really costs to produce the output they want. The bureaucrats themselves are the only real experts on cost and production of their output, and they are highly skilled at concealing that information. Astute bureaucrats are thus able to inflate their budgets by claiming necessary costs are higher than they actually are.

Applied to Alaska's financial sector, these models suggest that if Alaska replaces private, profit seeking financial intermediaries with public bureaucracies, the result will be (a) high cost operations, which will be difficult to control or correct by political means, (b) evolution of operational procedures and paperwork requirements which increase staff and budget size, and place a heavy compliance burden on private borrowers, (c) evolution of lending policies which tend to increase the size of the bureau, rather than those that tend

to maximize the social return from lending.

In very brief summary, without repeating all the individual points made in this section, it appears that political allocation of capital is likely to be far less efficient than market allocation. Neither system can be perfect, but the imperfections of the market system are slight and fairly controllable, while the imperfections of the political system are major and almost inherent – or, at least, basically uncontrollable in our present state of knowledge about the economics of public choice.

III. Alternative Forms of Ownership for Alaska's Oil Revenues.

In the previous two sections I have come down hard against the idea of state loan programs. However, I actually have a great deal of sympathy for the business people and households who are asking for such programs. Some of these people desperately need business financing, others would very much like to have housing finance. It must be very frustrating to see your needs unmet when your state government has more money than it knows what to do with – especially if you believe that in a democracy all assets and property of government ultimately belong to the governed. In other words, if you believe that part of that money is yours. Under these circumstances it is quite understandable that people ask their government to at least lend them some of their own money.

From my perspective, however, their frustration is misplaced. Instead of being frustrated with interest rates and the availability of capital, they should be frustrated with the way their ownership of oil money has been defined. This is the final issue I would like to

explore: the issue of the economic implications of alternative ways of defining the ownership of Alaska's oil revenues.

Let us look first at the current situation. Alaska's citizens own the oil lands and they own the oil revenues. But, what they have is common property ownership: the citizens own the oil revenues in common, as a group, and no individual can single out any part of them as his private property. In practice though, common property can be converted to private property through political action. That is really what is taking place each legislative session; it is what is taking place here when Permanent Fund trustees decide how to use the Fund and its earnings.

Elimination of income taxes turns part of the oil revenues into the private property of those who get to keep the money they would ordinarily have paid in taxes. Appropriations for various state bureaucracies turn part of the oil revenues into the private property of bureaucrats, who can use their budgets to advance their careers and raise their future incomes. Provison of subsidies, hidden or open, to various groups in the population converts part of the oil revenues into their private property, and so on.

Obviously, the people who win the most at this game are those who are politically powerful and politically astute. Also, it should be obvious that a certain amount of the oil money is dissipated in paying for the costs of political activity, in bureaucratic waste, and in production of negative net value projects for special interest. Finally, the broad outlines of the pattern of use of oil revenues is also clear. Existing arrangements and political decision making have led to (1) a large increase in government output relative to private output,

(2) a large increase in government's power to try to control the development of the private sector through selective credit policies, subsidies and other methods and (3) a large increase in public savings, through the Permanent Fund, with these resources apparently earmarked for provision of future government output.

Is this a set of results which best reflects the true preferences of the citizen-owners of the oil revenues? Are these the results of an allocative system which is responsive to the real needs and demands of the citizens? Our previous discussion of the allocative deficiencies of the political-bureaucratic system should make you doubtful that the answer to either of these questions is yes.

In order to put the current system in perspective, let us compare it with an alternative system which could have been used to define ownership in Alaska's oil revenues, and then to allocate those revenues. The key to the current system is that individual citizens own the oil lands through their role as "owners" of the state of Alaska. The whole system and all its allocative results would have been very different if individual citizens had owned the oil lands through their rights as owners of a private corporation. Imagine that the oil lands had been owned by a private corporation which had as its stockholders all Alaskans, and only Alaskans - or whatever group of persons you want to say has ownership rights under the current system. How much control over oil wealth would that system have given individual owners, and what patterns of resource use would we have seen over the years since discovery of oil?

Prior to the discovery of oil, stock in this land owning corporation would have had some (perhaps low) market price. As soon as oil

was discovered, the market would have bid up the price of the stock. This would have immediately given individual Alaskans an increase in net worth. With each new discovery and each higher estimate of the size of the oil pool and each increase in the world price of oil, the market would have bid the stock price even higher. Thus, all the favorable events we have seen over recent years would have increased the net worth of Alaskans.

Individuals would have been free to sell the stock at any time, or hold it as they saw fit. Presumably the corporation would have periodically increased dividends, thus increasing the cash flow to those Alaskans who continued to hold stock. Also note there would have been no need for stockholders to remain in the state in order to receive their increases in wealth. This is in sharp contrast to the current system. Finally, ownership rights would have been clear-cut and legally enforceable, and there would have been no need to engage in political activity to either secure the rights or to protect them from encroachment by special interests and bureaucrats. In sum, individual Alaskans would have had far more personal control over their share of the oil wealth if it had been private property than in the current case where it is common property until converted to private property through political decisions.

The patterns of resource use flowing from individual control of oil revenues would also have been quite different than those we have seen under the current system. First, there would have been a great increase in demand for market produced goods and services, rather than the current increase in government output. Second, increased market demand would have stimulated private investment and economic expansion

in response to market forces, rather than expansion in response to government subsidies. Third, there would have been an increase in private savings, rather than in public savings. This would have increased deposits in local financial institutions. Fourth, increased investment demand would have meant increased loan demand; increased deposits would have meant increased loan capability; local financial institutions would have grown and achieved economies of scale and increased competition, rather than the opposite effect we see now due to crowding in by state loan programs. Fifth, there would have been some increased demand for public goods and services, as people would also want to consume more of these as their incomes rise, and there would have been some normal increase in state revenues through the income tax.

But an extraordinary rate of growth of government spending would have been unlikely, since to achieve that the political system would have had to pry the money out of the hands of the citizens, rather than spending it before they can get their hands on it, as is now the case. Finally, it seems very unlikely that there would have been anything at all like the Permanent Fund. The long run savings percentage in this country is less than 10% out of personal disposable income. Additional private savings out of increased private income due to oil revenue would have approximated this long run figure. It is almost inconceivable that voters would have approved an additional 25% public savings out of gross oil income, on top of their normal savings. The Permanent Fund may make a certain amount of sense to citizens in the context of current arrangements, where it is a means of removing a portion of wealth from the fate that awaits it in the imperfect, waste-

political system. But it would make very little sense in the context of the alternative system, where individuals would have direct personal control of their own oil incomes.

We have now compared the effects of two alternative ownership systems for Alaska's oil wealth. It has been shown that the current system of common property ownership has a number of serious deficiencies:

- it does not give individuals effective control over their shares of the wealth;
- it has no inherent tendency to produce economic efficiency. Rather, majority rule voting and bureaucratic administration have strong tendencies to misallocate resources and to dissipate the wealth;
- the misallocative effects of the current system are not limited to government production and output--they also spread to the private sector, reducing the efficiency of capital markets, and setting subsidized interest rates which make capital look less scarce than it really is, thus distorting production decisions throughout the economy;

A private property rights system, in contrast, would perform much better on all these counts. Can there be any question which system Alaskans would choose if given a second chance?

If the current system is so flawed, why is it in use? Has it some great merits we have overlooked? Is this system needed because it is more democratic than the alternatives? Are there other high minded justifications for the system?

As far as I can tell, none of these things has anything to do with the existence of the system. The system exists by accident. It was historical accident which put the oil lands in the hands of the state of Alaska. It was historical accident in the form of custom and tradition which led to a common property definition of ownership of the wealth from those lands.

Now, as a result of these accidents, economic affairs run backwards in Alaska. The normal pattern in our society is that income is generated in the private sector, then some portion is taxed away to run the public sector. In one sense this is true in Alaska as well, since the oil revenue comes from taxes on the oil industry. But from the point of view of the individual citizen it looks as if part of his income is now materializing in the public sector, from which point some small portion may be passed on to him, if he is lucky.

