CREDIT RIGHTS

UNIT 2

Indiana Uniform Consumer Credit Code (IC 24-4.5)

Introduction

Indiana became one of six states which adopted a version of the Uniform Consumer Credit Code developed by the National Conference of Commissioners on Uniform State Laws (NCCUSL) with the passage of the Indiana Uniform Consumer Credit Code (Code) in the 1971 Session of the General Assembly. Since that time, other states have adopted their own versions of the Uniform Consumer Credit Code.

Key Concepts

The Indiana Uniform Consumer Credit Code was designed to:

- simplify, clarify, and modernize consumer credit laws;
- provide rate ceilings sufficient to assure an adequate supply of credit to consumers;
- further consumer understanding of the terms of credit transac- tions;
- foster competition among the various suppliers of consumer credit so that consumers may obtain credit at a reasonable cost;
- protect consumers from unfair practices arising from consumer credit transactions having due regard for the interests of legitimate and scrupulous creditors;
- permit and encourage the development of fair and economically sound consumer credit practices; and
- conform the regulation of consumer credit transactions to the policies of the Federal Consumer Credit Protection Act.

The primary transactions covered by the various provisions of the Indiana Uniform Consumer Credit Code are those involving consumer credit sales, consumer leases, consumer loans, consumer

related sales, consumer related loans, credit related insurance, and limitations of creditors' remedies.

The Code regulates all persons or entities regularly extending credit to individuals for a personal, family, or household purpose in which either the amount financed does not exceed $50,000 or the debt is secured by an interest in land or by personal property used or expected to be used as the principal dwelling of the debtor. The debt is payable in more than four installments or a finance charge is imposed**.**

The Act also regulates all persons or entities regularly making leases of goods to individuals for a personal, family, or household purpose in which the total amount payable under the lease does not exceed $50,000 and the original lease term exceeds four months.

The Act **does not** regulate agriculture, business, or commercial transactions**.**

The Indiana Uniform Consumer Credit Code Establishes:

Purposes and Rules of Construction
Territorial Application
General Definitions
Maximum and Minimum Charges
Delinquency and Deferral Charges
Additional Charges
Prepayment Penalties
Rebate of Finance Charges upon Prepayment
Limitations on Agreements and Practices
Lender Licensing Requirements
Consumer Credit Insurance
Credit Related Property and Liability Insurance
Limitations on Creditor’s Remedies
Debtors’ Remedies
Examinations
Fee Requirements

TOPIC 1 — Maximum, Minimum, & Additional Charges

Objective:

- Students can learn what rates can be charged for consumer credit transactions in Indiana.
- Students can define credit terms and become aware of additional charges that are allowed in Indiana.

Materials Needed:

Vocabulary
Reading 1 — "Maximum and Minimum Rates"
Transparency 1 — "Maximum Step Rate Table"
Transparency 2 — "Maximum Step Rate Formula" — Actual Day Method
Transparency 3 — "Maximum Step Rate Formula" — 360 Day Year Method
Student Exercise 1
Reading 2 — "Additional Charges"

Directions:

1. **Write the word "interest" on the chalkboard or poster paper.** Ask the students to write down what the word "interest" means. What do students associate most with the word "interest"? [Cost of credit, finance charge, service charge, etc.]

2. **Hand out the Vocabulary**, which gives credit definitions, for students to study and refer to.

3. **Assign Reading 1**, review definition of closed-end and open-end credit. Go over the explanation of the maximum and minimum rates allowed in Indiana.

4. **Show students Transparency 1** — "Maximum Step Rate Table." Discuss the differences in the annual percentage rates for the different terms.

5. **Show students Transparency 2 & 3** — "Maximum Step Rate Formula," Actual and 360 Day Methods of calculating interest. Discuss the different methods of calculating the days earned in the two types of interest calculations. Transparency can be copied and handed out. You may want to assign as homework, having students compute some maximum interest using the different types of calculation.

6. **Assign Students Exercise 1** to test student understanding of the credit definitions and allowable rates. *[See "Answer Key."]*

7. **Assign Reading 2,** which gives the charges that may be added on a credit sale and loan in Indiana outside the finance charge. Stress that additional charges for credit life and disability insurance must be voluntary to be an additional charge. Ask students what additional charges they would want, if any.

TOPIC 2 — Delinquency and Deferral Charges

Objective:

◆ Stress the importance of making credit payments on time.

◆ Inform students what charges can be imposed in Indiana when payments are late.

◆ Gives students the maximum Indiana delinquency and deferral charges and how they are assessed.

Materials Needed:

Reading 3 — "Delinquency and Deferral Charges"
Example 1 — Illustration of "Current Installment Rule"
Example 2 — Maximum Deferral Charges

Directions:

1. **Assign Reading 3**, instances when and how delinquency and deferral charges may be imposed are given.

2. **Hand out Example 1** which gives an example of an account with delinquency charges. Stressing how payments are applied to "current installments."

3. **Hand out Example 2** which gives examples of computing maximum deferral charges.

Examples 1 and 2 could also be used as transparencies.

TOPIC 3 — Rebates and Prepayment Penalties

Objective:

- Students will know what refunds or rebates are due when a precomputed account is prepaid in full.
- Students will know what the Rule of 78's is.
- Students will know what type of credit can have prepayment penalties.
- Students will know the difference between a "simple interest" and "precomputed" account.

Materials Needed:

Reading 4 — "Rebates and Repayment Penalties"
Brochure — "Rule of 78's, What is it?"
Reading 5 — "Precomputed Vs Simple Interest "
Transparency 4 — Comparison of Unearned Finance Charges of "Simple Interest" & "Rule of 78's"

Directions:

1. **Assign Reading 4**, discuss when rebates and prepayment penalties can be contracted for and received.
2. **Hand out Brochure**, "Rule of 78's What Is It" and review.
3. **Assign Reading 5**, Ask students which type of an account they would prefer.
4. **Show Transparency 4** to illustrate the difference between "Simple Interest" & "Rule of 78's." Hand out the brochure.

TOPIC 4 — Debtors' Remedies

Objective:

- Students will know what remedies debtors have in Indiana.

Materials Needed:

Reading 6 — "What are Debtor's Remedies"
Case Study 1
Hidden Word Puzzle
Brochures

Directions:

1. **Assign Reading 6** — "What are Debtor's Remedies." Discuss the different situations that have debtor remedies.

2. **Case Study 1.** Discuss what remedies John and Mary have. *[See "Answer Key"]*

3. **Hand-out the Hidden Word Puzzle** and have students see if they can find all of the words.

4. **Hand-out copies of the following brochures** for review and discussion.

   Consumer Credit Sales
   Credit Insurance
   Indiana Uniform Consumer Credit Code
   Licensed Lenders
   Rule of 78s What Is It?
   The Rule of 78s vs Simple Interest
   What is the DFI
   Consumer Credit in Indiana
   Small Loans

ANSWER KEY

Pretest

1. ***True.*** The Indiana Uniform Consumer Credit Code regulates the maximum rates that can be imposed on a consumer credit transaction in Indiana.

2. ***True.*** The minimum charge for short term credit in Indiana is $36.00.

5. ***False.*** A delinquency charge may be contracted for and imposed if the payment is made more than 10 days past it's due date.

4. ***True.*** Credit insurance is an allowable additional charge only if it is voluntary. The consumer must indicate in writing that they desire the insurance.

5. ***True.*** The allowable additional charge for a check returned for non-sufficient funds to a creditor is $20.00. They must contract for the charge in their contractual agreement.

6. ***False.*** A simple or interest bearing account has the interest computed from payment date to payment date.

7. ***False.*** A prepayment penalty may only be contracted and imposed on a loan that is secured by an interest in land (mortgage loan).

8. ***False.*** Deferral charges can only be imposed on a precomputed account. The interest for the term of the loan is included in the balance and if the maturity is deferred, a deferral charge may be imposed.

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9. ***True.*** The Indiana Uniform Consumer Credit Code requires a rebate be given upon prepayment in full on a precomputed account computed by the sums of the balances better known as the "Rule of 78's."

10. ***True.*** A person who makes over 25 loans or 5 second mortgage loans a year is required to have a loan license issued by the Department of Financial Institutions. A loan made by a person regularly engaged in making loans without a license is void and the debtor is not obligated to pay either the principal or loan finance charge.

Topic 1, Student Exercise 1

1. an agreement
2. closed-end credit
3. creditor
4. open-end
5. 36%
6. 21%
7. actual day method
8. 360 year method

Topic 4, Case Study 1

Case 1: John should register a complaint with the Department of Financial Institutions. Since Mr, Check Casher was found to be making loans without a license, **John's loan is void and he is not obligated to pay either the principal or loan finance charge.**

The $40.00 Mr. Check Casher charged for the advance would have been a violation had he had a loan license. On small loans for short periods, the maximum amount that can be charged is 36%.

Case 2: Mary does not owe ABC Used Cars for the deficiency balance.

The Indiana Uniform Consumer Credit Code states that if the cash price of the goods repossessed or surrendered was $3,200 or less, the buyer is not personally liable to the seller for the unpaid balance of the debt arising from the sale of the goods and the seller is not obligated to resell the collateral.

PRETEST

DIRECTIONS: Circle "T" if the statement is true, circle "F" if the statement is false.

T F 1. There is a maximum rate creditors can charge in Indiana.

T F 2. A creditor can charge you a "minimum" finance charge for short-term credit.

T F 3. A creditor cannot charge you a delinquency charge if you make your payment within 11days past your due date.

T F 4. If a creditor requires credit life and/or accident insurance, the premium must be included in the finance charge.

T F 5. A creditor can charge you $20 if your check is returned due to insufficient funds.

T F 6. A precomputed account is one where the interest is computed from payment date to payment date.

T F 7. A creditor can contract for and impose a prepayment penalty on any type of credit transaction in Indiana.

T F 8. A deferral charge can be imposed on a simple or interest bearing account.

T F 9. If you pay a precomputed account in full ahead of time, you will receive a rebate of the unearned finance charges.

T F 10. If a person regularly engaged in making loans is not licensed with the Indiana Department of Financial Institutions to make loans, the loan is null and void.

