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Regulation of Finance Charges on Consumer Instalment Credit

Robert W. Johnson

Michigan Law Review

Vol. 66, No. 1 (Nov., 1967), pp. 81-114 (34 pages)

Published By: The Michigan Law Review Association



<https://doi.org/10.2307/1287171>

<https://www.jstor.org/stable/1287171>

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REGULATION OF FINANCE CHARGES ON CONSUMER INSTALMENT CREDIT

*Robert W. Johnson**

THE subject of adequate disclosure of finance charges in consumer credit transactions has, in recent years, "become a rallying point for consumers and a battle line for industry."¹ Equal heat is generated by discussions concerning the *regulation* of finance charges on consumer instalment credit. The aim of this article is to examine briefly the existing pattern of rate regulation and then to explore the purposes of ceilings on consumer finance charges and the problems involved in their design. As is true with the question of disclosure of finance charges, the problems are extremely complex. Men of good will on both sides of the argument will disagree, but if the economic rationale is clearly understood, the philosophical grounds for disagreement may become more sharply defined.²

I. EXISTING RATE CEILINGS ON CONSUMER INSTALMENT CREDIT

Those states with the most comprehensive schemes for regulation of consumer credit set different maximum rates for each recognized form of instalment credit. The types of instalment credit can be divided into two general categories with much diversity within each category: (1) *instalment loans* by pawnbrokers, licensed lenders, credit unions, industrial loan companies, savings and loan associations, and commercial banks—as well as certain revolving cash credit plans; (2) *instalment sales* of various consumer goods, particularly new and used automobiles—as well as revolving sales credit

* Professor of Industrial Administration, Krannert Graduate School of Industrial Administration, Purdue University, 1939-1942, Oberlin College; M.B.A. 1946, Harvard Business School; Ph.D. 1957, Northwestern University. The author has served since 1964 as Associate Reporter-Economist and as Economic Consultant to the Consumer Credit Project of the National Conference of Commissioners on Uniform State Laws. The opinions expressed in this article are his own and are not intended to reflect the views of the National Conference or of the Special Committee on Retail Installment Sales, Consumer Credit, Small Loans and Usury.—Ed.

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