

Dear

You have requested the opinion of this office in the following situation: a 90-day simple interest loan of \$300 is made to a consumer by a supervised lender, charging a \$25 minimum finance charge as allowed by Section 2-401(7)(C). You have asked two questions:

(1) Can the minimum \$25 charge be assessed for each renewal of the 90-day note? There is nothing in the Code which prohibits this practice. However, you should note that Section 2-401(3)(C) prohibits the incorporation of more than 60-days interest due on a prior loan as interest bearing principal in a new loan.

(2) What is the maximum "Annual Percentage Rate" allowable on this type of loan? The maximum APR is that which results from a finance charge of \$25, in this case, 33.33%. This APR must be disclosed. The Truth in Lending Law and Section 7-121(1)(E)* of the Code requires the disclosure of the APR except when the minimum charge does not exceed \$5 on loans of \$75 or less or \$7.50 on loans of \$75 or more. There is no exemption for disclosure of the APR with the use of the \$25 minimum finance charge.

I am frankly concerned by the potential for abuse in this situation, namely the possibility of continuing to renew a short term loan for what is admittedly a high interest rate. Rather than charging off the loan and seeking payment by legal means, the consumer may be enticed into constant renewals that increase his debt at little administrative cost to the lender after the initial loan is granted. Depending on our review of this practice during the examination process, I may suggest legislative action to prevent the imposition of the \$25 minimum charge at renewal and require the use of the graduated rates.

I hope this responds to your request.

Sincerely,

/s/ Barbara R. Alexander

Barbara R. Alexander
Superintendent

BRA/erb

*AR #88 Amendment

The correct reference is now § 8-206(1)(E).

7/14/86