February 26, 1970
Passed on File
Commerce 3-2

SENATE FILE 1260

By ARBUCKLE

Passed Senate, Date..... Passed House, Date .....

Vote: Ayes..... Nays..... Vote: Ayes..... Nays.....

Approved.....

A BILL FOR

An Act relating to credit charges on retail installment sales transactions and installment loans by banks.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. As used in this Act, unless the context otherwise requires:

1. "Goods" means all tangible personal chattels when purchased primarily for personal, family, or household use and not for commercial or business use, except motor vehicles as defined in section three hundred twenty-one point one (321.1) of the Code. "Goods" includes such chattels which are furnished or used, at the time of sale or subsequently, in the modernization, rehabilitation, repair, alteration, improvement, or construction of real property so as to become a part of the property whether or not severable. "Goods" also includes merchandise certificates or coupons issued by a retail seller, not redeemable in cash and to be used in their face amount in lieu of cash in exchange for goods or services sold by such seller. "Goods" does not include money, things in action, or intangible personal property other than merchandise certificates or coupons as described in this subsection.

2. "Services" means work or services of any kind when purchased primarily for personal, family, or household use and not for commercial or business use, but does not include the services of a professional person licensed by the state.

3. "Buyer" means a person who buys or agrees to buy goods

1 or services from a seller.
2 4. "Seller" means a person regularly engaged in the busi-
3 ness of selling goods or services at retail.
4 5. "Retail installment transaction" means any retail trans-
5 action in which a buyer purchases goods or services from a
6 seller and agrees to pay the unpaid balance in one or more in-
7 stallments, pursuant to a retail installment contract or a re-
8 tail charge agreement.
9 6. "Retail installment contract" means an instrument, in-
10 cluding a security agreement, which evidences a retail install-
11 ment transaction and which provides for a time price differen-
12 tial, and which is not a retail charge agreement or an instru-
13 ment reflecting a sale made pursuant thereto. "Retail install-
14 ment contract" includes a contract in the form of a bailment
15 or a lease if the bailee or lessee contracts to pay a sum
16 substantially equivalent to or in excess of the value of the
17 goods sold and if it is agreed that the bailee or lessee is
18 bound to become, or, for no other or a merely nominal considera-
19 tion, has the option of becoming the owner of the goods upon
20 full compliance with the provisions of the bailment or lease.
21 7. "Retail charge agreement" means an instrument prescrib-
22 ing the terms of retail installment transactions, whether se-
23 cured or unsecured, which may be made thereunder from time to
24 time, and under the terms of which a time price differential
25 is to be computed in relation to the buyer's unpaid balance
26 from time to time.
27 8. "Time price differential" means any credit charge how-
28 ever designated, which is paid or payable in addition to the
29 cash price, for the privilege of purchasing goods or services
30 in a retail installment transaction, but does not include any
31 amount charged for insurance premiums, deliquency charges,
32 court costs, or official fees.
33 9. "Cash sale price" means the price started in a retail
34 installment contract, or a sales slip, or other memorandum
35 furnished by a seller to a buyer under a retail charge agree-

1 ment, for which the seller would have sold or furnished to the
2 buyer the goods or services which are the subject matter of a
3 retail installment transaction, if the sale had been for cash.
4 The cash sale price may include any taxes and charges for de-
5 livery, installation, servicing, repairs, alterations, or im-
6 provements.
7 10. "Official fees" means the fees prescribed by law for
8 filing, recording, or otherwise perfecting, and releasing or
9 satisfying, a retained title, lien, or other security interest
10 created by a retail installment transaction.
11 11. "Principal balance" means the cash sale price of the
12 goods or services which are the subject matter of a retail in-
13 stallment contract plus any amounts for insurance and official
14 fees, if a separate identified charge is made therefor and
15 stated in the contract, less the amount of the buyer's down
16 payment in money or goods or both.
17 Sec. 2. Retail installment contracts.
18 1. Notwithstanding the provisions of any other law, a re-
19 tail installment contract may provide for, and the seller or
20 assignee may then charge, collect, and receive a time price
21 differential in such amount, or determined by applying such
22 rate, as shall be specified in the retail installment contract,
23 except that the time price differential shall not exceed the
24 following:
25 a. On the amount of the principal balance which does not
26 exceed three hundred dollars, twelve dollars per one hundred
27 dollars per year.
28 b. On the amount of the principal balance which exceeds
29 three hundred dollars but does not exceed one thousand dollars,
30 ten dollars per one hundred dollars per year.
31 c. On the amount of the principal balance which exceeds
32 one thousand dollars, eight dollars per one hundred dollars
33 per year.
34 2. On contracts payable in successive monthly payments sub-
35 stantially equal in amount from the date of the contract to

