

Section 28-3303 of the Code provides that if any person or corporation contracts verbally to pay a greater rate of interest than 6 percent per annum or in writing to pay a greater rate than 8 percent per annum the creditor shall forfeit the whole of the interest so contracted to be received, and the excessive interest, under section 28-3304, may be recovered in a civil action brought by the debtor.

The bill amends existing law relating to interest and usury, as set forth chapter 33 of subtitle II of title 28 of the District of Columbia Code and outlined in part in the preceding paragraph, so as to insert therein a new section, section 28-3307. This section would provide that:

"The charging or deduction of the legal rate of interest in advance, by a bank, savings and loan association, or other regulated lender, on loans (other than loans directly secured on real estate) to be repaid in installments, shall not be deemed to be in contravention of any of the provisions of this chapter. . ."

The Government of the District of Columbia notes that the deduction of interest in advance on installment loans has been a common practice by lending institutions in the District of Columbia (as well as throughout the United States) for many years, although it might be argued that such deduction increases the effective rate of interest on an 8% installment loan beyond the limitation set by the District's usury statute. We are informed by representatives of lending institutions that, although they believe that this percentage does not violate the usury statute, they are seeking legislation to clarify the relationship of deduction of interest in advance to the usury law and to the Consumer Protection Act of 1968.

The pertinent part of the Consumer Credit Protection Act—Section 129, effective July 1, 1969—requires that lenders disclose actual effective interest in advance of making loans. Representatives of lending institutions in the District of Columbia anticipate the possibility that their practice of deducting interest in advance will come into question when, by complying with the Consumer Credit Protection Act, the lending institutions furnish to prospective lenders a statement of an effective interest rate higher than the interest rate authorized by the District of Columbia usury statute.

We are informed that lending institutions in the District of Columbia make loans totaling approximately \$1.5 billion per year, and of this amount approximately \$61.5 million is in small personal loans where interest is deducted in advance. However, the number of these loans is over 54,000 per year. It can therefore be seen that, although these small loans, where interest is deducted in advance, account for only a small percentage of the total loans made, they provide a service to a substantial number of people in the District.

We note that legislation similar to this bill is in effect in Virginia (Code of Virginia, Title 6, Banking and Finance, section 6.1-320) and in a number of other States. Accordingly, with the understanding that the passage of this legislation will not result in any actual increase in the effective interest charged by lending institutions in the District of Columbia, the Government of the District of Columbia offers no objection to the enactment of H.R. 19740.

Sincerely yours,

THOMAS W. FLETCHER,
Assistant to the Commissioner
(For Walter E. Washington, Commissioner).

Mr. Dowdy. Mr. Bloom.

STATEMENT OF ROBERT BLOOM, CHIEF COUNSEL TO THE COMPTROLLER OF THE CURRENCY

Mr. BLOOM. My name is Robert Bloom, and I am Chief Counsel for the Comptroller of the Currency. I have a brief statement on the bill, and I will be glad to respond to any questions. I would add that because of the fact that I did not know about this hearing before yesterday, I am afraid there may be some questions on technical levels at the various stages and even of the District on which I will not perhaps be able to respond, and maybe I can do as the Corporation Counsel did, because of the comparatively short notice I have received, to furnish further information.