Is there any reason why Alaskans should continue to allow the game to be played this way? Does the present system have any legitimacy at all? These are questions an outsider probably should not ask, and certainly should not answer. I do hope, though, you in Alaska will ask and answer them for yourselves.

don't mess

RETAIL REVOLVING CREDIT

STATES WITHOUT STATUTORILY IMPOSED RATE CEILINGS

States which prior to 1980 did not impose ceilings:

1. Kentucky
2. New Hampshire
3. Oregon

States which removed ceilings in 1980:

4. Arizona
5. New York

States which removed ceilings in 1981:

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

States which have removed ceilings in 1982:

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

12/17/81

J. C. PENNEY Co.

STATES WITH RATES OVER 18%

1,	KENTUCKY		
2,	NEW YORK (D)	(S)	6-30-83
3,	ARIZONA (D)		
4,	NEW HAMPSHIRE		
5,	OREGON (D)		
6,	ALABAMA (S)		EXTENDED TO JUNE 1983
7,	CALIFORNIA (S)		10-1-82
8,	KANSAS (S)		7-1-82
9,	MISSISSIPPI (S)		6-30-82
10,	NEBRASKA		
11,	SOUTH CAROLINA (S)		7-30-82
12,	SOUTH DAKOTA (S)		7-1-83
13,	DELAWARE (D)		
14,	GEORGIA		
15,	IDAHO		
16,	MONTANA (D)	(S)	7-1-83
17,	NEW JERSEY (D)		
18,	NEW MEXICO (D)	(S)	7-1-83
19,	TEXAS		
20,	UTAH (D)		
21,	WYOMING		
22,	OKLAHOMA		
23,	MICHIGAN		
24,	ILLINOIS (D)		
25,	NEVADA (D)		
26,	COLORADO		
27,	OHIO (D)	(S)	1-1-85
* 28,	WISCONSIN		

D = DEREGULATION

S = SUNSET AND DATE OF EXPIRATION

*FLOATING RATE UNTIL 1984 AND THEN DEREGULATION

12 deregulated

12/17/81

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STATES WITH RATES AT 18%

- | | |
|------------------|--------------------------|
| 1. CONNECTICUT | 12. LOUISIANA |
| 2. WASHINGTON | 13. MARYLAND |
| 3. WEST VIRGINIA | 14. MASSACHUSETTS |
| 4. VIRGINIA | 15. MISSOURI |
| 5. MAINE | 16. NORTH CAROLINA |
| 6. VERMONT | 17. NORTH DAKOTA |
| 7. ALASKA | 18. RHODE ISLAND |
| 8. FLORIDA | 19. TENNESSEE |
| 9. HAWAII | 20. MINNESOTA (16%-18%) |
| 10. INDIANA | 21. DISTRICT OF COLUMBIA |
| 11. IOWA | |

STATES WITH RATES BELOW 18%

1. PENNSYLVANIA (15%)
2. ARKANSAS (10%-CONSTITUTIONAL LIMIT SET IN THE YEAR 1876)

DURING THE 1981 LEGISLATIVE SESSIONS, RETAIL CARD RATES WERE A FOCUS OF ATTENTION IN TWENTY FIVE (25) STATES. HERE IS A BREAKDOWN OF THE ACTIVITY BY STATES:

10 STATES DEREGULATED (ELIMINATED ALL CEILINGS)

DELAWARE	NEW JERSEY
ILLINOIS	NEW MEXICO
OHIO	OREGON
MONTANA	UTAH
NEVADA	WISCONSIN (1984)

8 STATES INCREASED RETAIL CREDIT CARD RATES OVER 18%

ALABAMA (21%)	IDAHO (21%)
CALIFORNIA (19.2%)	OKLAHOMA (21%)
COLORADO (21%)	TEXAS (24%) VARIABLE
GEORGIA (21%)	WYOMING (21%)

7 STATES TOOK MISCELLANEOUS ACTION ON CREDIT CARD RATES

WASHINGTON (18%)	MISSOURI (18%-ELIMINATED BREAK RATE AT \$500)
CONNECTICUT (18%)	WEST VIRGINIA (18%-ELIMINATED BREAK RATE AT \$750)
MINNESOTA (16%-18%)	MASSACHUSETTS (18%-ELIMINATED BREAK RATE AT \$500)

DISTRICT OF COLUMBIA (18%-ELIMINATED BREAK RATE AT \$500)



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THE MACNEIL-LEHRER REPORT

Usury Ceilings

In New York

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In Washington

JIM LEHRER Associate Editor
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Rep. BILL PATMAN Democrat, Texas
MEL KUSIN National Home Furnishings Association
BARBARA REID ALEXANDER Maine Bureau of Consumer
Credit Protection

Producer KENNETH WITTY
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Usury Ceilings

ROBERT MacNEIL: Good evening. Several major banks lowered their prime lending rate half a point today to 19%, an interest rate expected to become the standard for business loans across the country. At the same time, the White House urged the Federal Reserve Board to ease its tight money policies slightly. Deputy Press Secretary Larry Speakes said the administration still supported the Fed's policy of monetary restraint; it merely wanted a rollback of recent actions which had increased restraint on the money supply. On Capitol Hill concern over tight money and the high interest rates is surfacing in another way: proposed legislation to do away with state usury laws, or legal limits on interest rates. Bankers, retailers and finance companies backed the effort, claiming that low interest levels are stifling credit. Removing the ceilings, they say, will cause more credit to flow. Consumer groups and some state officials say that argument is false, and oppose the legislation on the ground that it will legalize loan-sharking. Tonight, should Washington take the cap off state interest rates? Jim?

JIM LEHRER: Robin, usury is defined as the loaning of money at an unconscionable or exorbitant rate of interest. There are 44 states with various laws prohibiting its practice. But there's no uniformity to them, either in the types of loans they cover, or when the rate becomes unconscionable or exorbitant, and thus illegal. At one extreme is Arkansas which has a cap on bank consumer loans at 10%. At the other extreme is South Carolina, where the cap is 24%. The others have ceilings somewhere in between. Congressman John J. LaFalce, Democrat of New York, wants all ceilings, all caps, in all states eliminated, and he's the sponsor of legislation in the House that would do just that. Congressman, why should state interest rate ceilings be eliminated?

Sen. JOHN LA FALCE: Well, I think there are a number of reasons. First of all, I think that the economic forces that are at work determining the market interest rates are either national or international in scope, and bear virtually no relationship to state forces. Secondly, the state laws that are on the books now are really relics of ages long past. The usury rates were set at a time when we had interest rates of perhaps 2%, and you might have a usury law prohibiting interest being charged above 12%. But because of the present volatility of our interest rates, those usury laws have, in effect, prevented the availability of credit. So, if you live in a state with a restrictive usury law, you simply can't get credit. Your down payment for a car costing \$7,000 would have to be \$7,000. Your down payment for a home costing \$100,000 would have to be \$100,000. And so, really, what—

LEHRER: And that in fact is the case in states where they have usury laws?

Rep. LA FALCE: In fact that is the case in a great many states where they have such restrictive usury laws. In the state of New York, for example, it was impossible until 1980 to obtain a residential mortgage when the market rates were about 20%, and you had a restrictive rate of around 12%. The issue is not what the interest rate should be. The market will determine that. The issue is whether or not credit will be available to the consumer who wants to make a purchase.

LEHRER: Well, what if you take the laws off? Let's assume that your bill is enacted into law, signed by the President and the whole thing. Wouldn't that mean that interest rates would just skyrocket for retail—

Rep. LA FALCE: No, because we have a classic free market competition here in the United States. There are untold numbers of lending institutions. And I think that the free market would have its chance to work, and would work. Would there be a few number of

abuses? That could well be the case. There would be very, very few, however, in my judgment. There are abuses now that are going unprosecuted because of lack of proof, but the point is, the problem that *(audio lost)* of small businesses going out of business, drying up the real estate market prior to the time that the federal government did preempt the usury ceilings on residential mortgages. The good to be accomplished would offset whatever potential harm might exist by perhaps a thousandfold.

LEHRER: Congressman, let me ask you this. Let's say the people of Arkansas — they have 10% interest rates — that the people of Arkansas want a 10% interest rate, and if they want to pay the \$7,000, or whatever it takes to live within that law, why should the federal government say, "Hey, no. You've got to charge more than that?"

Rep. LA FALCE: Well, I think we have a federal problem on our hands. I would preserve, however, the right of the individual states to exercise their sovereignty by permitting them a three-year time period to reinstate that usury law if that would be their desire. So they would have the right to effectively veto the federal preemption.

LEHRER: But three years later?

Rep. LA FALCE: No. Within that three-year period of time. They could do it immediately.

LEHRER: I see. Thank you, Robin?

MacNEIL: A number of states have recently raised or abolished their interest rate ceilings. One of them is Texas, and the experience has caused one congressman from Texas to oppose the LaFalce bill. He is freshman Democrat Bill Patman, also a member of the Banking Committee, the committee chaired for many years by his father, Wright Patman. Congressman, why do you oppose the bill?