Name _____ Date _____

VOCABULARY

agreement — means the bargain of the parties in fact as found in their language or by implication from other circumstances, including course of dealing or usage of trade or course of performance.

amount financed — means the total of the following to the extent that payment is deferred:

(a) the cash price of the goods, services, or interest in land less the amount of down payment whether made in cash or in property;

(b) the amount actually paid or to be paid by the seller pursuant to an agreement with the buyer to discharge a security interest in or a lien on property traded in; and

(c) if not included in the cash price:

(1) any applicable sales, use, excise, or documentary fees;

(2) amounts actually paid or to be paid by the seller for registration, certificate of title, or license fees; and additional charges permitted by the Code.

average daily balance — means the sum of each of the daily balances in a billing cycle divided by the number of days in the billing cycle, and if the billing cycle is a month, the creditor may elect to treat the number of days in each billing cycle as thirty (30).

cash price — Except as the Department may prescribe by rule, the "cash price" of goods, services, or an interest in land means the price at which the goods, services, or interest in land are offered for sale by the seller to cash buyers in the ordinary course of business, and may include:

(a) applicable sales, use, and excise and documentary fees,

(b) the cash price of accessories or related services such as delivery, installation, servicing, repairs, alterations service contracts, and improvements, and

(c) amounts actually paid or to be paid by the seller for registration, certificate of title, or license fees.

closed-end credit — One-time credit for a specific amount usually for a large purchase and repaid in installments.

closing costs — with respect to a debt secured by an interest in land includes:

(a) fees or premiums for title examination, title insurance, or similar purposes including surveys;
(b) fees for preparation of a deed settlement statement, or other documents;
(c) escrows for future payments of taxes and insurance;
(d) fees for notarizing deeds and other documents;
(e) appraisal fees; and
(f) credit reports.

consumer credit — means credit offered or extended to a consumer primarily for a personal, family, or household purpose.

consumer credit sale — is a sale of goods, services, or an interest in land in which:

(a) credit is granted by a person who regularly engages as a seller in credit transactions of the same kind;

(b) the buyer is a person other than an organization;

(c) the goods, services, or interest in land are purchased primarily for a personal, family, or household purpose;

(d) either the debt is payable in installments or a credit service charge is made; and

(e) with respect to a sale of goods or services, either the amount financed does not exceed fifty thousand dollars ($50,000) or the debt is secured by personal property used or expected to be used as the principal dwelling of the buyer.

consumer lease — means a lease of goods:

(a) which a lessor regularly engaged in the business of leasing makes to a person, other than an organization, who takes under the lease primarily for a personal, family, or household purpose;

(b) in which the amount payable under the lease does not exceed fifty thousand dollars ($50,000); and

(c) which is for a term exceeding four (4)

months.

consumer loan — is a loan made by a person regularly engaged in the business of making loans in which:

(a) the debtor is a person other than an organization;

(b) the debt is primarily for a personal, family, or household purpose;

(c) either the debt is payable in installments or a loan finance charge is made; and

(d) either the principal does not exceed fifty thousand dollars ($50,000) or the debt is secured by an interest in land or by personal property used or expected to be used as the principal dwelling of the debtor.

credit — means the right granted by a creditor to a debtor to defer payment of debt or to incur debt and defer its payment.

credit service charge — means the sum of:

(a) all charges payable directly or indirectly by the buyer and imposed directly or indirectly by the seller as an incident to the extension of credit, including any of the following types of charges which are applicable: time price differential, service, carrying or other charge, however denominated, premium or other charge for any guarantee or insurance protecting the seller against the buyer's default or other credit loss; and

(b) charges incurred for investigating the collateral or credit-worthiness of the buyer.

creditor — means a person:

(a) who regularly engages in the extension of consumer credit that is subject to a credit service charge or loan finance charge, as applicable, or is payable in installments; and

(b) to whom the obligation is initially payable, either on the face of the note or contract, or by agreement when there is not a note or contract.

lender credit card or similar arrangement — means an arrangement or loan agreement, other than a seller credit card, pursuant to which a lender gives a debtor the privilege of using a credit card, letter of credit, or other credit confirmation or identification in transactions out of which debt arises:

(a) by the lender's honoring a draft or similar order for the payment of money drawn or accepted by the debtor;

(b) by the lender's payment or agreement to pay the debtor's obligations; or

(c) by the lender's purchase from the obligee of the debtor's obligations.

loan — includes

(1) the creation of debt by the lender's payment of or agreement to pay money to the debtor or to a third party for the account of the debtor;

(2) the creation of debt by a credit to an account with the lender upon which the debtor is entitled to draw immediately;

(3) the creation of debt pursuant to a lender credit card or similar arrangement; and

(4) the forbearance of debt arising from a loan.

loan finance charge — means the sum of:

(1) all charges payable directly or indirectly by the debtor and imposed directly or indirectly by the lender as an incident to the extension of credit, including any of the following types of charges which are applicable:
interest or any amount payable under a point, discount, or other system of charges, however denominated, premium or other charge for any guarantee or insurance protecting the lender against the debtor's default or other credit loss; and

(2) charges incurred for investigating the collateral or credit-worthiness of the debtor.

mortgage transaction — means a transaction in which a first mortgage or a land contract which constitutes a first lien is created or retained against land.

official fees — means:

(a) fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting, releasing, or satisfying a security interest related to a consumer credit sale, consumer lease, or consumer loan; or

(b) premiums payable for insurance in lieu of perfecting a security interest otherwise required by the creditor in connection with the sale, lease, or loan, if the premium does not exceed the fees and charges described in paragraph (a) which would otherwise be payable.

0pen-end credit — A line of credit that may be used repeatedly up to a certain dollar amount and on which a charge may be imposed.

0rganization — means a corporation, government or governmental subdivision or agency, trust, estate, partnership, cooperative, or association.

payable in installments — means that payment is required or permitted by written agreement to be made in more than four (4) installments not including a down payment.

precomputed — A sale/loan, refinancing, or consolidation that the debt is expressed as a sum comprising the principal and the amount of the loan finance charge computed in advance.

principal — of a loan means the total of

(a) the net amount paid to, receivable by, or paid or
payable for the account of the debtor,

(b) the amount of any discount excluded from the
loan finance charge, and

(c) to the extent that payment is deferred,

(i)amounts actually paid or to be paid by the lender for registration, certificate of title, or license fees if not included in (a), and

(ii) additional charges permitted.

regularly engaged — means a person who extends consumer credit more than:

(a) twenty-five (25) times; or

(b) five (5) times for transactions secured by a dwelling;

in the preceding calendar year. If a person did not meet these numerical standards in the preceding calendar year, the numerical standards shall be applied to the current calendar year.

revolving charge account — means an arrangement between a seller and a buyer pursuant to which:

(a) the seller may permit the buyer to purchase goods or services on credit either from the seller or pursuant to a seller credit card,

(b) the unpaid balances of amounts financed arising from purchases and the credit service and other appropriate charges are debited to an account,

(c) a credit service charge if made is not precomputed but is computed on the outstanding unpaid balances of the buyer's account from time to time, and

(d) the buyer has the privilege of paying the balances in installments.

sale of goods — includes any agreement in the form of bailment or lease of goods if the bailee or lessee agrees to pay as compensation for use a sum substantially equivalent to or in excess of the aggregate value of the goods involved and it is agreed that the bailee or lessee will become, or for no other or a nominal consideration has the option to become, the owner of the goods upon full compliance with his obligations under the agreement.

sale of services — means furnishing or agreeing to furnish services and includes making arrangements to have services furnished by another.

seller — Except as otherwise provided, "seller" includes an assignee of the seller's right to payment but use of the term does not in itself impose on an assignee any obligation of the seller with respect to events occurring before the assignment.

seller credit card — means an arrangement which gives to a buyer or lessee the privilege of using a credit card, letter of credit, or other credit confirmation or identification for the purpose of purchasing or leasing goods or services from that person, a person related to that person, or from that person and any other person. The term includes a card that is issued by a person, that is in the name of the seller, and that can be used by the buyer or lessee only for purchases or leases at locations of the named seller.

MAXIMUM RATES

CREDIT SALES, LOANS, AND REVOLVING LOAN ACCOUNTS:

Under the Indiana Uniform Consumer Credit Code, Indiana creditors may contract for and receive finance charges not to exceed the equivalent of the greater of either of the following:

1. effective July 1, 2002, the total of:

   a. **thirty-six percent (36%)** per year on that part of the unpaid balances of the amount financed which is nine hundred thirty dollars ($960) or less;

   b. **twenty-one percent (21%)** per year on that part of the unpaid balances of the amount financed which is more than nine hundred dollars ($960) but does not exceed three thousand one hundred dollars ($3,200); and

   c. **fifteen percent (15%)** per year on that part of the unpaid balances of the amount financed which is more than three thousand one hundred dollars ($3,200); **or**

2. **twenty-one percent (21%)** per year on the unpaid balances of the amount financed **whichever is greater.**

The Code does not limit or restrict the manner of contracting for the finance charge, whether by way of add-on, discount, or otherwise, so long as the rate of the finance charge does not exceed that permitted by the Code

The finance charge may be calculated on the assumption that all scheduled payments will be made when due. If the transaction is precomputed, the loan finance charge may be calculated on the assumption that all scheduled payments will be made when due, and the effect of prepayment is governed by the Code provisions on rebate upon prepayment .

The term of an agreement commences with the date the credit is granted or, if goods are delivered or services performed more than thirty (30) days after that date, with the date of commencement of delivery or performance. Differences in the lengths of months are disregarded and a day may be counted as one-thirtieth (1/30) of a month. Subject to classifications and differentiations the creditor may reasonably establish, a part of a month in excess of fifteen (15) days may be treated as a full month if periods of fifteen (15) days or less are disregarded and that procedure is not consistently used to obtain a greater yield than would otherwise be permitted.

Subject to classifications and differentiations the creditor may reasonably establish, the creditor may make the same finance charge on all amounts financed within a specified range. A finance charge so made does not violate the Code if:

1. when applied to the median amount within each range, it does not exceed the maximum permitted by the Code, and

2. when applied to the lowest amount within each range, it does not produce a rate of credit service charge exceeding the rate calculated according to the Code by more than eight percent (8%) of the maximum rate.

CONSUMER LOANS OTHER THAN SUPERVISED LOANS:

With respect to a consumer loan other than a supervised loan, a lender may contract for a loan finance charge, **not exceeding twenty-one percent (21%)** per year on the unpaid balances of the principal.

The Code does not limit or restrict the manner of contracting for the loan finance charge, whether by way of add-on, discount, or otherwise, so long as the rate of the loan finance charge does not exceed that permitted by this section. If the loan is precomputed, the loan finance charge may be calculated on the assumption that all scheduled payments will be made when due, and the effect of prepayment is governed by the Code provisions on rebate upon prepayment .

The term of a loan commences with the date the loan is made. Differences in the lengths of months are disregarded and a day may be counted as one-thirtieth (1/30) of a month. Subject to classifications and differentiations the lender may reasonably establish, a part of a month in excess of fifteen (15) days may be treated as a full month if periods of fifteen (15) days or less are disregarded and if that procedure is not consistently used to obtain a greater yield than would otherwise be permitted. For purposes of computing average daily balances, the creditor may elect to treat all months as consisting of thirty (30) days.

Subject to classifications and differentiations the lender may reasonably establish, and make the same loan finance charge on all amounts financed within a specified range. A loan finance charge does not violate subsection (1) if:

1. when applied to the median amount within each range, it does not exceed the maximum permitted by subsection (1), and

2. when applied to the lowest amount within each range, it does not produce a rate of loan finance charge exceeding the rate calculated according to paragraph (a) by more than eight percent (8%) of the rate calculated according to paragraph (a).

In addition to the loan finance charge provided for in the Code, a lender may contract for the following:

1. With respect to a consumer loan that is **primarily secured by an interest in land** and that is not made under a revolving loan account, **a loan origination fee of not more that two percent (2%) of the loan amount.**

2. With respect to a consumer loan that is primarily secured by an interest in land and that is made under a revolving loan account, a loan origination fee of not more than two percent (2%) of the line of credit that was contracted for.

3. With respect to a consume loan **not** primarily secured by an interest in land, **a loan origination fee of not more than 2% of the loan amount that does not exceed $2,000**.

If a lender retains any part of a loan origination fee charged on a loan that is paid in full by a new loan from the same lender within three (3) months after the date of the prior loan, the lender may charge a loan origination fee only on that part of the new loan not used to pay the amount due on the prior loan, or in the case of a revolving loan, the lender may charge a loan origination fee only on the difference between the amount of the existing credit line and the increased credit line.

The loan origination fee is not subject to refund or rebate; and is not permitted if a lender makes an allowable additional charge for a settlement charge .

This subsection of the Codes does not prohibit a lender from contracting for and receiving a fee for preparing deeds, mortgages, reconveyance, and similar documents under IC 24-4.5-3-202 (1)(d)(ii) in addition to the charges provided for above.

