tract interest ceilings under the laws of the several States vary from 6 to 24 percent simple interest. These ceilings are contained in the State usury statutes. Four States have no usury ceilings on credit transactions subject to contract. As previously indicated in this statement, the State legislatures in the great majority of States have found that statutory usury limitations have been obsolete and economically unfeasible when applied to many different types of credit transactions. As a result, they have enacted special legislation permitting interest rates in credit transactions which exceed the contract usury rates that would otherwise be applicable.

The 18 percent ceiling is much more restrictive than the maximum interest or finance charge ceilings permitted under numerous existing State statutes governing certain types of financial transactions. For example the small loan laws in a number of States permit ceilings in the range of $18 to $20 per hundred per year add-on (approximately 36 to 40 percent simple interest) or even higher rates in some cases, in loan transactions which may range up to $300. Small loan rates, and in many cases bank instalment loan rates, are graduated in accordance with the size of the loan and the maximum maturity prescribed by State law. The statutes which govern small loan company transactions, bank instalment loan transactions, and the transactions of consumer finance companies for the most part constitute intended exceptions to the State usury statutes. The higher rates permitted for small or medium-sized loan transactions are predicated upon the relatively high cost factor involved in such loans in proportion to their yield to the lender as well as, in certain cases, the relatively high risk factor.

On balance, the great majority of commercial bank instalment and revolving credit loans are made at rates less than 18 percent per annum. On the other hand as stated earlier in these remarks, banks do make accommodation loans which involve short-term small-amount advances. These accommodation loans, which generally may range from $100 to $300 may be made for anywhere between 15 and 90 days. The acquisition and servicing costs involved in such a loan may amount to between $10 and $15 per transaction. If a bank should be required to convert the minimum cost involved in accommodation loans to an annual percentage rate, this rate would substantially exceed 18 percent per annum. It is also pointed out that banks by-and-large do not make much profit from loans of this type. They are frequently made to accommodate people with irregular incomes and less affluent borrowers.

The imposition of an 18 percent ceiling on finance charges or interest cannot be countenanced if only for the reason that the consumer will be made to suffer significant economic harm. If legitimate lenders are cut off from making small loans at rates higher than 18 percent, marginal credit risk borrowers may be driven into the hands of loan sharks who will make advances at rates substantially in excess of the proposed 18 percent ceiling.

It is highly significant that the Uniform Law Commissioners, after years of studying all aspects of the question of maximum loan charges, have proposed a scale of graduated rates in the Uniform Consumer Credit Code which considerably exceeds the 18 percent ceiling contained in H.R. 11601. The Code rates would supersede or replace the ceilings imposed by State usury statutes and the numerous special laws which today constitute exceptions to the usury statutes. These rates on closed-end loans range from a high of $18 per $100 (i.e., approximately 36 percent) on loans of $300 or less to a low of $8 per $100 (i.e., approximately 16 percent) on loans of $1,000 or more. An optional ceiling of 18 percent per annum according to the United States rule is permitted.

FINANCE CHARGES

The definition of "finance charge" in Section 202(d) includes charges or premiums for property damage, liability, credit life, accident, and health insurance. It is to be noted that insurance charges or premiums of these types are expressly excluded from the definition of "finance charge" under S. 5 and H.R. 11602. It is the considered opinion of The American Bankers Association that a finance charge in a credit transaction should not include the insurance charges so described. S. 5 and H.R. 11602 quite correctly require that dollar charges of this nature be separately itemized and disclosed to the borrower or the credit purchaser. These forms of insurance generally are optional at the request of the borrower or credit purchaser and are for his direct benefit in that they afford

83-340—67—pt. 1——24