

example. They would not just want to infiltrate and dominate a particular union. They would be as interested to get into the business side of it as well. And this is a monopolistic nature of the underworld which makes it quite distinctive.

Profit is of course the dominant motive of all underworld activity. The underlying advantage enjoyed by organized crime, and which makes their activities possible, is the ability and willingness to employ fear based on the expressed or implied threat of violence, and whenever it becomes necessary the use of their ample revenues for the corruption of public officials.

Inspector Cottell will go into more details regarding our knowledge of the structure of the underworld.¹

With respect to loan sharking, this committee is quite correct in pointing out that loan sharking is becoming increasingly an important area for the organized underworld.

Speaking with reference to New York State, the maximum legal interest rate in New York State was 6 percent until fairly recently. Penal law prohibited rates in excess of that percentage to individuals on loans not exceeding \$800. The loopholes there are obvious. One could create a corporation, and be taken completely beyond the penal statute. Moreover a loan of an amount in excess of \$800 was not subject to this legislation. Moreover, there were multiple exemptions for loan companies and other institutions.

As a result of that rather poor legislation, it was virtually impossible to do anything about loan sharking in New York State, unless and until the usury developed into some more serious crime, such as extortion.

In 1966, the penal law, amended section of the penal law, went into effect, and now gives us a very simple and highly effective statute. It prohibits any loan, under any conditions, by anyone to anyone, with true annual percentage interest rate in excess of 25 percent. It is called criminal usury in New York, and the crime is now denominated and described as a felony. Moreover, possession of records of loan-shark transactions is also proscribed by the statute.

Despite the fact that 25 percent would appear to be an extremely high interest rate, I think this committee has already heard testimony, and I would repeat that the typical loan-shark transaction involves interest rates that are never less than 100 percent, often in excess of 350 percent, and average 260 to 262 percent. Now, that figure comes from the typical 6 for 5 transaction. That is a transaction that not everyone is clear about. That means you borrow \$5 and you pay back \$1 for 6 weeks, \$1 each week for 6 weeks. Now, you do not have the \$5 for the period of time, so that the interest, the true interest, as it is with loan companies whose loans actually show their true interest—because of the discount feature, becomes astronomical. In this case 262 percent. That is the average loan-shark transaction. Five percent a week.

The organized underworld, as I mentioned, is increasingly active in the area of loan sharking. And the reason for this, and the reason why loan sharking is attractive—there are three principal reasons.

No. 1—loan sharking provides an outlet for the use of illegally acquired cash obtained from gambling and narcotics operations. Two,

¹ See p. 64, *infra*.