The creditor may contract for the finance charge in any manner he chooses so long as the above maximums are not exceeded. By way of illustration, the creditor may compute his interest-following finance charge either by applying the graduated rates to the actual unpaid balances of the account or an equivalent flat annual percentage rate and applying this rate to the actual unpaid balances of the account. Similarly, the creditor may contract for his precomputed finance charge by way of add-on, discount, or otherwise. A creditor may also contract for a finance charge on a “variable rate” basis.

SMALL LOANS

A small loan is also known as a "payday loan" and is for a term of not less than 14 days and the principal loan amount is more than $50 and less than $401.

A small loan lender may contract and receive a maximum loan finance charge as follows:

15% of the principal on the first $100.00;
10% of the principal greater than $100.00;
with a maximum loan finance charge of $35.00

The above rates are maximum rates only; thus, the creditor may contract for any lesser rate he chooses.

OPEN-END CREDIT MAXIMUM RATES:

Revolving Charge Accounts:

With respect to a consumer credit sale made pursuant to a revolving charge account, the parties to the sale may contract for the payment by the buyer of a credit service charge not exceeding that permitted below:

A charge may be made in each billing cycle which is a percentage of an amount no greater than

1. the average daily balance of the account,

2. the unpaid balance of the account on the same day of the billing cycle, or

3. the median amount within a specified range within which the average daily balance of the account or the unpaid balance of the account on the same day of the billing cycle is included. A charge may be made pursuant to this paragraph only if the seller, subject to classification and differentiations the seller may reasonably establish, makes the same charge on all balances within the specified range and if the percentage when applied to the median amount within the range does not produce a charge exceeding the charge resulting from applying that percentage to the lowest amount within the range by more than eight percent (8%) of the charge on the median amount.

If the billing cycle is monthly, the charge may not exceed one and three-fourths percent **(1 3/4%) (21% Annual Percentage Rate)**. If the billing cycle is not monthly, the maximum charge is that percentage which bears the same relation to the applicable monthly percentage as the number of days in the billing cycle bears to thirty (30). For the purposes of this section, a variation of not more than four (4) days from month to month is Athe same day of the billing cycle.

CONSUMER REVOLVING LOANS OTHER THAN SUPERVISED LOANS:

The loan finance charge shall be deemed not to exceed the maximum annual percentage rate if the loan finance charge contracted for and received does not exceed a charge in each monthly billing cycle which is one and three-fourths percent (**l 3/4%**) of an amount no greater than:

1. the average daily balance of the debt,
2. the unpaid balance of the debt on the same day of the billing cycle, or,
3. the median amount within a specified range within which the average daily balance or the unpaid balance of the debt, on the same day of the billing cycle, is included; a variation of not more than four (4) days from month to month is Athe same day of the billing cycle≅;

If the billing cycle is not monthly, the loan finance charge shall be deemed not to exceed the maximum annual percentage rate if the loan finance charge contracted for and received does not exceed a percentage which bears the same relation to one-twelfth (1/12) the maximum annual percentage rate as the number of days in the billing cycle bears to thirty (30).

MINIMUM CHARGES

CLOSED-END CONSUMER SALES AND LOANS

The creditor may contract for and receive a minimum finance charge of not more than **thirty-six dollars ($36.00) effective July 1, 2002. The minimum finance charge is not allowed on small loans made under IC 24-4.5-7.** No "minimum charge" is authorized for supervised revolving loans.

OPEN-END — REVOLVING CHARGE

If there is an unpaid balance on the date as of which the credit service charge is applied, the seller may contract for and receive a charge not exceeding **fifty cents ($.50),** if the billing cycle is monthly or longer, or the pro rata part of fifty cents ($.50) which bears the same relation to fifty cents ($.50) as the number of days in the billing cycle bears to thirty (30) if the billing cycle is shorter than monthly.

REVOLVING LOANS OTHER THAN SUPERVISED LOANS

With respect to revolving loans other than supervised loans:

If there is an unpaid balance on the date as of which the loan finance charge is applied, the lender may contract for and receive a charge not exceeding **fifty cents ($.50)** if the billing cycle is monthly or longer, or the pro rata part of fifty cents ($.50) which bears the same relation to fifty cents ($.50) as the number of days in the billing cycle bears to thirty (30) if the billing cycle is shorter than monthly, **but no charge may be made if the lender has made an annual charge** for the same period as permitted by the provisions on additional charges (IC 24-4.5-2/3-202)

MAXIMUM STEP RATE TABLE

Effective July 1, 1998 thru June 30, 2002

Amount Financed	12 Month Term	24 Month Term	36 Month Term
Up to $930.00	36.00	36.00	36.00
$1,000	35.82	35.84	35.82
$1,500	33.29	33.14	32.91
$2,000	31.05	30.86	30.57
$2,500	29.45	29.23	28.95
$3,000	28.25	28.05	27.80
$3,500	27.22	27.03	26.79
$4,000	26.06	26.07	25.79
$4,500	25.22	25.18	24.95
$5,000	24.59	24.42	24.48
$5,500	23.90	23.74	23.42
$6,000	23.30	23.17	23.00
$6,500	22.77	22.64	22.43
$7,000	22.17	22.16	21.97
$7,500	21.89	21.77	21.49
$8,000	21.30	21.42	21.23
Over $8,328	21.00	21.00	21.00

MAXIMUM STEP RATE FORMULA

ACTUAL DAYS METHOD:

$960/$3,200

1. Transactions made on or after July 1, 2002 but before July 1, 2004.

2. All other transactions properly using the $960/3,200 step rate.

Balance Ranges:

$ 960.00 and under	Balance	/	1013.88	x	#	days	=	interest
$ 960.01 to $3,200.00	(Balance + 685.70)	/	1738.10	x	#	days	=	interest
$ 3,200.01 and up	(Balance + 2240)	/	2433.33	x	#	days	=	interest

Examples:

Principal Balance $286.50
Interest from July 30, 2002 to September 7, 2002 39 days

$286.50 / 1013.88 x 39 (days) = $11.02 interest

Principal Balance $985.75
Interest from July 10, 2002 to September 20, 2002 72 days

($985.75 + 685.70) / 1738.10 x 72 (days) = $69.24 interest

Principal Balance $3,210.80
Interest from Sept. 1, 2002 to Nov. 10, 2002 70 days

($3,210.80 + 2240) / 2433.30 x 70 (days) = $156.81interest

Interest may also be calculated on a 360 day year basis with months all having 30 days between the same dates in months. That chart follows.

MAXIMUM STEP RATE FORMULA

360 DAY YEAR METHOD:

$960/$3,200

1. Transactions made on or after July 1, 2002 but before July 1, 2004.

2. All other transactions properly using the $960/3,200 step rate.

Balance Ranges:

$ 960.00 and under	Balance	/ 1000.00 x # days = interest
$ 960.01 to $3,200.00	(Balance + 685.70)	/ 1714.29 x # days = interest
$3,200.01 and up	(Balance + 2240)	/ 2400.00 x # days = interest

Examples:

Principal Balance	$286.50
Interest from July 30, 2002 to September 7, 2002	38 days

$286.50 / 1000 x 38 (days) = $10.89 interest

Principal Balance	$985.75
Interest from July 10, 2002 to September 20, 2002	70 days

($985.75 + 685.70) / 1714.29 x 70 (days) = $68.25 interest

Principal Balance	$3,210.80
Interest from Sept. 1, 2002 to Nov. 10, 2002	69 days

($3,210.80 + 2240) / 2400.00 x 69 (days) = $156.71 interest

STUDENT EXERCISE 1

DIRECTIONS: Identify and circle your answer.

1. The bargain of the parties in fact as found in their language or by implication from other circumstances, including course of dealing or usage of trade or course of performance is:

   a contract an agreement a loan a sale

2. One-time credit for a specific amount usually for a large purchase and repaid in installments.

   closed-end credit loan open-end credit credit sale

3. A person who regularly engages in the extension of consumer credit that is subject to a credit service charge or loan finance charge, as applicable, or is payable in installments; and to whom the obligation is initially payable, either on the face of the note or contract, or by agreement when there is not a note or contract.

   borrower seller creditor debtor

4. A line of credit that may be used repeatedly up to a certain dollar amount and on which a charge may be imposed.

   not credit incidental closed-end open-end

5. The maximum annual percentage rate for a $900 loan is:

   21% 25% 35% 36%

6. The maximum annual percentage rate of a $10,000 loan is:

   21% 25% 35% 36%

7. The method of calculating interest that counts each day is:

   actual day method 360 year method monthly method daily method

8. The method of calculating interest that counts the days between the same date in following months as 30 per month is:

   actual day method 360 year method monthly method daily method

Name _____ Date _____

ADDITIONAL CHARGES

DEFINITION:

"Additional charges" are those non-default related charges which the creditor is permitted to contract for and receive in addition to the finance charge.

PERMITTED ADDITIONAL CHARGES:

In connection with consumer credit sales and consumer loans, the creditor is permitted to contact for and receive the following additional charges:

1. **Fees prescribed by law and paid to public officials** for determining the existence of or for perfecting, releasing, or satisfying a security interest related to the transaction or the **premiums paid for non-filing insurance,** if **not** in excess of the actual fees

2. **Taxes** which are legally imposed on debtors.

3. **Insurance** written in connection with the credit transaction **against loss of or damage to property, or against liability**, if the creditor furnishes a clear and specific statement in writing to the debtor setting forth the cost of the insurance if obtained from or through the creditor, and stating that the debtor is entitled to select the person through whom, the insurance is obtained, subject to the creditor's reasonable approval.

4. Consumer **credit insurance written** in connection with the transaction which provides life, accident, unemployment or other loss of income, or health coverage, if the insurance coverage is not a factor in the approval by the creditor of the extension of credit and this fact is clearly disclosed in writing to the debtor, and if in order to obtain the insurance the debtor gives his specific affirmative written indication of his desire to purchase the insurance after written disclosure to him of the cost thereof.

    a. The term "consumer credit insurance" means insurance other than insurance on property by which the satisfaction of the debt in whole or in part is a benefit provided, but **excludes**:

        i. Insurance issued as an isolated transaction on the part of the insurer not related to an agreement or plan for insuring debtors of the creditor or

        ii. insurance indemnifying the creditor against loss due to the debtor's default

    The charges for consumer credit insurance providing life, accident, or health coverage and the charges for property or liability insurance are automatically to be considered as a part of the finance charge when any of the conditions required to classify them as additional charges **are not fulfilled**.

5. Reasonable **"closing costs"** are considered as additional charges in connection with consumer credit sales and consumer loans secured by an interest in land.

    a. **"Closing costs"** as used here means:

        i. surveys, or similar purposes;

ii. fees for preparation of a deed, mortgages, and reconveyance, settlement statement, and similar documents;

iii. fees for notarizing deeds and other documents;

iv. credit report fees;

v. amounts required to be paid into escrow or trustee accounts if the amounts would not otherwise be included in the loan finance charge; and

vi. appraisal fees.

With respect to consumer credit sales and loans "secured by an interest in land," the closing costs must be bona fide, reasonable in amount, and not for the purpose of circumvention or evasions of the UCCC.

6. A charge not to exceed twenty dollars ($20) for each return by a bank or other depository institution of a **dishonored check**, negotiable order of withdrawal, or share draft issued by the debtor. The additional charge is **not subject to refund or rebate**.

7. **Annual or periodic participation fees** assessed in connection with a revolving charge or loan account.

