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THIRTY-SIX PERCENT TOO MUCH? TOO LITTLE?¹

Often I am asked: "Isn't 36% TOO MUCH TO PAY ON A LOAN?" My standard answer is that if you can get the same service at a lower rate elsewhere, yes it is. But if you cannot, then 36% in a bargain.

I am also asked: "Isn't 36% too much to charge? It's an outrageous rate!" My standard reply is that there are some people whose credit habits are so poor that even a 100% rate would not be adequate. There are many consumers who cannot be serviced profitably at a 36% rate. There are others who can. The problem for the creditors is to know the difference.

Consumers want low-cost, low-rate, good-service loans. Lenders want reliable, steady, low-cost borrowers. A free market allows both consumers and lenders to choose each other.

It is an ill-informed or irresponsible consumer who pays 36% when he could have obtained the same service for 18%. And it is an ill-informed or irresponsible lender who lends at 36% to a class of customers with loan repayment habits that cost 72% to service. Better communication can reduce the number of consumers, and lenders who are ill-informed. Improvement will come through better credit-reporting services and full disclosure of credit costs and rates. Progress is being made on both fronts.

But isn't 36% usurious? The answer to this is that most states have enacted Consumer Loan Acts which are exemptions to the usury statutes, so that in most situations, 36% is not a usurious rate. There is need for a good hard look at our usury laws. If they are intended to protect the consumer, they are about as useful as a mixture of cracked bats is to the baseball player. The rate is unrealistically low. And non-money lenders, such as retailers, escape coverage. So consumers who think of credit as a way of getting today's needs with tomorrow's money are totally unprepared for the uneven coverage of present laws.

Those who see injustice in high rates need also to look from the other side of the counter. The focus is too often on the high rate lender. But what is most in need of study are the characteristics of consumers who use this higher cost credit service. Unfortunately, not enough study has been given to these people, and not enough money management education is devoted to their needs.

This is a short answer to a simple question of how much is too much? It depends on one's perspective. What is too much for one is not enough for another.

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