

\$300 and are repaid within a matter of a few weeks or one to three months. The administrative or servicing costs in these loans are substantial in relation to the amount of credit extended and the yield thereon. Banks frequently have a minimum charge for these loans merely to cover the administrative costs of the transaction. A number of state statutes expressly exempt such minimum charges from rate disclosure.

This provision of H.R. 11601 would have a serious impact on lenders. If banks are required under a Federal disclosure law to convert a \$10 minimum charge to an annual percentage rate on a \$150 loan which is to be repaid in forty-five days then banks may well stop making loans of this size. The annual percentage rate on such a loan would appear inordinately high in comparison to the relatively lower rate on the typical bank installment loan which is usually much larger in amount and much longer in term. Unless the \$10 floor on disclosure is allowed, it is safe to predict that many banks may stop making small unsecured short-term loans to the detriment of less affluent consumers.

The disclosure provisions of H.R. 11601 in Section 203(c)(5) relating to loans have omitted the \$10 floor on rate disclosure. For the reasons above stated, we recommend that this Section be amended to correspond to the related provisions in S. 5 and H.R. 11602.

THE EFFECTIVE DATE AND THE IMPACT ON STATE LAW

As indicated in our statement to the House Committee, one of the most important problems posed by S. 5 is its relationship to the more than 400 state statutes which govern or relate to consumer credit transactions. With the possible exception of the retail installment sales acts and laws governing the activities of small loan companies in some states, these statutes do not follow any clear or ascertainable pattern. They have been drafted at different times over the years and under circumstances when conditions have differed substantially. The statutes in many states have been designed to accommodate different regional economic and credit industry characteristics. For example, several different loan laws in a single state may govern different types of loans made by commercial banks in that state. No single statute may govern all of the loans made by commercial banks.

In many states there are several special statutes which govern commercial bank loans and there are other statutes which individually govern loans made by industrial banks, Morris Plan banks, consumer finance companies, credit unions, savings and loan associations, mutual savings banks, pawnbrokers and real estate loans made by different lenders.

The finance charge disclosure provisions in such statutes vary in great degree. Some statutes provide disclosure in terms of dollars per hundred per year add-on or discount. Others provide for monthly dollars per hundred add-on or discount, while still others provide for percent per month add-on or discount or percent per year add-on or discount disclosure. Some statutes do not require that a rate in fact be disclosed, but simply require that rates above stated maximums according to specified credit terms may not be charged. Some disclosure provisions are contained in general licensing statutes which govern a specific segment of industry. Many disclosure statutes have been specially enacted and relate to other statutes which contain general powers under which a given segment of industry may operate. Also, a number of statutes contain limitations on either the type of transaction to which the disclosure provisions relate or on the parties who may be subject to the requirements of a particular statute.

Special constitutional limitations exist in several states which may well cause relatively serious legislative problems. In some of these cases, the state constitutions may have to be amended which may be a laborious and time-consuming procedure depending upon the particular method of amendment required under the constitution. It is possible that in one or two cases the state constitution may prohibit enactment of a law along the lines of the proposed Federal Act in which case the Federal Act may be the sole statutory authority governing transactions in the state.

There is no consistent pattern in the state statutes relating to penalties imposed for a failure to disclose required information or for other types of violations of credit statutes. Many disclosure acts contain specific penalties for violations thereof while others do not contain specific penalties but may make the penalty for violation subject to the operation of the State usury statute.