"OTHER BENEFITS" ADDITIONAL CHARGES:

The Department of Financial Institutions is authorized to adopt rules permitting charges for other benefits that are of a type which is not for credit, and are excluded as permissible additional charges from the finance charge, including insurance, conferred on the debtor, if the benefits are of value to the debtor apart from the granting of credit and the charges are reasonable in relation to the benefits.

With respect to any additional charge not specifically provided for in the Indiana Uniform Consumer Credit Code, to be a permitted charge, the creditor must submit a written explanation of the charge to the Department indicating how the charge would be assessed and the value or benefit to the buyer.

OTHER ADDITIONAL CHARGES (LOANS):

1. A fee with respect to a revolving loan account not to exceed twenty dollars ($20) in each billing cycle during which the balance due under the revolving loan account **exceeds the maximum credit limit** established by the lender for the account by more than one hundred dollars ($100

2. A **transaction fee** with respect to a revolving loan account that may not exceed the lesser of two percent (2%) of the amount of the transaction or ten dollars ($10). The additional charges are not subject to refund or rebates.

SMALL LOANS ADDITIONAL FEE:

Notwithstanding any other law, only the following fee may be contracted for and received by the lender on a small loan or subsequent refinancing: An additional charge may be made not to exceed twenty dollars ($20) for each return by a bank or other depository institution of a dishonored check, negotiable order of withdrawal, or share draft issued by the consumer. This additional charge may be assessed one (1) time regardless of how many times a check may be submitted by the lender and dishonored.

DELINQUENCY CHARGES

PREREQUISITES TO CHARGING:

The rules with respect to delinquency charges are essentially the same for consumer credit sales and consumer loans. In order for the creditor to be entitled to the collection and retention of delinquency charges in the event of late payment, the following conditions must or had to be satisfied:

1. The creditor must actually **contract for** any delinquency charges received and may not retain delinquency charges in excess of the dollar amount or percentage contracted for;

2. At least a part of the installment or minimum payment due on which the delinquency charge may be computed must be **unpaid 11 days or more** after its scheduled due date, based upon the "current installment rule"

   Should the creditor specify in the note or other evidence of indebtedness that a delinquency charge will not be imposed until after the 15th day, he will be bound by that contractual provision and may not impose a delinquency charge on the 11th day; and

3. The **maximum delinquency charge** which may be contracted for is a delinquency charge of not more than **[$16.00]** on any installment or minimum payment due on all consumer credit accounts made on or after 07/01/02.

The dollar amount in [ ] is subject to biannual change and the escalation of the maximum delinquency charge with respect to consumer credit transactions consummated prior to the effective date of such changes is allowed if contracted for and disclosed.

The dollar amount in [ ] is subject to biannual change pursuant to the Indiana Uniform Consumer Credit Code section on adjustment of dollar amounts. If the parties provide by contract for a delinquency charge that is subject to change, the creditor shall disclose in the contract that the amount of the delinquency charge is subject to change as allowed by IC 24-4.5-1-106.

The charge may only be imposed on installments or minimum payments due which are more than 10 days delinquent; Further, no more than **one delinquency charge of this type may be collected per installment or payment due** and no delinquency charge of this type may be collected if the installment has been deferred and a deferral charge has been collected or incurred on a precomputed account (**deferral charges are not permitted on interest bearing or open end accounts**).

DELINQUENCY CHARGES ON REVOLVING CREDIT SALES & REVOLVING LOAN ACCOUNTS:

With regard to a delinquency charge on consumer credit sales made under a revolving charge account and on consumer credit loans made under a revolving loan account, the delinquency charge (Indiana maximum $16.00) may be applied each month that the **payment is less** than the contracted minimum required payment on the account not paid in full within ten (10) days after its scheduled due date. Out-of-State banks may export their State's delinquency charges, so they can be higher than Indiana's $16.00 delinquency charge.

CURRENT INSTALLMENT RULE:

Payments are to be applied first to the "current installment" and then to earlier maturing delinquent

installments. A payment is "current" if it is paid within ten (10) days of the due date. For example, if a payment due May 1 is paid on June 2, it is considered the June payment. A delinquency charge may be imposed for May, but a delinquency charge could never be imposed on the June payment.

Delinquency charges can be collected anytime after they are due. Delinquency charges can be added to the balance of accounts when they are due and finance charges may be imposed on unpaid delinquency charges on simple or interest bearing accounts.

SMALL LOAN DELINQUENCY CHARGES:

Notwithstanding any other law, The parties may contract for a delinquency charge of not more than five dollars ($5) on any installment not paid in full within ten (10) days after its scheduled due date.

A delinquency charge may be collected only once on an installment, however long it remains in default. A delinquency charge may be collected any time after it accrues.

DEFAULT CHARGES

LIMITATIONS:

The following are the only default charges permitted to be contracted for and/or received.

CONSUMER CREDIT SALES & CONSUMER LOANS:

1. Reasonable expenses incurred in realizing on a security interest;
2. Reasonable attorney's fees.

Those not listed are expressly prohibited.

DEFERRAL CHARGES

INTRODUCTION:

Deferral charges are charges imposed on the debtor as a condition of or as a result of his missing one or more scheduled payments or parts thereof on a **precomputed** consumer credit transaction (deferral charges are **not permitted** on simple interest or open end accounts). The deferral concept is an alternative to refinancing the entire contract when the debtor is unable to make payments for a period of time.

The Indiana Uniform Consumer Credit Code regulates maximum deferral charges with respect to consumer credit sales, consumer related sales, consumer loans, and consumer related loans.

Unless a transaction is **precomputed**, **no** separate deferral charge is permitted to be imposed. Only on precomputed transactions is the creditor not otherwise compensated for the debtor's delay in making the scheduled payments when due.

WHEN A DEFERRAL CHARGE MAY BE IMPOSED:

A deferral charge may be imposed only if the parties agree to the deferral in **writing**. This may be done before or after the debtor's default. If the deferral is granted before the expiration of 11 days after the due date of the installment (or part thereof) being deferred, the debtor must sign a separate deferral agreement. If the deferral is granted on or after the 11th day, the creditor may unilaterally impose the deferral charge

(without a debtor signed separate deferral agreement) **provided that** the original agreement (contract, note, etc.) executed by the debtor contained such a provision

The deferral charge imposed may be collected at the time the deferral is granted or at any time thereafter (e.g., at the time of payoff). If a delinquency charge has already been collected or imposed with respect to the period of the delinquency for which the deferral charge applies, the creditor **must refund the delinquency charge**; however, the creditor is not required to refund the delinquency charge assessed on a given installment when the deferral charge imposed is for a different period of time.

DETERMINING THE AMOUNT DEFERRED & THE PERIOD OF THE DEFERRAL:

The parties to the deferral may either treat the payments due during the period of the deferral as delayed until made after the original maturity of the contract, or, in the alternative, to treat the gross unpaid balance of the account as delayed for the period of the deferral. For example, if the parties agree to a one month deferral at the time of the 10th of 36 monthly payments is due, the deferral may be considered as postponing the payment of the single installment for 27 months (36 payments - 9 payments already made) until it is made at the end of the 37th month (i.e., one month past the original scheduled maturity date) or as delaying all 27 remaining unpaid installments by one month.

The parties may agree to defer all or part of one or more unpaid installments as well as to defer the appropriate amount to a date before, on, or after the original scheduled maturity date of the transaction.

The amount deferred (i.e., the payment or the gross unpaid balance of the account) usually determines the amount of the deferral charge imposed. Thus, when the gross unpaid balance includes imposed but uncollected default or deferral charges, the creditor may generally impose a higher deferral charge by deferring it rather than deferring the payment amount.

Whichever method is used to arrive at the amount to be deferred, the creditor will generally defer the appropriate amount in whole increments of a month; however, it is perfectly permissible to defer fractions of a month as well. A “month” as used herein means a “calendar month” that is, a month is considered as that period of time extending from a given date in one month to the like date in the next succeeding month and if there is no such like date, then to the last day of that succeeding month. In dealing with periods of time less than a month or more than a month (multiple of a month), the Indiana Uniform Consumer Credit Code permits the creditor to treat such odd period by treating each day as 1/30th of a month.

DETERMINING THE AMOUNT OF THE DEFERRAL CHARGE:

The Indiana Uniform Consumer Credit Code limits the rate of the deferral charge in the case of consumer credit sales and consumer loans to the **“annual percentage rate” disclosed** to the debtor at the time of the original contract with respect to the terms of the original contract.

ILLUSTRATION OF "CURRENT INSTALLMENT RULE"

Assume that a particular precomputed credit transaction is payable in 12 installments of $200 each beginning on July 1, 2002, and continuing at equal monthly intervals thereafter. The debtor makes the following payments:

07/18/02	$200.00	12/24/02	$200.00
07/31/02	$216.00	02/07/03	$200.00
09/08/02	$400.00	03/05/03	$200.00
11/03/02	$100.00	04/20/03	$644.00
11/20/02	$100.00	07/14/03	$252.00

The application of payments would be as follows:

Installment Due	Installment Paid		Del. Chg. Earned	Del. Chg. Paid
07/01/02	07/18/02	($200)	$16.00	07/31/02
08/01/02	07/31/02	($200)		
09/01/02	09/08/02	($200)		
10/01/02	09/08/02	($200)		
11/01/02	11/03/02	($100)		
	11/20/02	($100)	$16.00	04/20/03
12/01/02	12/24/02	($200)	$16.00	04/20/03
01/01/03	04/20/03	($200)	$16.00	04/20/03
02/01/03	02/07/03	($200)		
03/01/03	03/05/03	($200)		
04/01/03	04/20/03	($200)	$16.00	04/20/03
05/01/03	04/20/03	($180)		
	07/14/03	($ 20)	$16.00	07/14/03
06/01/03	07/14/03	($200)	$16.00	07/14/03

MAXIMUM DEFERRAL CHARGE

The following examples will illustrate various methods for computing the "maximum" deferral charge:

EXAMPLE #1:

Date of loan 1/1/02	Disclosed APR of 18.00%
12 payments @ $100.00	First payment due 02/14/02

After making the four payments due on the 14th day of February, March, April, and May, the parties agreed to defer the June and July installments (the 5th and 6th installments) so that the June installment is deferred until one month past the original scheduled maturity date of the transaction and the July installment is deferred until one month past the "new" due date of the June installment.

FORMULA

(APR / 100) / 12 x amount of payment (or partial payment) deferred
x number of months deferred* = maximum deferral charge

* (The number of months deferred is determined by subtracting the number of payments coming due prior to the due date of the installment deferred (4) from the total number of payment periods to the present maturity (12) equals the number of months the payment is deferred (8).)

Using the above example:

(18.0 / 100) / 12 x $100 x 8 = $12.00 maximum deferral charge for the June installment.

The July deferral charge would be the same as the June deferral charge given above as the number of months deferred for the July payment would be the same also, (4 + 1) - (12 + 1) = 8 months deferred.

EXAMPLE #2:

Date of loan 1/1/02	Disclosed APR of 18.00%
12 payments @ $100.00	First payment due 02/14/02

At the time the June 14th payment comes due, the parties agree to defer the gross unpaid balance of the account for one month, which at the time of the deferral stood at $820.00, including 4 accrued and unpaid delinquency charges.

FORMULA

(APR / 100) / 12 x gross balance = maximum deferral charge Using the above example:

(18.0 / 100) / 12 x $820 = $12.30 maximum deferral charge for the June installment.

EXAMPLE #3:

On April 24th the debtor contacts the creditor and requests that beginning with the May 14th payment each due date be changed to the 30th of the month. The creditor agrees to the change and contracts for a deferral charge.