Rep. BILL PATMAN: I think this is an important state right that should be maintained. We ought to let the states decide for themselves just what should be done about this particular issue. And I don't believe that the take-out provision is adequate, that Congressman LaFalce mentioned.

MacNEIL: What does that mean, the "take-out provision"?

Rep. PATMAN: Where a state could exempt itself from this particular lifting of the usury ceiling. Because it would have to do so before April the 1st of 1983, or in that area. We don't even meet in Texas in the legislature again until January of 1983, in regular session.

MacNEIL: What happened in the Texas experience recently, partially abolishing the interest rate ceiling, that has caused you such anxiety?

Rep. PATMAN: Well, I think it's regrettable that the Texas legislature did act to raise the interest rate ceiling, but that was its option, acting with what it assumed to be the will of the people behind it. That same legislature may in the future decide that it wants to lower that rate, and passage of this bill after the take-out provision is gone will not permit it to do so. I think it's important to realize that the market rate of interest — of interest — is not set for the small consumer loans. We in Texas have a super high rate, of up to 109%, and even beyond that, on loans of \$100 and under. We're one of only five states in the entire United States that authorized such abuses of the consumer. And if we pass this bill of the Congressman's and we don't have some exemption of a state from that particular type of loan, then you'll have that same type of abuse prevalent throughout the United States.

MacNEIL: Give me an example of the kind of abuse you're talking about.

Rep. PATMAN: Well, a \$100 loan for six months would be chargeable — cash loan — would have charges on it amounting to 109%. The lenders in Texas of those particular

loans actually flip them, or renew them every couple of months, and then charge a non-refundable acquisition charge that raises the effective yield, in some instances that we noticed when I was in the Texas Senate, to up to 149%.

MacNEIL: Mr. LaFalce says that his bill is necessary because credit has dried up in states where the usury laws keep the interest rate below a ceiling that is below current market rates. And so people just can't get credit.

Rep. PATMAN: That's a common argument of the loan companies and the finance companies. I've followed this issue for many of the years in which I served in the Texas Senate, and these finance companies will go from state to state now, and seek to jack up the rates. And then they'll go around to the other states that have not increased their rates, and say, "You're out of line." We kept those rates low in Texas, or at least lower than some of these other states, for at least 12 years. And all that time, these finance companies were promising that they would go out of business if we didn't suddenly increase their rates. They made huge profits. In fact, one loan company, we found by examining the records in Massachusetts, regarded Texas as its 11th most profitable state out of some 38 or so in which it operated, even though we kept our rates at what they called a low level.

MacNEIL: Well, do you argue, then, Congressman, that the interest rate ceilings are not preventing the availability of credit?

Rep. PATMAN: Yes. I think in general they could cause some difficulty in obtaining credit in some areas. But there doesn't seem to be a shortage of the availability of credit throughout the nation to call for an extreme measure of this type. I think that once we take off these limits that the states have imposed themselves, we'll never get them back down, and we'll have a large series of abuses, a long series of them, that will really result, I think, ultimately, in a public outcry against this type of thing.

MacNEIL: Well, thank you, Jim?

LEHRER: Among those pushing for federal elimination of state usury ceilings are small businesses which depend on consumer credit. This includes the retail furniture business, and people like Mel Kusun of Texarkana, Texas. Mr. Kusun owns three furniture stores, two in Texas, one next door in Arkansas. He's also on the board of the National Home Furnishings Association, his business's trade organization, and was to testify this week at hearings on the usury law issue — hearings that have now been postponed, you discovered once you got to Washington a while ago, right?

MEL KUSIN: Right.

LEHRER: Okay. Mr. Kusun, in your Texas stores, what interest rate do you charge now?

Mr. KUSIN: Presently we're charging 24%. That's the new limit allowed by the state of Texas under the new legislation.

LEHRER: I see. Now, what do you charge across the — across the street in Arkansas?

Mr. KUSIN: Well, our other store is 32 miles away in Hope, Arkansas. We charge 10%.

LEHRER: Well, now, what's the difference in terms of what people buy, and the success of these stores?

Mr. KUSIN: Well, there's an unbelievable difference, and it's getting more and more painful all the time. In the state of Arkansas, retail furniture prices are normally about 11% higher than those in surrounding states of Texas, and, I believe, Oklahoma.

LEHRER: So you're getting it anyhow? You just have to raise the price of the furniture? Is that it?

Mr. KUSIN: I'll explain to you. We pay—we are lucky to pay approximately prime bank interest in our area, which is about 20%. In Arkansas, with the 10% state limitation, the store has to make up the difference itself. Anybody in the furniture business in Arkansas today who deals in credit sales has to supplement the sale itself, or else raise the price on it.

LEHRER: But the people in Arkansas are still buying furniture, I guess, and doing all these other things. How does it work?

Mr. KUSIN: They're paying more money—more money for their furniture because of the interest differential. The furniture stores there—many of them—are having to decide whether to stay in business or not, because they are the ones supplementing that whole difference in what they have to pay for money, and what the state limit is. Now, our position is this on the money available for something like furniture or automobiles or that. We're in the business of providing our customers with furniture. We're not in the business of credit. We handle the credit more as a convenience, a necessary convenience. If a state could set the rate at which a business borrows money, then it would be fine to set the rate at which it loans the money. But we have, as businessmen, to go by a federal existing loan rate, which would be the bank prime rate. But yet, within states, we are limited by the state law. So unless a furniture store can supplement the difference, it just won't work. And this is why we feel that it should—the interest rate should follow the level of the market.

LEHRER: In other words, what you're saying is that if you could borrow the money yourself in Arkansas, say, for 8% or 9% or even 10%, then you wouldn't mind using—mind giving people credit at 10%.

Mr. KUSIN: Exactly.

LEHRER: I see. What would be the effect of Congressman LaFalce's bill—if it, in fact, was enacted into law—on your particular business—or the small businessman generally—that deals in consumer credit?

Mr. KUSIN: Let's say in Arkansas we could then again go to the loaning agencies, which would be banks or large firms—national firms that sell such financing. They would take all of the so-called contracts that a furniture store or any other retailer has if they had the difference to work between. If the—if the new law were to be passed that would allow a float-up on the interest to a market price, then we wouldn't—we would no longer be in the credit business in the furniture business. We would be selling furniture, as we should be.

LEHRER: I see. You do not share Congressman Patman's fear that this thing will be abused, and could lead to some serious abuses in terms of the amount of—the exorbitant rate of interest that could eventually be charged?

Mr. KUSIN: No, we don't think so at all. Our business, from a—the furniture business itself is a very competitive business. The prices of furniture will be held down by competition. If the interest rate is allowed to seek its own level, that will also become competitive. But most important, the consumer who wants to buy furniture can buy it on credit. Today in states like Arkansas, when furniture dealers have to withdraw from the market because they can't support it anymore with those high interest rates, the consumer is the one who really suffers, either through high prices, or through the, really, the almost lack of availability within a market place of furniture.

LEHRER: I see. Thank you, Mr. Kusin. Robin?

MacNEIL: A number of consumer organizations, led by the Consumer Federation of America, oppose the usury legislation. Another witness who was in Washington to testify, is Barbara Reid Alexander, superintendent of the Maine Bureau of Consumer Credit Protection, a state agency. Ms. Alexander, why do you oppose these bills? I should say,

there is also a bill in the Senate, correct?

BARBARA R. ALEXANDER: There is. Many state regulators and people associated with the state agencies that control consumer credit around the country oppose these bills because our state laws are the product of a very delicate balancing between the decision as to what interest rate should be mandated, and what consumer protections should be garnered in return for high interest rates. Consumer protections are linked to high rates in most states. They certainly are in Maine. If Congress enacts these bills, we will find that many important consumer protections, that our state legislatures thought were crucial in the regulation of credit, will be destroyed.

MacNEIL: Like what?

Ms. ALEXANDER: Well, for the privilege of higher rates in many states, we regulate substantive contract terms, and limit late fees, attorneys' fees, closing costs, default charges. We require a rebate of interest when a consumer prepays a contract early. We prohibit prepayment penalties. We limit the amount that the creditor can increase a contract when the consumer has troubles and comes in to refinance that contract. All of those protections are gone when we enact HR-2501, which is sponsored by Congressman LaFalce.

MacNEIL: What do you say to a dealer like Mr. Kusin in the retail business, who said that if you don't allow the interest rates to rise to the market level that dealers are going to have to get it another way, simply by putting supplemental prices on their product?