1 the maturity of the final payment, the time price differential
2 under subsection one (1) of this section may be computed on the
3 principal balance of each transaction, even if the total of the
4 principal balance plus the time price differential is to be
5 paid in one or more deferred payments. On contracts payable
6 other than in substantially equal successive monthly payments,
7 the time price differential under subsection one (1) of this
8 section shall not exceed the amount which will provide the same
9 return permitted on contracts with substantially equal succes-
10 sive monthly payments. The time price differential may be com-
11 puted on the basis of a full month for any portion of a month
12 in excess of ten days. A minimum time price differential of
13 five dollars on balances of seventy-five dollars or less, and
14 seven dollars and fifty cents on balances of more than seventy-
15 five dollars may be charged, collected, and received on each
16 such contract.
17 3. The seller or assignee of any retail installment con-
18 tract, if it so provides, may collect a delinquency and collec-
19 tion charge on each installment in default for a period of
20 more than ten days in an amount not to exceed five percent of
21 each installment or five dollars, whichever is less, or in lieu
22 thereof, may add interest after maturity of each such install-
23 ment not to exceed the highest rates prescribed in section five
24 hundred thirty-five point two (535.2) of the Code.
25 Sec. 3. Retail charge agreements. Notwithstanding the pro-
26 visions of any other law, a retail charge agreement may provide
27 for, and the seller or assignee may then charge, collect, and
28 receive a time price differential in an amount not exceeding
29 the maximum amount, or determined by applying a rate not ex-
30 ceeding the maximum rate, stated in the retail charge agree-
31 ment, which shall not exceed fifteen cents per ten dollars
32 per month on the unpaid balance, except that a minimum time
33 price differential not in excess of fifty cents per month may
34 be charged, collected, and received.
35 The time price differential under this section shall be

1 computed from month to month, which need not be a calendar
2 month, or other regular period, on all amounts unpaid under
3 the agreement at the beginning of each such period. The time
4 price differential under this section may be computed for all
5 unpaid balances within a range of not in excess of ten dollars
6 on the basis of the median amount within such range, if as so
7 computed such time price differential is applied to all unpaid
8 balances within such range.

9 A seller may change the terms of a retail charge agreement,
10 provided that he gives the buyer written notice at least thirty
11 days prior to the effective date of the change, and provided
12 that the change applies only with respect to goods and services
13 purchased after the effective date, and provided that the
14 change is not in violation of this Act.

15 Sec. 4. The provisions of this Act shall not invalidate or
16 make unlawful retail installment contracts or retail charge
17 agreements executed prior to the effective date thereof, and
18 sellers or assignees of such contracts or agreements are hereby
19 authorized to charge, collect, or receive or to have charged,
20 collected, or received any time price differentials which have
21 been agreed upon pursuant to said contracts or agreements.

22 Sec. 5. Chapter two hundred seventy-three (273), section
23 nine hundred six (906), Acts of the Sixty-third General As-
24 sembly, First Session, is hereby amended as follows:

25 1. By striking lines two (2) through six (6), inclusive,
26 and inserting in lieu thereof the following:

27 "1. A state bank may make loans which are evidenced by
28 written agreements for repayment in installments, subject to
29 the following limitations:

30 a. Loans not exceeding one thousand dollars shall mature
31 in not more than thirty-six months, and an interest equivalent
32 of not more than eighteen cents on the dollar per year may be
33 contracted for and received on any such loan.

34 b. Loans in excess of one thousand dollars but not exceed-
35 ing five thousand dollars shall mature in not more than one

1 hundred forty-four months, and an interest equivalent of not
2 more than fifteen cents on the dollar per year may be contracted
3 for and received on any such loan.
4 c. Loans in excess of five thousand dollars but not exceed-
5 ing twelve thousand dollars shall mature in not more than one
6 hundred forty-four months, and an interest equivalent of not
7 more than thirteen cents on the dollar per year may be con-
8 tracted for and received on any such loan.
9 d. The interest equivalent charge shall be determined in
10 accordance with one of the following methods:
11 (1) Stated in dollars per annum per one hundred".
12 2. By striking from line twelve (12) the words "a period of
13 not more than five years" and inserting in lieu thereof the
14 words "the period ending on the date of its maturity".
15 3. By striking line fifteen (15) and inserting in lieu
16 thereof the following:
17 "(2) Stated as a percentage per month computed in unpaid".
18 4. By striking from line twenty-five (25) the word "month"
19 and inserting in lieu thereof the word "year".
20 5. By striking from line twenty-seven (27) the words "which
21 shall not exceed five years".
22 6. By striking from line thirty-three (33) the word "ten"
23 and inserting in lieu thereof the word "fifteen".
24 7. By striking from line thirty-four (34) the word "ten"
25 and inserting in lieu thereof the word "fifteen".
26 8. By striking from lines fifty-nine (59) and sixty (60)
27 the words "in excess of one percent per month interest on the
28 actual unpaid principal balances" and inserting in lieu thereof
29 the words "a rate in excess of the simple interest equivalent
30 of the original loan contract".
31 9. By striking from line sixty-four (64) the word "ten"
32 and inserting in lieu thereof the word "twelve".
33 10. By striking from line sixty-six (66) the word "ten"
34 and inserting in lieu thereof the word "twelve".

EXPLANATION

Iowa common law permits retailers to charge a time price differential in retail installment sales transactions. It is believed that a ceiling should be placed upon the amount of such time price differentials. This bill codifies the Iowa common law relative to time price differentials but sets a ceiling to protect Iowa consumers.

The bill also contains the proposals of the Iowa Bankers Association for changes in rates charged on installment loans by banks. These proposals will make bank loans available to small borrowers by enabling banks to make such loans on a profitable basis. These loans are in a large part consumer loans. The legislature's time can perhaps be saved by considering these related proposals in the same bill.