FORMULA

(APR / 100) / 360 x amount of each payment x number of payments deferred
x number of days deferred = maximum deferral charge

Using the terms of Example #2:

18.0 / 100) / 360 x $100 x 9 x 16 = $7.20 maximum deferral charge for deferring the due date for 16 days

It should also be noted, however, that the creditor could compute a deferral charge for changing the due date by deferring the gross unpaid balance of the account.

REBATES AND REPAYMENT PENALTIES

FINANCE CHARGE REBATES

INTRODUCTION:

Upon prepayment in full of the unpaid balance of a **precomputed** consumer credit sale or consumer loan, or a refinancing or consolidation, the debtor is entitled to a rebate of the unearned finance charge based upon the "**sum of the balances method**" (referred to as the **"Rule of 78's"**).

THE BASIC "SUM OF THE BALANCES" FORMULA:

The unearned portion of the finance charge is a fraction of the finance charge of which the numerator is the sum of the periodic balances scheduled to follow the computational period in which prepayment occurs, and the denominator is the sum of all periodic balances under the agreement. The quick formula for computing a rebate is:

$$\frac{\text{Number of months unearned} \times \text{Number of months unearned} + 1}{\text{Months in Term} \times \text{Months in Term} + 1} \times \text{Finance Charge} = \text{Rebate}$$

Example quick formula:

12 month contract opened 2/5 prepaid 8/6. Finance charge is $80.00

12 - 7 (2/5 to 8/6= 6 months + 1 day = another month)* = 5 months unearned
*One or more days into the next month gives a whole month earned.

Months in Term = 12

$$\frac{5 \times 6}{12 \times 13} = \frac{30}{156} = .1923 \times \$80.00 = \$15.38 \text{ Finance Charge Rebate}$$

Example by Sum of the Balances:

Computational Periods				Sum of Balances	Balance to Follow
1	02/05	to	03/05	$1,080.00	
2	03/06	to	04/05	990.00	
3	04/06	to	05/05	900.00	
4	05/06	to	06/05	810.00	
5	06/06	to	07/05	720.00	
6	07/06	to	08/05	630.00	
7	08/06	to	09/05	540.00	
8	09/06	to	10/05	450.00	$ 450.00
9	10/06	to	11/05	360.00	360.00
10	11/06	to	12/05	270.00	270.00
11	12/06	to	01/05	180.00	180.00
12	01/06	to	02/05	90.00	90.00
	Totals			$7,020.00	$1,350.00

1,350 / 7,020 = .1923 .1923 x $80.00 = $15.38 Rebate

EXCEPTIONS TO THE "SUM OF THE BALANCES METHOD" UNDER SPECIAL SITUATIONS:

1. The creditor may contract for a "minimum charge" which can exceed the "sum of the balances method" earnings in the event of prepayment of a small balance transaction.

2. The creditor is **not** required to give a rebate if the unearned finance charge **plus** the unearned deferral charge, if any, total less than $1.00.

3. Upon prepayment of the transaction by the proceeds of "consumer credit insurance," including both life and A & H insurance, the debtor or his estate is entitled to the same rebate as though the debtor had prepaid **on the date the proceeds are paid to the creditor BUT** in any event, **no later than ten (10) business days** after satisfactory proof of loss is furnished to the creditor

4. **Terms In Excess Of 61 Months:**

   On rebates of credit sales or loans with a term of more than sixty-one (61) months, the unearned part of the finance charge shall be computed by applying the disclosed annual percentage rate that would yield the finance charge originally contracted for to the unpaid balances of the amount financed for the full computational periods following the prepayment, as originally scheduled or as deferred (known as the **actuarial method**).

PREPAYMENT PENALTY

A lender may contract for and impose a penalty for prepayment in full of a **loan primarily secured by an interest in land not to exceed two percent (2%) of any amount prepaid within sixty (60) days of the date of the prepayment in full, after deducting all refunds and rebates as of the date of the prepayment."**

The penalty may **not** be imposed:

1. if the loan is refinanced or consolidated with the same creditor;

2. for prepayment by proceeds of any insurance;

3. on acceleration after default; or

4. after three (3) years from the contract date.

At the time of prepayment of a consumer loan not subject to the provisions of rebate upon prepayment, the total finance charge, including the prepaid finance charge but excluding the loan origination fee, may not exceed the maximum charge allowed under the Code for the period the loan was in effect.

PRECOMPUTED Vs SIMPLE INTEREST

PRECOMPUTED ACCOUNTS AND THE RULE OF 78'S

A “precomputed” account is one which the account balance includes the finance charge and each month the full payment is subtracted from the balance. If the account pays off before maturity, a rebate of the unearned finance charge is given based on a method called “the rule of 78's”

The Rule of 78's is commonly, even widely, used but is understood by very few people. It is a method of refunding finance charges and/or credit insurance premiums on consumer credit precomputed transactions when the borrower prepays the account in full. It is not the only refunding method that is available under the law.

The Rule of 78's is also known as the sum of the digits. In fact, the 78 is a sum of the digits of the months in a year: 1 plus 2 plus 3 plus 4, etc., to 12, equals 78. Under the rule, each month in the contract is assigned a value which is exactly the reverse of its occurrence in the contract. Hence, the 1st month of a 12 month contract gets the value of 12 over 78, the second month 11 over 78, etc., until the 12th month gets a value of 1/78. As the months elapse, the interest is earned by the lender equal to the total value of the expired months.

For example, prepaying after 2 months would result in the lender being able to keep 23/78 or 29.48% of the finance charges. In another example, if the borrower prepays after 6 months, the lender would have earned 57/78's or 73.08% of the finance charges.

This is not as unfair as it seems. Even with a simple interest refunding, the borrower would not get a 50 percent interest rebate for having prepaid after half the term for the simple reason that you have more money borrowed early in the contract than at the end. The Rule of 78's will cost more upon prepayment but not as disproportionately more as it might seem.

Of course, most consumer credit contracts are longer than 12 months now and the sum of the digits is not confined to a 12 month contract.

SIMPLE INTEREST

Simple interest is calculated from payment date to payment date on the principal balance outstanding at the contracted rate. When a payment is received the interest due is subtracted from the payment and the remaining amount is applied to reduce the principal balance.

At prepayment the amount due is the principal balance plus the interest due since the last payment.

NOTE: If a contract is paid out to the full term, the type of loan, precomputed or simple interest, is of no consequence. The Rule of 78's does not have any effect on the earnings of a contract which is paid at maturity. Only prepayment will have the effect of the Rule of 78's raising the cost of the credit. Under the law, an actuarial rebate is given on precomputed accounts with a term over 61 months instead of by the Rule of 78's.

From the following chart, we can see the percentage difference of the cost of a loan between a simple interest unearned and the Rule of 78's refund.

In the example given, if the precomputed account pays at maturity, the total finance charge paid would be the $1,462.36. If a simple interest account did not have payments made on time, the interest could be greater than the precomputed account since interest is generally computed from payment date to payment date.

Compare Unearned Finance Charges
Simple Interest Vs Rule of 78's

$5,000 Loan for 36 months @ 17.5%, Interest $1,462.36					
Months Elapsed	Simple Interest		Rule of 78's		Difference Amount
	%	Unearned	%	Refund	
1	95.01	1389.44	94.59	1383.25	6.19
2	90.13	1318.08	89.34	1306.47	11.61
3	85.36	1248.29	84.23	1231.75	16.54
4	80.70	1180.11	79.28	1159.36	20.75
5	76.15	1113.55	74.47	1089.02	24.53
6	71.71	1048.64	69.82	1021.02	27.62
7	67.38	985.40	65.32	955.21	30.19
8	63.18	923.85	60.96	891.45	32.40
9	59.08	864.02	56.76	830.04	33.98
10	55.11	805.94	52.70	770.66	35.28
11	51.26	749.63	48.80	713.63	36.33
12	47.53	695.12	45.05	658.79	36.43
13	43.93	642.43	41.44	606.00	36.04
14	40.45	591.59	37.99	555.55	36.00
15	37.11	542.62	34.68	507.15	35.47
16	33.89	495.56	31.53	461.08	34.48
17	30.80	450.43	28.53	417.21	33.22
18	27.85	407.26	25.68	375.53	31.73
19	25.03	366.08	22.97	335.90	30.18
20	22.36	326.92	20.42	298.61	28.31
21	19.82	289.80	18.02	263.52	26.28
22	17.42	254.76	15.77	230.61	24.15
23	15.17	221.83	13.66	199.76	22.07
24	13.06	191.03	11.71	171.24	19.79
25	11.11	162.40	9.91	144.92	17.48
26	9.30	135.97	8.26	120.79	15.18
27	7.64	111.77	6.76	98.86	12.91
28	6.14	89.84	5.41	79.11	10.73
29	4.80	70.21	4.20	61.42	8.79
30	3.62	52.91	3.15	46.06	6.85
31	2.60	37.97	2.25	32.90	5.07
32	1.74	25.43	1.50	21.94	3.49
33	1.05	15.33	.90	13.16	2.17
34	.53	7.70	.45	6.58	1.12
35	.18	2.58	.15	2.19	.39
36	-0-	-0-	-0-	-0-	-0-

WHAT ARE DEBTOR'S REMEDIES?

The Indiana Uniform Consumer Credit Code and federal statutes contain provisions which can help debtors remedy certain situations. Some of the major debtor remedies are listed below:

RIGHT OF RESCISSION:

The debtor has the right to rescind a contract under the following conditions:

1. If a credit seller comes to the buyer's residence or a location outside the credit sellers business location and initiates a credit sale, it is **a home solicitation sale**. In this type of a credit sale, the debtor has **three business days** in which they can think the deal over and rescind or cancel the transaction by notifying the credit seller within the three business day period.

2. **A refinance of a first lien mortgage or a second mortgage loan** has a **three business day** rescission period also. This gives the debtor time to look over the contract and to make sure they wish to complete the transactions. If a debtor decides to rescind or cancel the mortgage, they must notify the lender in writing within in the three business day period. The lender must then refund any funds paid by the debtor in regard to the rescinded mortgage.

DEFICIENCY BALANCES:

In a **credit sale**, if the seller repossesses or voluntarily accepts surrender of goods which were the subject of the sale and in which the seller has a security interest and the cash price of the goods repossessed or surrendered was $3,200 or less, the buyer is not personally liable to the seller for the unpaid balance of the debt arising from the sale of the goods, and the seller is not obligated to resell the collateral.

GARNISHMENTS:

"Garnishment" means any legal or equitable proceedings through which the earnings of an individual are required to be withheld by a garnishee, by the individual debtor, or by any other person for the payment of a judgment. Prior to entry of judgment in an action against the debtor, no creditor may attach unpaid earnings of the debtor by garnishment or like proceedings.

Garnishment judgments against an individual may not exceed:

1. twenty-five percent (25%) of his disposable earnings for that week; or

2. the amount by which his disposable earnings for that week exceed thirty (30) times the Federal minimum hourly wage prescribed by 29 U.S.C. 206(a)(1) in effect at the time the earnings are payable; whichever is less.

No employer shall discharge an employee for the reason that a creditor or creditors of the employee has subjected or attempted to subject unpaid earnings of the employee to garnishment or like proceedings directed to the employer for the purpose of paying a judgment or judgments.) If an employer discharges an employee in violation of the provisions prohibiting discharge (IC 24-4.5-5-106), the employee may within six (6) months bring a civil action for recovery of wages lost as a result of the violation and for an order requiring the reinstatement of the employee. Damages recoverable shall not exceed lost wages for six (6) weeks.