Ms. ALEXANDER: It's interesting that we find ourselves talking about Arkansas in this program. They are the state that is used to push this bill — and has been used to push bills like this for some years, now. The state of Arkansas had a statewide referendum on their 10% usury ceiling, which is in their constitution. The people in that state went to vote, and overwhelmingly defeated an attempt to increase that 10% limitation. I am not going to defend the 10% limitation of Arkansas. That's Arkansas' problem.

MacNEIL: What is the limit in Maine?

Ms. ALEXANDER: Generally 18%, with higher rates allowed for smaller transactions.

MacNEIL: And what effect is that having on consumer credit — on the availability of consumer credit?

Ms. ALEXANDER: I think that most credit is available in Maine at the maximum rates right now, and I think the volume of credit is down, and I think it's because people will not pay those high rates. I think the credit availability argument is really a non-argument. People are not going out to buy cars right now because the rates are too high, and they don't want to buy a car at 18%, 19% and 20% interest rates. The credit in this country is growing nationally at a rate of 7% to 8%. That contrasts with the rate of increase for 1980 — all of 1980 — of only 1%.

MacNEIL: You mean, credit availability — credit is growing faster this year than it was last year?

Ms. ALEXANDER: That's correct, sir.

MacNEIL: Even with the high interest rates?

Ms. ALEXANDER: And that's because most all states have made changes in their interest rate ceilings. Seven to 10 states have totally deregulated interest rates, except for a criminal usury statute that prevent loan-sharking, bills and legislation which would also be totally obliterated by HR-2501. Every time we increase rates nationally 1% in this country, we're costing consumers \$3 billion. That's money that doesn't go into economic growth

and development or capital expenditures to expand our economy. That's money that goes into retiring debt service, which is really not what I think Congress should be about at the present time.

MacNEIL: Well, thank you. Jim?

LEHRER: Congressman?

Rep. LA FALCE: Yes, let me make a number of points. First of all, I think that everyone here, and probably everyone in Washington, is against high interest rates, and we want to do all that we possibly can to bring those interest rates down. Secondly, I think there is true—

LEHRER: Yeah, but to her point. Her point, basically, is that it's high interest rates — period — that are causing people not to buy cars and furniture from Mr. Kusun, and all the usury laws don't have a thing in the world to do with it.

Rep. LA FALCE: Well, it's true that high interest rates are causing that, and I have been criticizing high interest rates and calling for actions to cope with high interest rates. But it is also true that regardless of the high interest rates we have right now, if the market interest rates are, say, double the usury ceiling, you're going to have a total closure of the window on credit. And that has happened historically, and that still is happening now for individuals who do believe that they can afford the going interest rates.

LEHRER: Do you agree with that, Congressman Patman?

Rep. PATMAN: No, I certainly don't. The market does not set the small loan rates. The small loan rates are set up to the maximum that the lender can charge. Now, I don't know what's going to happen when this happens — when we pass this bill, if it passes. Mel mentioned going up to 24%. Obviously he did that as soon as he had the opportunity.

LEHRER: What was it before it was — you said that it's now, in Texas law — 24% is what you're now allowed. What was it before the law?

Mr. KUSIN: Eighteen.

LEHRER: Eighteen. So you went up 6% overnight?

Mr. KUSIN: Yes. Well, we do financing through General Electric Credit Corporation and the banks and the — everybody in the state followed the law as it allowed. It eased the pinch, but not completely. Now, that's an interesting thing, because we still — when we sell our accounts receivable through financing companies, we still have to pay a discount. With that 24% —

LEHRER: Let me make sure we explain what that means. You — somebody walks into your furniture store, they buy furniture, you give them credit. You take that paper and then you sell it to a finance company. All right, now, what do you sell it to them? Now, if you charged the customer 24%, what do you sell it to the finance company for?

Mr. KUSIN: Today in Texas I believe the approximate discount that the store has to pay — the store has to pay — is about 4%.

Rep. LA FALCE: So that store is either going to take a loss or it's going to pass that difference on to the customer in some camouflaged way, rather than direct, rather than openly. Another point —

Rep. PATMAN: But the point is, though, that these loan companies always charge the maximum, whether it's 3 1/4%, as it is under the Uniform Consumer Credit Code in some states, or some — or a higher amount, often 45%. It's gotten grossly out of proportion.

LEHRER: Ms. Alexander, let me ask you. If you— if the usury law in Maine suddenly went away tomorrow— it's now 18%, right?

Ms. ALEXANDER: Generally, yes.

LEHRER: What do you think, if the market were allowed to work its magic, where do you think it would go?

Ms. ALEXANDER: I don't know what it would do in Maine, but we know something about what's happening in some of the states that have deregulated. In the state of New York, interest rates increased dramatically. In the state of Arizona—

Rep. LA FALCE: Well, you know, I am from New York, and I know a little bit about that. And she says that interest rates increased dramatically. The fact of the matter is, the market interest rates were already considerably higher than the usury ceiling. So if the usury ceiling is 12, and the market interest rates are 18, and you're able under a new law to charge the market interest rates, of course there's going to be a dramatic increase— dramatic increase. But it wasn't above and beyond what the market was charging.

LEHRER: Well, what's the market in— Yeah, go ahead.

Ms. ALEXANDER: I wasn't characterizing the increase. You asked what happened. That is what happened.

LEHRER: Right.

Ms. ALEXANDER: In the state of Arizona, we find that used car loans are going in the range of 30% to 50%, that people who live near or in the Indian reservations out there, who do not— are not able to shop for credit because the credit availability is not there, are paying 50% interest rates to buy a used car because they have a captive market, and the used car dealers in the area have set a rate at extraordinarily high rates.

LEHRER: Make sure we understand, now. Arizona was a state that had a usury law, had a cap, removed it— deregulated— and that's what you're— what about that, Congressman?

Rep. LA FALCE: Well, first of all, she's complaining about a 30% interest rate, whereas the state of Maine, for small loans, has a 30% usury ceiling. I have no doubt that an individual could always point to a specific instance— a specific example— and say here is an example of abuse. But I can also point to 99% of the cases where I think the classic competition that exists within our free market would work, and I could also point out literally hundreds of thousands of small businesses that have failed, in large part due to restrictive usury laws that are on the books.

Ms. ALEXANDER: I don't know where the Congressman's getting those statistics. Ten thousand small businesses close every year, and it doesn't have anything to do with interest rates they're able to charge consumers. It has to do with rates that are imposed on them by banks so that they can operate. It's the prime rate of 19%, 20% and 21% we were talking about before. But let me get back to— the issue here is not whether or not I can sit here and defend any one state's scheme of things. The point is that the state of Maine has a scheme; it's very happy with that scheme. It's reviewed every year in our legislature. It forms a delicate balance between credit availability, which we want to have available, generally, and consumer protections. And if the legislature and the people in the state of Maine have decided that that approach which we have is the one for Maine, I question whether it's proper for Congress to step in and erase that balance without really understanding the impact of it.

Rep. LA FALCE: If I could address myself to that issue, first of all, a great many state

legislators in states that have the restrictive usury ceilings, have said. "We hope Congress will bail us out because this is a tough political issue. You can't sell it back home. You do the dirty work." Secondly, we do give the states the right to revoke the federal pre-emption. Third, the Congress has the power, and I think the obligation, to act to effectuate the interstate commerce laws. If this isn't interstate commerce, I don't know what is. In a great many instances, the Congress has already preempted usury ceilings. We've done it for business loans; we've done it for agricultural loans; we've done it for residential loans, etc. In preempting usury ceilings on those type of loans, and permitting credit, therefore, to flow to those type of loans, we have engaged in credit allocation, and we've denied that type of credit, therefore, to the consumer and to the small businesses.

LEHRER: Congressman Patman?

Rep. PATMAN: It's legal for the Congress to do this; but it is wrong. We should never have preempted the states' rights—the states' right to operate in these other areas, and I really believe that we're going to be getting in this—in legalizing loan-sharking throughout the United States by passing this bill. That will be—

LEHRER: How does it legalize loan-sharking?

Rep. PATMAN: Well, loan-sharking is the charging of a rate that is illegal. Right now, or at least when I left the legislature, loaning money over 18% in certain transactions was loan-sharking. Loaning money at 25%, in the other states, was loan-sharking. If we're going to be taking off the lid entirely, and nothing will be loan-sharking. We'll be like legalizing burglaries, and permitting them and licensing them.

LEHRER: But if you have the market rate up at 20%, how could that be loan-sharking? I mean if it's costing that much as a result of the economy, and the prime rate is at 20%—

Rep. PATMAN: Well, the amount that's charged fluctuates from state to state, perhaps. It's something that every state legislature can examine carefully. Sure, it's a tough issue. But the people ought to have a right to talk to folks on the local level about these matters.

