

Tennessee Code Annotated 45-2007(f) authorizes industrial loan and thrift companies "... to deduct interest in advance on the face amount of the loan for the full term thereof."

Merit's records filed in this proceeding indicate the following charges for interest:

Loan No.	Amount of note	Term of loan (months)	Interest
63-235.....	\$72	12	\$4.32
63-337.....	378	18	34.02
63-483.....	552	24	66.24
63-1074.....	672	24	80.64
63-1396.....	2,952	36	531.36
Total interest charges.....			716.58

As pointed out heretofore the first loan was "flipped" four times within a period of eleven months; total benefits received by the debtor amounted to some \$1548.02; interest totaling \$716.58 was charged.³ In no instance was interest rebated when the loan was "flipped."

It will also be observed from the notes filed in this proceeding that in every instance interest has been charged on interest, e.g., consider the fifth loan made by the debtor. The debtor executed a note in the amount of \$2952.00 which includes interest amounting to \$531.36. The interest figure was arrived at by charging interest on the face amount of the note, to which the interest had already been added, thus interest is charged on interest.

Did the "flipping" of the loans by Merit in the transactions under consideration enable it to obtain an excess over the legal rate of interest? T.C.A. 47-14-103, 104.

When the first loan was made, the debtor executed a note in the amount of \$72.00. This amount includes \$4.32 interest for twelve months. One month later the loan was "flipped." The face amount of the new note includes \$68.06 payment to Merit on the first loan (rebate given for insurance premiums). Although the debtor had already been charged with interest on \$72.00 for twelve months, the \$68.06 balance is added into the face amount of the second note (\$378.00) and interest is again charged—this time for eighteen months. In the third loan interest is again charged on \$227.42 remaining unpaid on the second loan, again for eighteen months. In the fourth loan interest is again charged on \$450.43 balance on the third loan, this time for a thirty-six month period. In the fifth loan interest is again charged on \$536.10 balance on the fourth loan, again for a thirty-six month period. These transactions indicate interest on interest on interest on interest on interest. Yet the statute says the legal rate of interest in this State is \$6.00 for the use of \$100.00 for one year "and every excess over that rate is usury." T.C.A. 47-14-103, 104.

When the first loan was made the debtor was entitled to the use of \$72.00 for one year. He was charged \$4.32 interest. When the loan was "flipped" at the end of one month, however, he was again charged interest on \$68.06 of the original \$72.00. Six per cent interest on \$72.00 for one month (deducted in advance) is \$0.36.⁴ Yet the debtor was given no rebate for interest when the loan was "flipped."

A period of one and one-half months intervened between the "flipping" of the second and third loans. The second note is for \$378.00, interest charged is \$34.02 for an eighteen-month period. Interest on \$378.00 for one and one-half months is \$2.84. Again the debtor was given no rebate when the loan was "flipped."

The third note is for \$552.00, interest charged is \$66.24. A period of approximately five months intervened between the third and fourth loan. Interest on \$552.00 for five months is \$13.80. Again the debtor was given no rebate for interest when the loan was flipped.

The fourth note is for \$672.00, interest charged is \$80.64. A period of approximately three and one-half months intervened between the fourth and fifth loans.

³ The belief held by many that loan companies in Tennessee charge only six percent interest is a mistaken one. What is overlooked is that they are permitted to deduct interest in advance on the face amount of the loan for the full term thereof.

⁴ As heretofore pointed out, T.C.A. 45-2007(f) authorizes industrial loan and thrift companies to deduct interest in advance on the face amount of the loan for the full term thereof. T.C.A. 45-2007(f).