EXTORTIONATE EXTENSIONS OF CREDIT:

If it is the understanding of the creditor and the debtor at the time an extension of credit is made that delay in making repayment or failure to make repayment could result in the **use of violence or other criminal means to cause harm to the person, reputation, or property of any person**, the repayment of the extension of credit is unenforceable through civil judicial processes against the Indiana debtor.

If it is shown that an extension of credit was made at an annual rate exceeding forty-five percent (45%) calculated according to the actuarial method and that the creditor then had a reputation for the use or threat of use of violence or other criminal means to cause harm to the person, reputation, or property of any person to collect extensions of credit or to punish the nonrepayment thereof, there is prima facie evidence that the extension of credit was unenforceable.

UNCONSCIONABILITY:

With respect to a consumer credit sale, consumer lease, or consumer loan, if the court as a matter of law finds the agreement or any clause of the agreement to have been unconscionable at the time it was made, the court may refuse to enforce the agreement, or it may enforce the remainder of the agreement without the unconscionable clause, or it may so limit the application of any unconscionable clause as to avoid any unconscionable result.

EFFECT OF VIOLATIONS ON RIGHTS OF PARTIES:

If a creditor has violated the provision of the Indiana Uniform Consumer Credit Code applying **to limitations on the schedule of payments or loan term for supervised loans**, (the Code limits terms on loan with Annual Percentage Rates in excess of 21% depending on the amount of the loan) the debtor is not obligated to pay the loan finance charge, and has a right to recover from the person in violation or from an assignee of that person's rights who undertakes direct collection of payments or enforcement of rights arising from the debt a penalty in an amount determined by the court not in excess of **three times the amount of the loan finance charge**. No action pursuant to the Code may be brought more than one year after the due date of the last scheduled payment of the agreement with respect to which the violation occurred.

If a creditor has violated the provisions of the Indiana Uniform Consumer Credit Code applying **to authority to make consumer loans, the loan is void and the debtor is not obligated to pay either the principal or loan finance charge.** If the debtor has paid any part of the principal or of the loan finance charge, the debtor has a right to recover the payment from the person violating this Article or from an assignee of that person's rights who undertakes direct collection of payments or enforcement of rights arising from the debt. With respect to violations arising from loans made pursuant to revolving loan accounts, no action pursuant to this subsection may be brought more than two years after the violation occurred. With respect to violations arising from other loans, no action pursuant to the Code may be brought more than one year after the due date of the last scheduled payment of the agreement pursuant to which the charge was paid.

A debtor is **not obligated to pay a charge in excess of that allowed by the Indiana Uniform Consumer Credit Code**, and if the debtor has paid an excess charge **the debtor has a right to a refund**. A refund may be made by reducing the debtor's obligation by the amount of the excess charge. If the debtor has paid an amount in excess of the lawful obligation under the agreement, the debtor may recover the excess amount from the person who made the excess charge or from an assignee of that person's rights who undertakes direct collection of payments from or enforcement of rights against debtors arising from the debt.

If a debtor is entitled to a refund and a person liable to the debtor refuses to make a refund within a reasonable time after demand, the debtor may recover from that person a penalty in an amount determined by a court not exceeding the greater of either the amount of the credit service or loan finance charge or ten (10) times the amount of the excess charge. If the creditor has made an excess charge in deliberate violation of or in reckless disregard for the Code, the penalty may be recovered even though the creditor has refunded the excess charge. With respect to excess charges arising from sales made pursuant to revolving charge accounts or from loans made pursuant to revolving loan accounts, no action pursuant to the Code may be brought more than **two years** after the time the excess charge was made. With respect to excess charges arising from other consumer credit sales or consumer loans, no action pursuant to the Code may be brought more than one year after the due date of the last scheduled payment of the agreement pursuant to which the charge was made.

In any case in which it is found that a creditor has violated the Code, the court may award reasonable attorney's fees incurred by the debtor.

CASE STUDY 1

CASE 1

John Brown saw a sign in Mr. Check Casher that said they would cash a check and hold the check until your next pay-day. He was short of funds and decided to take them up on their offer. He wrote a check for $140.00 and was given $100.00. The check was to be deposited the next Friday which was John's next pay day.

John got to thinking that $40.00 was a lot of money for a $100.00 advance and he called the Department of Financial Institutions to see if Mr. Check Casher could charge that much.

He found out that Mr. Check Casher had a license to cash checks, but he had made John a loan and Mr. Check Casher did not have a loan license.

What is John's remedy?

Would the $40.00 charge comply with the Indiana Uniform Consumer Credit Code if Mr. Check Casher had a loan license?

CASE 2

Mary Smith bought a car from ABC Used Cars. They financed the car which had a cash price of $2,999.00. Mary missed a payment after her third payment of $154.11 and ABC Used Cars repossessed the car. ABC Used Cars informed Mary that they sold the car for $2,000.00 and that she would have to pay the remaining balance of $1,236.32 on her account.

Does Mary owe the deficiency balance of $1,236.32?

HIDDEN WORD PUZZLE ANSWER

Can you find and circle the hidden words? They read up, down, across, forward, backward, and diagonally.

D	E	F	E	R	R	A	L	I	E	L	U	R
E	L	T	P	R	E	P	A	Y	M	E	N	T
L	A	I	R	T	B	E	D	E	E	A	I	A
I	P	D	R	O	A	N	U	L	I	D	T	L
N	S	E	A	C	T	A	E	P	R	I	C	E
Q	E	R	T	N	E	L	I	F	E	E	C	A
U	C	C	C	T	O	T	A	M	D	O	E	S
E	A	A	A	A	E	Y	R	S	N	I	C	E
N	N	R	N	X	O	E	D	S	E	L	A	S
C	O	D	E	U	T	O	U	A	L	I	V	E
Y	E	S	A	A	O	M	A	X	I	M	U	M
C	H	A	R	G	E	E	C	I	V	R	E	S
E	C	N	A	R	U	S	N	I	D	A	E	R

ACT	DUE	LOAN	RULE
CARDS	ELAPSE	MAXIMUM	SERVICE
CODE	FEE	PENALTY	TAX
CONSUMER	GOODS	PREPAYMENT	TERM
CREDIT	INSURANCE	PRICE	UCCC
DEBT	LEASE	RATE	UNIT
DEFERRAL	LENDER	REBATE	
DELINQUENCY CHARGE			

See what other small words you can find.

HIDDEN WORD PUZZLE ANSWER

Can you find and circle the hidden words? They read up, down, across, forward, backward, and diagonally.

D	E	F	E	R	R	A	L	I	E	L	U	R
E	L	T	P	R	E	P	A	Y	M	E	N	T
L	A	I	R	T	B	E	D	E	E	A	I	A
I	P	D	R	O	A	N	U	L	I	D	T	L
N	S	E	A	C	T	A	E	P	R	I	C	E
Q	E	R	T	N	E	L	I	F	E	E	C	A
U	C	C	C	T	O	T	A	M	D	O	E	S
E	A	A	A	A	E	Y	R	S	N	I	C	E
N	N	R	N	X	O	E	D	S	E	L	A	S
C	O	D	E	U	T	O	U	A	L	I	V	E
Y	E	S	A	A	O	M	A	X	I	M	U	M
C	H	A	R	G	E	E	C	I	V	R	E	S
E	C	N	A	R	U	S	N	I	D	A	E	R

ACT	DUE	LOAN	RULE
CARDS	ELAPSE	MAXIMUM	SERVICE
CODE	FEE	PENALTY	TAX
CONSUMER	GOODS	PREPAYMENT	TERM
CREDIT	INSURANCE	PRICE	UCCC
DEBT	LEASE	RATE	UNIT
DEFERRAL	LENDER	REBATE	
DELINQUENCY CHARGE			

OTHER WORDS

ACE	BE	IT	NEAR	TEE
ACT	BOAR	LAIR	NICE	TIP
AGO	CAN	LEAD	PEN	TROT
AIR	DIE	LENT	PIP	US
ALIVE	DOES	LIE	PIT	YEA
AM	END	LIFE	RAT	YELP
AN	FILE	LIVE	READ	YES
AS	ICE	MAT	SALT	TAR
ATE	IN	MATE	SEA	TOT

The Indiana Uniform Consumer Credit Code, IC 24-4.5, contains regulations concerning consumer credit sales and leases such as:

DEFINITIONS

"**Consumer Credit Sale**" is a sale of goods, services, or an interest in land:

for a personal, family, or household purpose;

the credit is granted by a person who regularly engages as a seller in credit transactions;

the buyer is a person other than an organization;

either the debt is payable in installments or a credit service charge (finance charge) is made; and

the amount financed does not exceed $50,000 unless the debt is secured by personal property used or expected to be used as the principal dwelling of the buyer.

"**Services**" includes:

work, labor, and other personal services;

privileges with respect to transportation, hotel and restaurant accommodations, education, physical culture, hospital accommodations, funerals, cemetery accommo-dations, etc.

insurance provided by a person other than the insurer.

"**Consumer lease**" means a lease of goods:

a lessor regularly engaged in the business of leasing makes to a person, other than an organization, a lease primarily for a personal, family, or household purpose;

the amount payable under the lease does not exceed $50,000; and

is for a term exceeding four (4) months.

"**Regularly engaged**" means a person who extends consumer credit in the preceding calendar year or in the current calendar year more than 25 times or 5 times for transactions secured by a dwelling.

MAXIMUM CHARGES

Closed-end credit sales maximum rate is a melded rate based on a step rate of 36% on the portion of the amount financed up to $960 (effective 7/1/02); 21% on the portion of the amount financed from $960.01 to $3,200; and 15% on the portion of the amount financed over $3,200; or 21%, whichever is greater.

There is also a minimum finance charge allowed of $36.00 (effective 7/1/02).

Open-end revolving charge sales maximum rate is 1 3/4% per month (21% APR) with a minimum charge of 50 cents per billing cycle.

ADDITIONAL CHARGES

Additional Charges may be imposed as follows:

- Official fees and taxes.
- Charge not to exceed $20 for each returned NSF check.
- Property or liability insurance if the cost is disclosed and the buyer may choose from whom the insurance is to be obtained.
- Credit insurance if it is not a factor in the approval of the credit and the buyer gives affirmative, written indication of desire for the insurance. If a creditor requires credit insurance, it must be included in the finance charge and reflected in the APR.
- Closing costs on a debt secured by an interest in land.
- Other charges approved by the Department.

DELINQUENCY CHARGES

A creditor may contract for and receive a delinquency charge of not more than $16.00{effective 7/1/02) when a payment is made more than 10 days past the due date. Payments are applied to current installments then to delinquent installments.

REBATE UPON PREPAYMENT

Unearned finance charges based on the "Rule of 78s" rebate are to be given upon prepayment in full of a precomputed credit sale. Contracts over 61 months are to have finance charges rebated on an actuarial basis. The actuarial method is computed by applying the disclosed annual percentage rate to the unpaid balances of the amount financed for the full computational periods following the prepayment, as originally scheduled or as deferred.

DEFERRAL CHARGES

A creditor may contract for and receive a deferral charge on precomputed contracts at the disclosed APR. Unearned deferral charges must be rebated upon prepayment in full.

BALLOON PAYMENTS

On a credit sale with a final payment twice as large as the earlier scheduled payments, the creditor must refinance the final payment for no less favorable terms than the original sale.