LEHRER: We just have a few seconds. Speaking of the local level, back to you, Mr. Kusun. Do you think that the people in Arkansas do not have—should not have the right to do what they want to do in their state, right?

Mr. KUSIN: I believe they should certainly have the right, but the merchants from whom they buy the goods cannot operate under a system where they have to supplement by fully 10% what the interest is.

LEHRER: Thank you, Robin?

MacNEIL: Yes, that's the end of our time this evening. Thank you all for joining us in Washington. Good night, Jim.

LEHRER: Good night, Robin.

MacNEIL: That's all for tonight. We will be back tomorrow night. I'm Robert MacNeil. Good night.

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USURY LAW

FACT SHEET

WHAT IS USURY?

Usury is a law which limits the rate of interest a lender can charge consumers for borrowing money.

HOW DO MISSOURI BANKS COMPARE IN THE LOAN MARKETPLACE WITH BANKS IN UNREGULATED STATES?

Missouri banks lend significantly less to consumers than banks in unregulated states. As a matter of fact, banks in Missouri lend about 20 percent less to consumers than banks in those unregulated states. There are 15 states which have eliminated loan rate ceilings.

HOW MANY DIFFERENT USURY CEILINGS ARE THERE IN MISSOURI?

We have 22 usury ceilings in Missouri which affect the consumer. They include:

- 1) Small Loan Act – Installment lending
- 2) Second Mortgage Act – Second mortgages on homes
- 3) Retail Credit Sales Act – Retailer financing
- 4) Motor Vehicle Time Sales Act – Financing by car dealers
- 5) General Usury – Regulates anything that does not fit into the above four categories

IF THE USURY LAW CEILINGS ARE TOO RESTRICTIVE, WHAT WILL HAPPEN?

- 1) Some consumers will find it more difficult or impossible to secure financing.
- 2) Lenders will be encouraged to find unregulated areas to finance. For example, most banks will loan money to business because business loans are unregulated by rate.

WHO BENEFITS FROM THE USURY LIMIT?

The well-to-do consumers, those with high incomes and a long record of credit worthiness are financed. People with lower incomes are not financed and are, subsequently, hurt by low usury limits.

DOES THE USURY CEILING HAVE AN EFFECT ON THE PRICE OF GOODS?

It sure does. If the cost of money a retailer borrows is higher than the interest he can charge customers who finance through him, then the retailer has to increase the price of goods.

IF THE USURY LAW IS DEREGULATED, WHAT WOULD KEEP INTEREST RATES FROM GOING THROUGH THE ROOF?

First of all, the lenders will be in a competitive situation. Financial institutions want to loan money and will use innovative approaches to get the consumer's business.

Secondly, the rates of interest keep pace with inflation and the general cost of money. If the cost of money to the bank goes up, so will the interest rate charged to the consumer. Likewise, if the rate declines, so will the rate banks charge.

There are no national ceilings on home loans, yet Missouri's interest rates remain below the national average. That says something for competition among thousands of Missouri lenders.

WHY IS IT IMPORTANT TO DEREGULATE MISSOURI'S USURY LAW OR ELIMINATE IT ALTOGETHER?

It is important to raise the limit on usury or abolish the law altogether because it restricts a lender's ability to loan money to high credit risk consumers.

The banking marketplace should be competitive. For example, a price ceiling is not set on retail goods, yet the marketplace sets competitive prices on those goods. The same should apply to lenders.

There are over 1200 bank locations, 370 savings and loan branches, thousands of retail outlets, 38 mortgage banking companies, 90 agricultural credit cooperatives, and a number of federally subsidized loan programs.

WHAT DO LENDERS DO WHEN THE USURY CEILING LIMITS THEIR ABILITY TO LOAN MONEY?

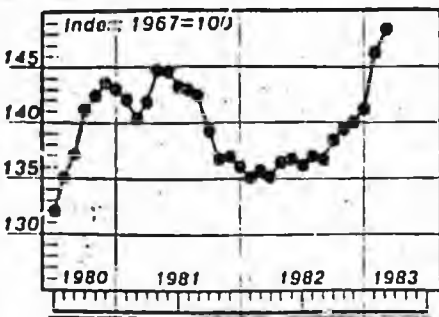
Ceilings have encouraged lenders to use such credit rationing devices as higher down payments, shorter maturities, and higher fees for related non-credit services which increase the effective interest rate. They have curtailed the amount of credit available to lower income and higher risk borrowers, harming primarily those individuals whom the ceilings are intended to benefit.

HAS THE MISSOURI LEGISLATURE EVER INCREASED THE USURY CEILING?

Yes. Each time the cost of money rises, the Legislature has been asked to raise the usury ceiling. The last time, 1979, raised the general usury ceiling from a fixed 10 percent to a quarterly floating rate tied to long-term government bonds.

MISSOURI BANKERS ASSOCIATION
P O. Box 596
JEFFERSON CITY, MISSOURI 65102
314/636-8151

Leading Indicators



COMPOSITE of key indicators of future economic activity rose in February to 148.3% of the 1967 average from a revised 146.2% in January, the Commerce Department reports. (See story on page 3.)

John Waters' Films Have Low Budgets, Large Leading Lady

'Master of Bad Taste' Repels Critics but Reaps Profit—Rooting for Captain Hook

By TRISH HALL

Staff Reporter of THE WALL STREET JOURNAL

"One of the most vile, stupid and repulsive films ever made," said Variety, the show-business bible, in its 1974 review of John Waters' "Pink Flamingos."

To Mr. Waters, the film's screenwriter and director, that was praise of the highest order. After all, he was telling the story of two families contesting for the title of "The Filthiest People Alive." What's more, the nature of Variety's superlatives doubtless helped the film to become a staple on college campuses and at midnight movie houses. "Pink Flamingos" may not have played well in Peoria, but today it is in its eighth year at the same Los Angeles theater.

Mr. Waters' five other feature-length movies—"Mondo Trasho," "Multiple Maniacs," "Female Trouble," "Desperate Living," and "Polyester"—have been variously called weird, depraved, violent and sacrilegious. "I think they're trash," says critic Rex Reed of the Waters oeuvre. "They have no redeeming social value whatsoever. They represent the final insult to sane and rational society—the ultimate nose thumb."

That they do; and therein lies their appeal to a steadily growing audience. For if the 36-year-old Mr. Waters is still unknown to most U.S. moviegoers, his films are nonetheless profitable—something of a feat in an industry plagued by expensive duds. For example, "Polyester," his most recent movie, cost \$300,000 to make and, since its 1981 release, has grossed more than \$2 million at the box office.

The Young and the Jaded

Mr. Waters' fans—who tend to be young, rebellious and, some would say, a bit jaded—regard him as America's indisputable master of bad taste. To Mr. Waters, that is as it should be, as long as they also find him amusing. "I want people to laugh and be repulsed at the same time," he says. "If you can make somebody getting their arms cut off funny, I'm all for it."

He is also all for sets that are deliberately, although affectionately, tacky ("God Bless Our Mobile Home" signs and leopard-skin wallpaper); plot lines that are tortuous; and characters that are for the most part unattractive, if not downright grotesque. His leading lady is nearly always played by Divine, a



Business Bulletin

A Special Background Report On Trends in Industry And Finance

DIVIDEND GROWTH will probably slow more before turning up.

Corporations' dividend outlays will rise less than 7% this year, Merrill Lynch's chief economist predicts; a rise of under 4% is seen by a Data Resources economist. Last year, according to the Commerce Department, the recession cut the growth in dividend outlays to 8%, from 12% in 1981. By Standard & Poor's count, only 1,590 companies—36% fewer than in 1981—increased their dividend rates last year; but 573 companies—90% more than in 1981—reduced or omitted payments.

Although the recession is believed over, economists expect most companies to rein in dividend growth so that financial reserves can recover from recent profit declines. "Companies will want to improve their balance sheets," says Morris Cohen, an economic consultant in Hackensack, N.J. Standard & Poor's says the portion of corporate earnings paid out as dividends has soared to about 55%, from 43% a year ago. Many corporate managers will aim to reduce that ratio well below 50% again, analysts suggest.

The strength of the stock market possibly removes one rationale for increasing dividends: to lift stock prices.

PLEASURE TRAVEL this spring will be stronger than last year.

Bookings are 20% to 30% ahead of a year ago for All Seasons Travel, Charlotte, N.C. South Dayton (Ohio) Travel Agency says business is up 10%. And Terry Beatty, owner of Regency Travel in Memphis, says business is "staggeringly booming—we can hardly take it all." Consumer parsimony appears to be waning as the economy strengthens. Says an American Express travel-agency executive in New York: "People seem to feel now that a vacation is no longer a luxury—it's a necessity."

