

file Commerce 5/20, Pass 2/20/76

FILED MAY 1 1975

SENATE FILE 503

By COMMITTEE ON COMMERCE

Passed Senate, Date 5-15-75 (1402) Passed House, Date 5-2-76 (p. 2368)
Vote: Ayes 21 Nays 10 Vote: Ayes 74 Nays 0
Approved 5-11-76

A BILL FOR

1 An Act relating to the maximum interest rate payable by
2 persons purchasing securities on credit.

3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section five hundred thirty-five point two
2 (535.2), subsection two (2), Code 1975, is amended to read
3 as follows:

4 2. Any domestic or foreign corporation or real estate
5 investment trust as defined in section 856 of the Internal
6 Revenue Code, and any person purchasing securities as defined
7 in chapter five hundred two (502) of the Code on credit from
8 a broker or dealer registered or licensed under chapter five
9 hundred two (502) of the Code or under the Security Exchange
10 Act of 1934, 48 Stat. 881, 15 United States Code 78A, as
11 amended, may agree in writing to pay any rate of interest
12 in excess of the rate prescribed in subsection 1 hereof, and
13 no such corporation or real estate investment trust or person
14 so agreeing in writing shall plead or interpose the claim
15 or defense of usury in any action or proceeding.

16 EXPLANATION

17 This bill amends the usury statute to permit brokers and
18 dealers, who are registered or licensed under chapter 502
19 of the Code or the Securities Exchange Act of 1934, to charge
20 in excess of 9% on the margin accounts of its customers.

21 Several district courts in the nation, including the
22 district court for Sac County, Iowa have held that a person
23 buying securities on credit from a foreign corporation engaged
24 in the business of selling securities may agree to pay interest
25 in excess of the usury rate in the state of his residence.
26 The foreign corporation provides in its margin contract that
27 the law of its state of principal business shall apply, thereby
28 acquiring the right to charge the maximum rate permitted by
29 that state.

30 The effect of these decisions is that domestic brokers
31 and dealers are subject to the 9% limit, while foreign
32 corporations may charge higher rates. When the prime rate
33 is high, domestic firms are competitively at a disadvantage
34 as they cannot afford the volume of margin accounts which
35 foreign firms can.

1 This bill would eliminate the 9% ceiling in these
2 transactions.

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AN ACT

RELATING TO THE MAXIMUM INTEREST RATE PAYABLE BY PERSONS
PURCHASING SECURITIES ON CREDIT.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section five hundred thirty-five point two (535.2), subsection two (2), Code 1975, is amended to read as follows:

2. Any domestic or foreign corporation or real estate investment trust as defined in section 856 of the Internal Revenue Code, and any person purchasing securities as defined in chapter five hundred two (502) of the Code on credit from a broker or dealer registered or licensed under chapter five hundred two (502) of the Code or under the Security Exchange Act of 1934, 48 Stat. 881, 15 United States Code 78A, as amended, may agree in writing to pay any rate of interest in excess of the rate prescribed in subsection 1 hereof, and no such corporation or real estate investment trust or person so agreeing in writing shall plead or interpose the claim or defense of usury in any action or proceeding.

ARTHUR A. NEU
President of the Senate

DALE M. COCHRAN
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 503, Sixty-sixth General Assembly.

STEVEN C. CROSS
Secretary of the Senate

Approved May 11, 1976

ROBERT D. RAY
Governor