REFERRAL SALES

A credit seller or lessor may not give or offer to give a rebate or discount or otherwise pay or offer to pay value to the buyer or lessee as an inducement for a sale or lease in consideration of his giving to the seller or lessor the names of prospective purchasers or lessees, or otherwise aiding the seller if the earning of the rebate is contingent upon the occurrence of an event subsequent to the time the buyer agrees to the purchase.

ATTORNEY'S FEES

A creditor may contract for and receive reasonable attorney's fees.

LIMITATIONS ON DEFAULT CHARGES

Except for reasonable expenses incurred in realizing on a security interest, the agreement with respect to a consumer credit sale may not provide for any charges as a result of default by the debtor other than those authorized by the Indiana Uniform Consumer Credit Code.

RESTRICTION ON LIABILITY ON CONSUMER LEASE

The obligation of a lessee upon expiration of a consumer lease may not exceed three (3) times the average payment allocable to a monthly period under the lease. The limitation does not apply to charges for damages to the leased property or for other default.

USE OF MULTIPLE AGREEMENTS

A seller may not use multiple agreements with the intent to obtain a higher credit service charge (finance charge) than would otherwise be permitted by the Indiana Uniform Consumer Credit Code or to avoid disclosure of an annual percentage rate.

RESTRICTIONS ON DEFICIENCY JUDGMENTS ON CREDIT SALES

If the cash price of goods in which the credit seller has a security interest is $3,200 or less (effective 7/1/02) and the seller repossesses or voluntarily accepts surrender of the goods, the buyer is not personally liable to the seller for any unpaid deficiency balance on the sale of the goods, and the seller is not obligated to resell the collateral. If a seller elects to bring action against the buyer for a debt described above, the seller may not repossess the collateral.

CREDIT SELLERS

Businesses who make consumer credit sales and/or leases are required to file notification with the Department of Financial Institutions (DFI). If your business engages in consumer credit transactions which include financing your own credit sales or leases and assigning contracts to a financial institution, and you have not filed with the DFI, call the toll free or local number and request a filing form. There is no fee to file.

Contracts initiated by businesses who engage in consumer credit sales or leases who are not filed, could be deemed invalid.

The Notice of Intent Form and information is now on the Internet.

An annual Creditor's Notification Return is also required to be completed and returned to the DFI to keep filings current. Records of the volume of consumer credit transactions must be maintained when a business finances their own credit sales or assigns contracts to an institution who does not file (such as an out-of-state company, a federal saving institution, or a federal credit union)

If a credit seller has original unpaid balances (volume) of consumer credit sales, they must report that volume on the Creditor's Notification Return. The first $100,000 of volume is exempt from the filing fee. Volume in excess of $100,000 is subject to a fee per $100,000 or part thereof set by the DFI. The present filing fee is $16.00 per $100,000 or part thereof.
Other information requested on the Creditor's Notification Return is any change in filing information and a list of branch locations.

EXAMINATIONS

The DFI, in order to determine whether the provisions of the Indiana Uniform Consumer Credit Code are being complied with by persons engaging in acts subject to that Article, may examine the books and records of persons and may make investigations of persons as may be necessary to determine compliance. The DFI shall determine the sufficiency of the records and whether the person has made the required information reasonably available.

The records pertaining to any consumer credit transaction subject to the Indiana Uniform Consumer Credit Code shall be retained for two (2) years after making the final entry relating to the consumer credit transactions.

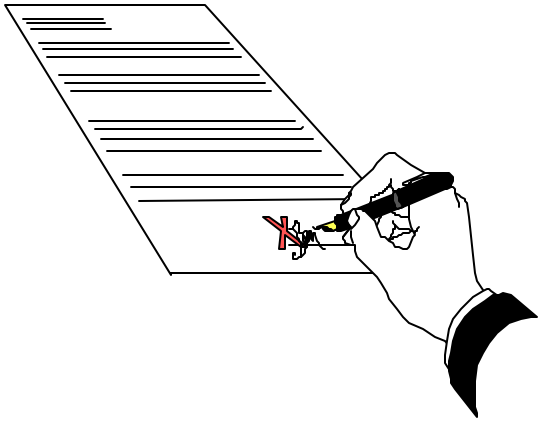
The DFI shall be given free access to the records wherever located. If the person's records are located outside Indiana, the records shall be made available to the DFI at a convenient location within Indiana, or the person shall pay the reasonable and necessary expenses for the DFI or its representative to examine them where they are maintained.

The DFI may assess an examination fee established by the department for each day or partial day by which the examination exceeds three (3) days per location to be examined. However, the examination fee provided for in the Code is payable only to the extent that the fee exceeds the amount of the filing fees paid most recently.

If you have any questions regarding filing notification, the Creditor's Notification Return, and/or examinations, contact the Department of Financial Institutions.

The Indiana Uniform Consumer Credit Code IC 24-4.5 is available on the Internet. Copies of the Indiana Uniform Consumer Credit Code may be obtained from the DFI in notebook form for $35.00.

Consumer Credit Sales & Leases



DEPARTMENT OF FINANCIAL INSTITUTIONS
Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880

The most important thing you need to know about credit insurance is that to be an allowable additional charge, IT IS VOLUNTARY. You have to give written indication that you desire the insurance.

TYPES OF CREDIT INSURANCE

Credit Life Insurance. . . .

Credit life insurance pays the gross or net amount of the credit transaction owed at the time of death. There are three types of credit life insurance:

◆Single life insurance covers the life of a single debtor in the transaction. If single life insurance is taken out on a transaction that both spouses signed, either the husband or the wife is the insured.

◆Joint life insurance covers the life of two debtors, usually the husband and wife.

Single and joint life insurance are reducing term insurance. This means the amount of insurance decreases as the balance of the credit transaction is reduced.

◆Level term life insurance is placed on single-pay credit transactions. The amount of the insurance does not decrease.

Credit Accident and Health Insurance. . . .

also known as Credit Disability Insurance

Credit accident and health or disability insurance make payments on the credit transaction when the insured is unable to work due to a disability such as an accident or a health problem.

The insurance takes effect after 7, 14, or 30 days of disability, then is payable from that date or is retroactive to the date of the accident or illness. The number of days and whether the period is retroactive or not depends upon the policy.

Unemployment Insurance. . . .

Unemployment insurance makes payment on the credit transaction in the event the insured becomes unemployed. Ask specific questions about unemploy-ment insurance since policies may offer different benefits.

COST OF INDIANA CREDIT INSURANCE

Credit insurance premiums are based on the gross amount of credit which includes the principal balance, including the credit insurance premium, and the interest.

Indiana Single credit life insurance rates. . . .

Single credit life insurance rates are $.65 per $100.00 of the initial insured indebtedness per year in Indiana. For example a loan with a total indebtedness of $1,000 for a term of 3 years would have a single credit life insurance premium of $19.50.

Indiana Joint credit life insurance rates. . . .

Joint credit life insurance rates are $1.08 per $100.00 of the initial insured indebtedness per year. In the above example, the joint credit life insurance premium would be $32.40.

Indiana Credit life insurance premiums on monthly balances outstanding. . . .

Credit life insurance premiums on monthly balances outstanding such as charge cards are $1.00 per $1,000.00 per month.

Indiana Level term life insurance rates. . . .

Level term life insurance rates are $1.20 per $100.00 of the initial insured indebtedness per year. A single payment transaction for $1,000.00 payable in 3 years would have a level term life insurance premium of $36.

Indiana Accident and health insurance rates. . .

Accident and health or disability insurance rates are based on a period of months of indebtedness, the waiting period, and whether or not the benefits are retroactive to the date of accident or illness per $100.00 of initial insured indebtedness. In the example of a $1,000.00 loan for 3 years, the premium for single accident and health insurance would be $38.00 for a 14 day waiting period with retroactive benefits.

Unemployment insurance rates. . . .

Unemployment insurance rates are based on approval from the Department of Insurance based on the terms of the policy.

WHAT IF THE CREDITOR REQUIRES CREDIT INSURANCE?

A creditor can require credit insurance on a loan; however, if it is required, it is no longer an allowable additional charge and the premium/s must be included in the finance charge and reflected in the annual percentage rate disclosed.

If a creditor states you must have credit insurance in order to get the loan, do not sign that you desire the insurance and make sure that it is not disclosed as an additional charge in the itemization of the amount finance. If it is and they want you to sign that you desire the insurance, they should be told that practice is a violation of federal Regulation Z and the Indiana Uniform Consumer Credit Code, contact our department.

PROPERTY INSURANCE

If the loan is secured by personal property, the creditor can require that the property be insured. You must be able to select your own insurance. If the creditor has insurance available, they must give you the cost of the premium and the term of the insurance.

If you get your own insurance, you must be sure the insurance shows a loss payee to the creditor and that the creditor gets a copy of the original insurance policy and a copy of renewals of the policy.

If the creditor does not receive proof that the property is insured, they can secure insurance and add it to your account along with finance charges on the premium. The cost of the insurance placed by creditors is usually more expensive then insurance that you could secure.

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The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

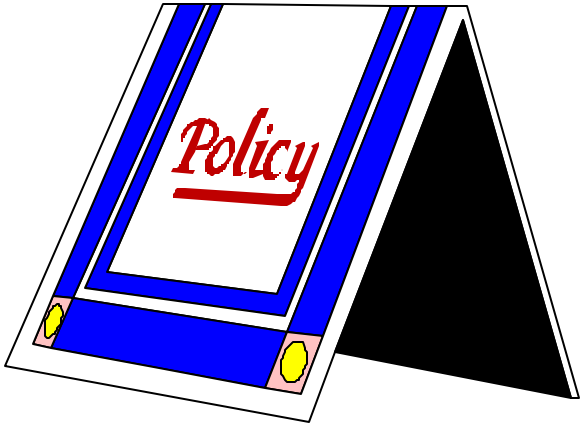
Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.

CREDIT INSURANCE

CREDIT LIFE

CREDIT DISABILITY

UNEMPLOYMENT



DEPARTMENT OF FINANCIAL INSTITUTIONS
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The Indiana Uniform Consumer Credit Code contains regulations concerning consumer credit sales; leases; loans; consumer related credit transactions; credit, property, and liability insurance; remedies and penalties; administration; and notification. The statute is regulated by the Department of Financial Institutions.

CHAPTER 1 GENERAL PROVISIONS AND DEFINITIONS

The main purposes of the Code are:

- to simplify, clarify, and modernize the laws governing retail installment sales, consumer credit, small loans, and usury;
- to provide rate ceiling to assure an adequate supply of credit to consumers;
- to further consumer understanding of the terms of credit transactions and to foster competition among suppliers of consumer credit so that the consumer may obtain credit at a reasonable cost; and
- to protect consumers against unfair practices of some suppliers of consumer credit.

Adjustment to Code Dollar Amounts

The Code has dollar amounts in numerous sections that are subject to change as the Cost Price Index for Urban Workers changes. They are subject to change every even numbered year if there is at least a 10% increase or decrease. Current dollar amounts are: the $300 amounts in the Code are now $960, the $1,000 amounts are now $3,200, and the $5.00 amounts are now $16.00.

Scope and Jurisdiction

Territorial application gives provisions on consumer credit transactions made to Indiana residents by out-of-state creditors.

Exclusions to the Code:

- credit extended to government or governmental agencies;
- sale of insurance by an insurer except as provided in the chapter on insurance;
- transactions under public utility, municipal utility, or common carrier tariffs regulated by State or federal agencies;
- the rates, charges, and disclosures of a licensed pawnbroker;
- credit for purposes other than a personal, family, or household purpose such as business, commercial, or agricultural purpose credit;
- installment agreement for the purchase of home fuels in which there is no finance charges imposed;
- loans made, insured, or guaranteed under a program authorized by Title IV of the Higher Education Act of 1965 (20 U.S.C. 1070 et seq.); and
- transactions in securities or commodities accounts in which credit is extended by a broker-dealer registered with the Securities and Exchange Commission or the Commodity Futures Trading Commission.