The robust U.S. dollar prompts more people to travel abroad. Mexico, whose peso is especially weak, attracts the most bookings at Liberty Travel in New York. "Everyone thinks the country is on sale," a Liberty marketer says. World Travel Center, Cleveland, reports strong bookings for travel in the South Pacific and China. Bookings for Europe—especially France, Italy and Greece—rise at JB's World, New York.

BANK-TO-BANK NETWORKS spring up to link automated tellers.

Plus System Inc., Denver, will connect the banking machines of 35 institutions throughout the U.S., including Bank of America in California and Chase Manhattan Bank in New York. The system expects to start up in May with 10,000 machines; plastic cards issued by each member bank will activate every member's machines. Cirrus System, Chicago, founded by 13 banks, started up in January when a Detroit bank's customer used a cash machine in Chula Vista, Calif. At least seven such nationwide networks of automated tellers are in operation or pending, says the Electronic Funds Transfer Association.

Access to various institutions' machines makes banking much easier for travelers. Such access "is what customers want—it enhances the value of the card," says an officer of First American Bank, Kalamazoo, Mich. Thus, the bank has joined a regional network called Magic Line, which connects 1,300 machines in Michigan and itself belongs to Nationet, a national network.

Eventually, all banking machines might be accessible to every customer, as telephone booths already are.

BEING BEARISH proves fatal for the Exchange Insiders Report a stock market

Handling Money

Some Unlikely Places Benefit From the Boom In Financial Services

Sioux Falls Becomes a Center For Credit Cards; Banks Head for Delaware Cities

New York City Fights Back

By RANDALL SMITH

Staff Reporter of THE WALL STREET JOURNAL

SIoux FALLS, S.D.—This windblown prairie city (population 81,000) is 1,376 miles from New York, 569 miles from Chicago and 1,785 miles from Los Angeles. The middle of nowhere, some might think. But all of a sudden it has become a banking center of sorts, and a lot of local people's lives have changed as a result.

Melissa May, whose husband attends divinity school here, was hard put to find temporary jobs as a waitress or sales clerk at the minimum wage of \$3.35 an hour. Then a year ago she began work at Citibank N.A.'s new credit-card operations center here, fielding toll-free telephone inquiries from MasterCard holders all over the country. She got a raise last fall and now makes more than \$5 an hour, plus health insurance and other benefits. "The word around is that this is a good place to work," she says.

Greg Hanson, 21, also is working at a job he never dreamed existed a few years ago. His two brothers are employed at the local John Morrell & Co. meat-packing plant, one of the nation's largest slaughterhouses and still the city's largest employer, with 2,800 jobs. But Morrell has done little hiring since Greg got out of high school a few years ago. For a while, he worked repairing trucks but had been laid off before he started working at Citibank in August 1981. At first, he operated machines that insert bills and promotional fliers into 200,000 envelopes daily. He has since been promoted to the post of clerk in charge of the vault containing blank, unissued credit cards.

Providing Jobs

More than 40% of the employees at the credit-card center were unemployed before they came to work at the long, slab-shaped modernistic building on the outskirts of town, near a truck stop and a mobile-home dealership. There are currently about 800 full-timers on the job, and Citibank eventually plans to have a work force of 1,500.

Sioux Falls is prospering as a result. Its December unemployment rate was 5.4%, the sixth lowest in the nation among 221 metropolitan areas over 50,000 population, and Mayor Rick Knobe thinks the rate would have been two or three percentage points higher without the Citibank operation. John Belmore, manager of the local Dayton's department store, attributes two years of healthy sales increases to the bank's presence.

What's happening in Sioux Falls has been happening here and there all over the economic landscape as the nation's financial services companies have reached out to hire more people to help with their burgeoning money-handling and paper-work chores.

"Financial-services employment has been among the fastest-growing of all U.S. industries and continues to be an extraordinarily dynamic sector," says Irving Levinson, director of economic studies at the Hudson Institute, a Westchester, N.Y., think tank.

More Bankers Than Steelworkers

From 1973 to 1982, according to the Bureau of Labor Statistics, the number of jobs in finance, insurance and real estate rose 32% to 5.4 million, while jobs in metal work-

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Handling Money: Some Unlikely Places Benefit From the Continuing Boom in Financial Services

Continued From First Page

of Citibank, said it plans to buy a small bank in another South Dakota town, Rapid City. By using a new state law allowing state-chartered banks to sell insurance, Citibank apparently aims to skirt a federal law barring national banks from the insurance business.

Wherever it's possible, the emerging financial supermarkets such as Citibank, Merrill Lynch, BankAmerica Corp. and American Express Co. are targeting low-cost Sun Belt areas for future growth, much as industrial companies did decades ago when they moved from the Northeast to the South. They seek places where labor, land, electricity and taxes are cheap. And they seek some of the older cities in the East and Midwest where unions, high unemployment and crumbling old roads and bridges pose the threat of higher tax costs later.

Advances in telecommunications have allowed clerical operations to be moved almost anywhere. When American Express decided to move its traveler's check operations out of New York, it screened several cities for cost advantages before finally choosing Salt Lake City. The other finalists: San Antonio and Austin, Texas; Little Rock, Ark.; Nashville and Memphis, Tenn., and Jacksonville, Fla.

Citicorp actually owns its own satellite telecommunications system with four earth-receiving stations (including one here at Sioux Falls).

Unions have had little success organizing a growing army of financial-service workers. "It's the last frontier, and we aren't doing too well," says AFL-CIO spokesman Rex Hardesty. He observes that most of the available jobs wouldn't be too attractive as placement jobs for laid-off production-line workers anyway. Clerks in financial services typically earn between \$10,400 and \$18,100 a year, while comparable production-line wages average \$22,000 for auto workers, \$23,000 for steelworkers and \$21,000 in trucking, Hardesty says.

Sioux Falls attracted Citibank during a 30-day dispute between bankers and New York state over the 12% New York interest-rate ceiling. South Dakota Gov. William Janklow asked his state legislature to remove most interest-rate ceilings entirely, and then it invited the New York-based bank into the state. New York later lifted its ceiling, but then it was too late.

The operation moved here from Huntington, N.Y., a New York City suburb. Although higher-level people were relocated here from Huntington, many of the better jobs have also been won by local people, including Mayor Knobe's wife, Beverly. Kamie Ward, wife of a local judge, supervises about 100 customer-service agents. Robert Mazur, president of transaction services, came from the Federal Reserve Bank in Omaha, Neb. There he ran check processing; at Citibank he gets the checks to the Fed and paid quickly as possible—usually within 36 hours. This is a vital part of a business where a day's "float" on five million charge

accounts means thousands of dollars in interest.

Delaware won 1,800 new bank jobs by not only abolishing interest ceilings but also offering a sliding-scale tax on bank profits that starts at 8.7% for profits up to \$20 million and drops to 2.7% for profits over \$30 million. Among the dozen new bank offices that were opened in Wilmington as a result are those of New York's five biggest banking institutions. Thanks partly to such moves, state development director Nathan Hayward III notes that employment grew 2.6% in Delaware in 1982, while falling 1.6% nationally. The state's unemployment rate, now 8.7%, sank below the national average last year for the first time since 1973.

In New York City, the growth of all types of financial services has helped resuscitate the local economy since its brush with disaster in 1975 when the city was suffering from a mass exodus both of major-company headquarters and factories. Now the fear is that financial-service jobs, particularly clerical "back-office" functions, also eventually will flee the high-cost urban environment to the suburbs and beyond.

Foreign Banks Arrive

So far, though, while some of the major institutions have dispatched back-office work to nearby Long Island and New Jersey, total bank employment is still rising in the city. It increased 29% in the years 1977-82, while total employment rose only 5% and manufacturing jobs declined 15%. In 1982, jobs in financial services there exceeded jobs in manufacturing for the first time. Scores of out-of-town and foreign banks have taken space in Manhattan, in anticipation of deregulated interstate banking and to tap the Eurodollar market in the new international banking zone that was set up last year.

Banks occupy about 15% of all Manhattan office space, up from about 10% as recently as 1979, estimates Stephen Siegel, president of the office leasing firm of Cushman & Wakefield Inc. Institutions that have completed, or are planning moves into new or expanded quarters include Manufacturers Hanover Corp., Chemical New York Corp., J.P. Morgan & Co., Republic New York Corp., Irving Bank Corp., BankAmerica, Continental Illinois Corp., Mellon National Corp., National Westminster Bank and Lloyds Bank. "The New York market would be seriously overbuilt without the financial institutions," says Mr. Siegel.

