

FINANCE CHARGES

While Illinois regulates interest payments, there is no legal limit to finance charges. Our courts have followed the "time sale price doctrine," holding that a dealer can charge any time sale price he wants, and that it need have no relation to the cash sale price. At the levels shown by Table No. 2, finance charges are probably considerably higher than most people believe. These charges were figured only in cases where a retail installment sales contract was attached to the complaint. It should be noted that many installment credit sales are made outside the purview of the Retail Installment Sales Act. (See later section on use of retail installment sales contracts).

It is noteworthy that the average finance rate for clothing and particularly for pots and pans is relatively low. The explanation for this would appear to be that the finance charge is added into the cash price. Thus, the purchaser is overcharged, but he is everpaying because of an inflated cash price. It would be fair to speculate that if finance charges are regulated by the legislature, many unscrupulous credit sellers will merely inflate the cash price to continue their present profit margin. The finance charges disclosed by these suits should be compared to the prime interest rate, the rate at which the most sought after borrower may obtain bank money. Prime rate is now approximately 6% simple annual interest.

Illinois does require disclosure of the dollar amount of finance charges in all transactions under the Retail Installment Sales Act. However, the study shows that many purchasers apparently do not shop for credit. The wide variation of finance rates imposed would seem to indicate a break down of the theoretical concept of a competitive market place. Given such a theoretical market and given a sophisticated purchaser capable of making an intelligent choice, it is difficult to see why anyone would pay some of the rates found here, such as 283%, 144%, 104%, 155%, and 135% (all for used cars).

As noted above, all finance rates are converted into simple annual interest. The most dangerous deals for the purchaser are generally the short-term deals. The highest annual percentage rates obtain where the debt is to be repaid in less than a year.

PRINCIPAL AMOUNT CLAIMED

The principal amounts claimed in the studied suits are tabulated in Table No. 3. The number of suits, 53 (6.7%) in which the principal claimed is under \$50 is of significance. This indicates the ease with which creditors gain access to the courts. Since the Chicago Bar Association recommends a minimum fee of \$30.00 per hour for attorneys, a suit for a sum of under \$50.00 would be puzzling in any single case. However, a volume plaintiff may easily secure counsel in such cases.

On the other hand, when a defendant wishes to engage an attorney to protect himself from such a claim, he immediately finds that payment of fair legal fees for defense of the individual suit is normally not feasible since the amount in dispute is small. 65.5% of these suits were brought for a principal amount of less than \$400.00. Most attorneys would either avoid getting involved in such a suit, or would be disposed to enter into a settlement, since the legal costs for a full trial would be entirely disproportionate to the dollar amount in dispute.

As a consequence, defendants are poorly represented in these suits. The cases in which there is a good defense are therefore almost never appealed, and, unfortunately, appeal is the only method of obtaining debtor-oriented case law. Knowing this, creditors tend to be aggressive, even with dubious cases, their attitude is often, "prove me wrong."

NUMBER OF SIGNERS

The use of co-signers is widespread where the seller feels that the credit standing of the principal purchaser is too poor to justify the sale. There is no legislation in Illinois to protect or warn co-signers. A creditor may proceed against a co-signer before exhausting or even attempting any remedy against the principal purchaser. Legislation to warn co-signers of their possible liability passed the House, but was defeated in the Senate during the last session of the legislature. Credit unions and automobile dealers were the chief users of co-signers, according to the results of the study. Much attention has been given to the suggestion that certain types of contracts be made unenforceable unless they are