In addition, investment-banker Goldman, Sachs & Co. and Continental Corp., an insurance company, are finishing separate \$100 million-plus headquarters in lower Manhattan, and American Express is planning what may be the city's most expensive building ever at about \$450 million.

Nevertheless, Daniel Costello, who left American Express a year ago to head BankAmerica's real-estate department, believes that, aside from political and social issues, when it comes to costs, "it's cheaper to locate back rooms outside cities." He is already setting up a \$100 million operations

center for the bank at Concord, Calif., about an hour's drive from BankAmerica's headquarters city of San Francisco.

Suburban Campuses

Other companies, such as Merrill Lynch and Prudential, are trying to decentralize their computer operations—from one big mainframe to smaller machines in several "regional operations centers" around the country, closer to branch offices. Merrill Lynch, which has a mammoth Manhattan mainframe, in the future will have most "of our growth outside Manhattan," according to Joseph Grano, the investment firm's branch service manager. Merrill Lynch is also preparing to move 1,000 people to a campus-style executive training center in Princeton, N.J., and Citibank has built a conference center in Westchester County, north of New York City.

"You can talk about bucolic environments, but cows can't work the computers," protests Kenneth Lipper, New York City's new deputy mayor for finance and economic development. Nevertheless, Mr. Lipper, who was formerly an official of the Wall Street firm of Salomon Brothers, believes that the city's major financial-service firms face critical location decisions in the next five years and that New York must somehow "anchor" both the headquarters and back offices of these firms.

To help persuade Equitable Life Assur-

ance Society of the U.S. to leave its Manhattan headquarters, the "unfairly identified" some insurance rules and is lobbying to change them, Mr. Lipper says that groups from banks, insurance firms, as well as insurance companies, are planning to draw up their own rules on those matters which would continue to be the financial world.

Partially offsetting the financial-services employment wave of mergers of major companies and the financial problems banks and savings banks that have resulted in liquidations in recent years, the two insurance titans, General Corp. and INA Corp., alone have triggered 2,000

Moreover, Mr. Leveson says the big drop in the inflation rate threatens some future growth, and he predicts that the rate will slow. There are signs and the new pressures of inflation already had some effect on the market.

However, Norman Robins, an economist at Mellon Bank, says that even greater gains in the financial services industry will come from more financial supermarketization increasingly blurring the lines between banking, securities, insurance and other businesses.

Already, American Telephone & Telegraph Co., free to compete after its divestiture of regional building a stock-and-bond

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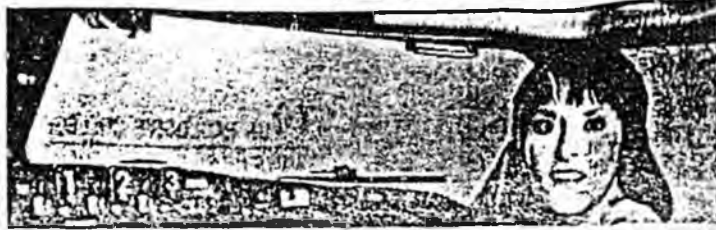
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OPEN TO ALL ADULTS

Old San Francisco
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out-of-date prices.



Profit Services

at Concord, Calif., about BankAmerica's headquarters in San Francisco.

uses

s, such as Merrill Lynch are trying to decentralize operations—from one big office in several cities to branch offices around the country. Merrill Lynch's mammoth Manhattan office will have most "of its business" in Manhattan," according to the investment firm's manager. Merrill Lynch is moving 1,000 people to a new office building in Westchester County, N.Y.

about bucolic environment "won't work the computers," says Lipper. New York City's office for finance and economic development. Mr. Lipper, who is chief of the Wall Street Journal's financial services department, believes that the financial-service firms face tough decisions in the next few years. New York must somehow move its headquarters and back offices to the suburbs. Equitable Life Assur-

ance Society of the U.S. to build a new Manhattan headquarters, the city recently "voluntarily identified" some "archaic" state insurance rules and is lobbying state officials to change them, Mr. Lipper says. He adds that groups from banking and securities firms, as well as insurance companies, are planning to draw up their own wish lists "of those matters which would make New York continue to be the financial capital of the world."

Partially offsetting the steady rise in financial-services employment has been the wave of mergers of major insurance companies and the financial problems of the savings banks and savings-and-loan institutions that have resulted in hundreds of forced consolidations in recent years. The melding of the two insurance titans Connecticut General Corp. and INA Corp. into Cigna Corp. alone has triggered 2,000 layoffs.

Moreover, Mr. Leveson of the Hudson Institute says the big drop in the current inflation rate threatens some of the industry's future growth, and he predicts that growth will slow. There are signs that automation and the new pressures of deregulation have already had some effect on bank employment.

However, Norman Robertson, chief economist at Mellon Bank in Pittsburgh, sees even greater gains in the future for the financial services industry with the formation of more financial supermarkets, as deregulation increasingly blurs the barriers between banking, securities trading, real estate and other businesses.

Already, American Telephone & Telegraph Co., free to compete more widely under its divestiture of regional companies, is building a stock-and-bond operation near

Jacksonville, Fla., ostensibly to serve its shareholders and those of seven regional holding companies that will be spun off. AT&T won't confirm or deny it, but bankers in New York see the five-building campus-like facility as possible future competition for the stock-transfer services that the banks now provide to non-AT&T companies.

Mellon Bank's Mr. Robertson notes that even some of the smokestack industrial firms are diversifying into financial services—including American Can Co., Armco Inc., Deere & Co. and National Steel Corp. "I don't think we're near total saturation point yet," he says.

Ford Holders to Vote On Profit Sharing Plan

By a WALL STREET JOURNAL Staff Reporter
DETROIT—Ford Motor Co. will ask its shareholders to approve a profit-sharing plan for white-collar employees who aren't eligible under the company's executive bonus plan.

In proxy material for the meeting, scheduled for May 12, Ford said the plan is similar to the one adopted for blue-collar employees under the contract it negotiated with the United Auto Workers union last year. The auto maker said that, as of Dec. 31, it had 52,129 employees who would qualify to participate in the new profit-sharing plan.

"This follows our usual practice of passing on benefits to our white-collar workforce that we have promised to hourly employees," a Ford spokesman said.

Canada Budget Speech Is Slated for April 19

By a WALL STREET JOURNAL Staff Reporter
OTTAWA—The Canadian government set a date of April 19 for its formal budget speech, the minister of finance, Marc Lalonde, said yesterday.

Canadian budget speeches generally contain a wide range of taxation and expenditure measures, as well as forecasts of the nation's expected economic performance. Their contents remain a carefully guarded secret until the speech is given.

Many of the tax measures take effect immediately under executive authority. Parliamentary approval of the measures is also certain, because Prime Minister Pierre Trudeau's party holds a majority of the seats in Parliament.

Mr. Lalonde said his budget measure will be designed "to strengthen the recovery that is taking place." His first preoccupation, he said, will be the creation of jobs in private industry, which he said must be "the pump primer" of economic recovery.

Mr. Lalonde's remarks appear to sustain his repeated rejection of calls for major government job-creation programs. However, he indicated that the stimulative budget measures will widen a budgetary deficit currently estimated at \$30 billion (Canada dollar) for the year ending March 31, 1984. The deficit for the fiscal year ending today is estimated at \$27.2 billion.

IF YOU'RE ON THE PHONE A LOT, THE CALLING CARD HELPS A LOT.



In reference to this memo, Ed Watkins said to see the Wall Street Journal, Thursday, March 31 edition, front page, far right column which relates to this memo.

Mark Fox

MEMORANDUM

State of Alaska

TO: Legislative Budget Review Committee
Office of the Governor

DATE: April 1, 1983

FILE NO:

THRU: Richard A. Lyon, Commissioner
Department of Commerce & Economic
Development

TELEPHONE NO:

FROM: Willis F. Kirkpatrick, Director
Division of Banking & Securities
Willis

SUBJECT: Summary/HB 246
Deregulation of (Loan)
Interest Rates

Recommendation

It is recommended that the Administration endorse the bill. If passed HB 246 would effectively do away with any State limitation on the interest rates charged on loans. This recommendation is based partly upon the following.

1. Inflation and high interest rate squeezes the lender and the borrower in the supply of credit. No lender can lend money out at a rate below his cost of the monies to lend.
2. There is little or no evidence of abuse in financial institutions' policies as money is consistently lent out lower than usury rates.
3. Ceiling rates too low can dry up credit. This was noted in the early 1970's when the Legislature failed to set usury rate therefore limiting housing loans to the State rate of 8%.
4. Rates should be determined by
 - a. cost of money to lend
 - b. risk involved in lending
 - c. competition (supply & demand).

In 1980 as the prime rate grew past 20%, 42 states lifted or eliminated their usury ceilings. Thirteen states have essentially eliminated altogether the interest rates that banks can charge on consumer loans. I have not been able to, at this time, identify any state that has repealed its usury provisions taking any action on consumer abuse to reinstate them.

The Administrations of both South Dakota and Delaware have removed the usury rates from their statutes in order to allow out-of-state banks to form credit card bases within their states. In talking to Delaware on March 31, 1983, they report no abuse or problems since their repeal of usury in 1982. Since the repeal they have picked up five banks from New York, two banks from Pennsylvania and four banks from Maryland.

→ Governor

BMAC will use highest rate possible - does now

Question: Why are money supplies going up? Do any indication that fund of \$ now? Is there a public need for more money?

...less profitable—pointing of a feat in an industry plagued by expensive duds. For example, "Polyester," his most recent movie, cost \$300,000 to make and, since its 1981 release, has grossed more than \$2 million at the box office.

The Young and the Jaded

Mr. Waters's fans—who tend to be young, rebellious and, some would say, a bit jaded—regard him as America's indisputable master of bad taste. To Mr. Waters, that is as it should be, as long as they also find him amusing. "I want people to laugh and be repulsed at the same time," he says. "If you can make somebody getting their arms cut off funny, I'm all for it."

He is also all for sets that are deliberately, although affectionately, tacky ("God Bless Our Mobile Home" signs and leopard-skin wallpaper); plot lines that are tortuous; and characters that are for the most part unattractive, if not downright grotesque. His leading lady is nearly always played by Divine, a 300-pound man in drag. "Everything is reversed in my movies," Mr. Waters says. "Good is bad, ugly is beauty. Everything is backwards, so you're laughing; but you're laughing with an edge."



It is a style of cinematic humor without imitators—fortunately, some say—and one that defies categorizing. Robert Shaye, the president of New Line Cinema Corp., the New York company that distributes Mr. Waters's films, explains it this way: "It's not quite black humor, but tough humor. It's gritty. Funny, but scary."

With all that, Mr. Waters says he is aiming to make movies that, while still celebrating his sense of the absurd, appeal to what might be called normal people. It looks as if he might be succeeding. "Polyester" won him his first positive reviews in mainstream publications; Newsweek, for example, called the film "a rancidly hilarious slice of Americana." As a result, the movie has drawn audiences that hadn't seen previous Waters films. It is just now opening in Europe and Asia and going into U.S. homes via cable.

Ultimate Soap Opera

"Polyester" celebrates everything Mr. Waters finds fascinating in American life. It is the ultimate soap opera, where every suburban nightmare comes true: the daughter pregnant by a punk, the son wiped out on drugs and getting his kicks by stomping on women's feet, the husband a cheat and a pornographer whose business brings pickets to the family home. In the midst of that, the long-suffering wife, played by the humorous Divine, falls in love with every woman's dreamboat, a character played by Tab Hunter. The action is enhanced by "Odorama" cards, which viewers are instructed to scratch and sniff at various points during the film; suffice it to say that the olfactory sensations aren't entirely pleasurable.

Small wonder that Mr. Waters's fans frequently ask him two questions: Do you have parents? And do you live in a house just like a normal person? His answer to both is yes.

In fact, Mr. Waters is "In many ways ex-
Please Turn to Page 15, Column 1

... system Inc., Denver, will connect the banking machines of 35 institutions throughout the U.S., including Bank of America in California and Chase Manhattan Bank in New York. The system expects to start up in May with 10,000 machines; plastic cards issued by each member bank will activate every member's machines. Cirrus System, Chicago, founded by 13 banks, started up in January when a Detroit bank's customer used a cash machine in Chula Vista, Calif. At least seven such nationwide networks of automated tellers are in operation or pending, says the Electronic Funds Transfer Association.

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Eventually, all banking machines might be accessible to every customer, as telephone booths already are.

BEING BEARISH proves fatal for the Exchange Insiders Report, a stock-market newsletter published in Pinehurst, N.C. "You can't afford to miss a bull market... and that, unfortunately, is what I did," says Dudley Bohlen, the editor, holding the publication after a 65% drop in circulation.

THREE-DIMENSIONAL copies are possible on a Minolta copier being tested in Europe. The machine reproduces Braille writing and raised-relief maps, Minolta says.

PERSONAL-COMPUTER USERS spend \$608, on average, on initial purchases of software, or programming, Frost & Sullivan market researchers say. The average outlay for additional software purchased during the first year of computer ownership: \$139.

OPERATING RATES begin to recover for many manufacturers.

LTV's steel plants now run at about 65% of capacity, up from 41% in the 1982 fourth quarter. Campbell Soup's operating rate, at about 70%, is up from 60% eight months ago. Preway Inc., a Wisconsin maker of fireplaces, operates at 68% of capacity, up from 48% a year ago. The latest (February) Federal Reserve Board measure of capacity utilization for U.S. manufacturing is 66.5%, up from 67.4% last November. (Three years ago, well before the latest recession, the rate was 87.2%.)

Higher operating rates put companies on track toward renewed or improved profit, but not necessarily soon. Gifford-Hill, a Dallas cement producer, expects "a lot more gravy on the profits side" at cement plants if operating rates reach 80% or more; but the rates, despite recent improvement, are still only in the 70%-to-75% range.

Hiring picks up as plants use more capacity. Preway, for one, has restored nearly 100 of the 300 jobs it pared in the recession.

BRIEFS: It's the thought that counts: Tappan's Quaker Maid division in Leesport, Pa., issues a two-page news release on its plans to give "over \$325.00 worth of groceries" to an Atlanta center for the elderly. . . . A remote-controlled robot will stand in for New Jersey's governor at a ground-breaking ceremony in Princeton April 14.

—JEFFREY A. TANNENBAUM

Sioux Falls is prospering as a result. Its December unemployment rate was 5.4%, the sixth lowest in the nation among 221 metropolitan areas over 50,000 population, and Mayor Rick Knoke thinks the rate would have been two or three percentage points higher without the Citibank operation. John Belmore, manager of the local Dayton's department store, attributes two years of healthy sales increases to the bank's presence.

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"Financial-services employment has been among the fastest-growing of all U.S. industries and continues to be an extraordinarily dynamic sector," says Irving Levenson, director of economic studies at the Hudson Institute, a Westchester, N.Y., think tank.

More Bankers Than Steelworkers

From 1973 to 1982, according to the Bureau of Labor Statistics, the number of jobs in finance, insurance and real estate rose 32% to 5.4 million, while jobs in metal working, autos and textiles were declining 38% to 2.4 million. During this span, jobs in banking and credit have enjoyed the strongest growth, surging 40% to 2.2 million.

While the growth of the service sector as a whole has been well publicized, the expansion of financial services has been greater than many people realize because it has come gradually. For example, since the end of World War II, the number of branch banks has increased from 4,000 to more than 43,000. In the same period, according to Federal Reserve figures, the net acquisition of financial assets by U.S. households has soared from \$12.6 billion a year to \$226 billion. Inflation alone would account for less than one-fourth of that increase.

With real incomes rising year after year, many American families for the first time discovered they had a nest egg to conserve and manage. The arrival of double-digit inflation in the 1970s quickly made the traditional 4% and 5% interest rates on savings inadequate, and much of this hoarded money began to move toward institutions that offered innovative, inflation-sensitive products such as money funds and investment-oriented insurance.

The financial-services boom has served to shelter major money-market cities from the full impact of the recession that has been felt so harshly by such smokestack cities as Youngstown, Gary and Detroit. Throughout the recession, for example, New York City has been in the midst of a record-breaking office-building spree, and in Connecticut, Hartford's insurance offices are spilling over into such nearby towns as Enfield, Middletown and Simsbury.

Delaware Lures Bankers

Some financial work is being farmed out to much more out-of-the-way places. In Columbus, Ohio, Banc One Corp., which processes transactions for New York-based Merrill Lynch & Co.'s Cash Management Accounts, has bolstered the local economy with hundreds of new jobs. And Wilmington, Del., has won a dozen small offices of big out-of-state banks since Delaware reduced its taxes on banks. Several states now are aggressively changing their state laws to attract financial-services firms, while the bigger cities are battling back to keep what they have.

Just this week, Citicorp, the parent com-
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