Definitions include:

"Consumer credit" is a loan, lease, sales of goods, services, or an interest in land for a personal family, or household purpose; the credit is granted by a person who regularly engages as a seller, lender, or lessor; and the debt by written agreement is payable in installments or a finance charge is made or lease term exceeds 4 months; and the amount financed does not exceed $50,000 unless the debt is secured by personal property used or expected to be used as the principal dwelling of the debtor.

"Regularly engaged" means a person who extends consumer credit more than 25 times or 5 times for transactions secured by a dwelling in the preceding calendar year or in the current calendar year.

CHAPTER 2- CREDIT SALES AND CHAPTER 3- LOANS

Maximum Charges: Closed-end credit sales/loans, and revolving loans maximum rates effective 7/1/02 are a melded rate based on a step rate of 36% on the portion of the amount financed up to $960; 21% on the portion of the amount financed from $960.01 to $3,200; and 15% on the portion of the amount financed over $3,200; or 21 % whichever is greater. There is also a minimum finance charge allowed of $36.00. Open-end revolving charge sales maximum rate is 1.75% per months for a 21% Annual Percentage Rate and a minimum charge of $.50 per billing cycle.

Additional Charges allowed such as:

- Official fees and taxes.
- Charge not to exceed $20 for each returned NS check.
- Revolving charge or loan annual or periodic participation fees.
- Property or liability insurance if the cost is disclosed and the buyer may choose from whom the insurance is to be obtained.
- Credit insurance if it is not a factor in the approval of the credit and the buyer gives affirmative, written indication of desire for the insurance. If a creditor requires credit insurance, it must be included in the finance charge and reflected in the APR.
- Closing costs on a debt secured by an interest in land.
- on a revolving loan account, a transaction fee of not to exceed the lesser of 2% of the amount of the transaction or $10.00 and a fee not to exceed $20 in each billing cycle during which the balance due exceeds by more than $100 the maximum credit limit.

Delinquency Charges: A creditor may contract for and receive a delinquency charge of not more than $16.00 effective 7/1/02 when a payment is made more than 10 days past the due date. Payments are applied to current installments than to delinquent installments.

Rebate upon Prepayment: Unearned finance charges based on the "Rule of 78s" rebate are to be given upon prepayment in full of a precomputed consumer credit transaction. Contracts over 62 months are to have finance charges rebated on an actuarial basis.

Deferral Charges: A creditor may contract for and receive a deferral charge on precomputed contracts at the disclosed APR. Unearned deferral charges must be rebated upon prepayment in full.

Disclosures: must contain information required by the Federal Consumer Credit Protection Act.

Balloon Payments: A credit sale or loan with a final payment twice as large as the earlier scheduled payments have the right to refinance the final payment for no less favorable terms than the original loan or sale.

Attorney's Fees. A creditor may contract for and receive reasonable attorney's fees.

Limitations on Default Charges: Except for reasonable expenses incurred in realizing on a security interest, the agreement with respect to a consumer loan or sale may not provide for any charges as a result of default by the debtor other than those authorized by the Code.

Restriction on Liability on Consumer Lease: The obligation of a lessee upon expiration of a consumer lease may not exceed three (3) times the average payment allocable to a monthly period under the lease. The limitation does not apply to charges for damages to the leased property or for other default.

Use of Multiple Agreements: A creditor may not use multiple agreements with the intent to obtain a higher finance charge than would otherwise be permitted by the Code or to avoid disclosure of an APR.

Chapter 3 also has authority/license to make consumer loans, records, revocation or suspension of license, and examinations.

CHAPTER 4 INSURANCE

Covers Insurance in General, Consumer Credit Insurance and Property and Liability Insurance including maximum charge for insurance and refund or

credit required, term of insurance, and amount of insurance. The current credit insurance premium for single coverage id $.65 per $100 of total amount of credit and $1.08 for joint insurance.

CHAPTER 5 REMEDIES AND PENALTIES

Limitations on Creditor's Remedies including restrictions on deficiency judgments on credit sales with a cash price of $3,200 or less. No garnishment before judgments; limitation on garnishment; no discharge from employment for garnishment; extortionate extensions of credit; and unconscionability.

Debtor's Remedies including interest in land; effect of violations on rights of parties; civil liability for violation of disclosure provisions; debtor's right to rescind certain transactions; refunds and penalties as set-off of obligation; and criminal penalties on knowing and disclosure violations.

CHAPTER 6 ADMINISTRATION

Powers and Functions of Department… including applicability and harmony with federal regulations; powers with respect to supervised financial organizations; examinations; administrative enforcement orders; assurance of discontinuance; injunctions against violations of article; injunctions against unconscionable agreements and fraudulent or unconscionable conduct; temporary relief; civil actions by department; debtor's remedies not affected; and venue.

Notification and fees… The current volume fee on original unpaid balances of Indiana consumer credit transactions is $14.00 per $100,000 or part thereof with the first $100,000 exempt from fee. Licensed lender renewals are the greater of the volume fee or $500. Fees are due by January 31 each year.

Examinations… The DFI, in order to determine whether the provisions of the Indiana Uniform Consumer Credit Code are being complied with by persons engaging in acts subject to that Article, may examine the books and records of persons and may make investigations of persons as may be necessary to determine compliance. The DFI shall determine the sufficiency of the records and whether the person has made the required information reasonably available.

The records pertaining to any consumer credit transaction subject to the Code shall be retained for two (2) years after making the final entry relating to the transaction.

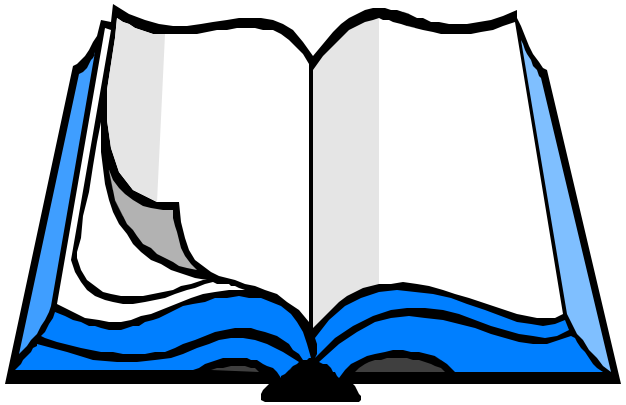
The DFI shall be given free access to the records wherever located. If the person's records are located outside Indiana, the records shall be made available to the department at a convenient location within Indiana, or the person shall pay the reasonable and necessary expenses for the department or its representative to examine them where they are maintained.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.

INDIANA UNIFORM CONSUMER CREDIT CODE



DEPARTMENT OF FINANCIAL INSTITUTIONS
Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880

Unless a person is a supervised financial organization or has first obtained a license from the department, the person shall not engage in this state in the business of making consumer loans or taking assignments of and undertaking direct collection of payments from or enforcement of rights against debtors arising from consumer loans, but the assignee may collect and enforce for 3 months without a license if the person promptly applies for a license and the person's application has not been denied.

Consumer loans are all types of loans including "pay-day loans," and second mortgage loans; however, an Indiana loan license is not required to make only first lien mortgage loans.

A license shall not be issued unless the department finds that the financial responsibility, character and fitness of the applicant, members or officers and directors of the applicant are such as to warrant belief that the business will be operated honestly and fairly within the purposes of the Indiana Uniform Consumer Credit Code.

The application for a loan license must be accompanied by the following:

1. A CPA prepared audited or reviewed financial statement showing at least $100,000 net worth with $50,000 in liquid assets.
2. An application fee of $500.
3. Applicant must show minimum two (2) years finance related experience for anyone who will be managing an Indiana location.
4. If a corporation, a copy of Certificate of Authority to do business in Indiana from the Secretary of State.
5. If d/b/a, copy of assumed name certificate from County Recorder.
6. State Police Report of State of residence for each principal (officers/partners/owner/Indiana manager).
7. Credit Report for business and/or principals (unless you have audited financials).
8. Three reference letters, one must be a financial institution.
9. Copy of business plan.
10. Business resume for the manager, owner, partners, and all officers, as applicable.
11. List of other states where operating as a lender and/or broker.
12. Copy of your Indiana Loan Broker Registration if operating as a loan or mortgage third party broker in Indiana.
13. Example of loan application.
14. Sample of a completed Note and Disclosures applicable to type of loans to be made.
15. Security agreement (if applicable).
16. Retail Installment Contract (if applicable).
17. RESPA Statement (Complete mortgage package if making second mortgages.

Attach a detailed explanation of the following:

- How loans will be made.
- Written description of the funding of the loan to the consumer.
- Security
- Estimated Average Loan.
- Are you going to make only first lien mortgage loans? If Yes, you do not need an Indiana loan license.
- Will you have a location in Indiana or will you use Indiana title companies or attorneys to close the loans?
- Will you retain servicing on the loans? If No, who will be servicing?
- Software the applicant proposes to use for disclosure and/or record keeping.

Loan license applications can be obtained on the Internet or by contacting the Consumer Credit Division of the Department of Financial Institutions (DFI). There is an application fee of $600 with an annual volume fee or renewal fee of $600 whichever is greater due on January 31. The volume fee is based on the original unpaid balances of consumer credit transactions during the calendar year. The first $100,000 is exempt from the fee. The fee is subject to change and is currently $16.00 per $100,000 or part thereof.

The Indiana Uniform Consumer Credit Code (IC 24-4.5) contains regulations concerning licensed lenders and loans.

DEFINITIONS:

"**Consumer Loan**" - Except with respect to a loan primarily secured by an interest in land which is a first lien transaction, "consumer loan" is a loan made by a person regularly engaged in the business of making loans in which:

- the debtor is a person other than an organization;
- the debt is primarily for a personal, family, or house-hold purpose;
- either the debt is payable in installments or a loan finance charge is made; and
- either the principal does not exceed fifty thousand dollars ($50,000) or the debt is secured by an interest in land or by personal property used or expected to be used as the principal dwelling of the debtor (second or junior mortgage loans).

"**Loan**" - A "loan" includes:

- the creation of debt by the lender's payment of or agreement to pay money to the debtor or to a third party for the account of the debtor;
- the creation of debt by a credit to an account with the lender upon which the debtor is entitled to draw immediately;
- the creation of debt pursuant to a lender credit card or similar arrangement; and the forbearance of debt arising from a loan.

"**Regularly engaged**" means a person who extends consumer credit more than 25 times or 5 times for transactions secured by a dwelling in the preceding calendar year or in the current calendar year.

"**Lender**"; "**Precomputed**"; "**Principal**" - Except as otherwise provided, "**lender**" includes an assignee of the lender's right to payment but use of the term does not in itself impose on an assignee any obligation of the lender with respect to events occurring before the assignment.

A loan, refinancing, or consolidation is "**precomputed**" if the debt is expressed as a sum comprising the principal and the amount of the loan finance charge computed in advance.

"**Principal**" of a loan means the total of the net amount paid to, receivable by, or paid or payable for the account of the debtor; the amount of any discount excluded from the loan finance charge; and to the extent that payment is deferred, amounts actually paid or to be paid by the lender for registration, certificate of title, or license fees, and additional charges permitted by the IUCCC Section 3-202).

"**Revolving Loan Account**" means an arrangement between a lender and a debtor pursuant to which:

- the lender may permit the debtor to obtain loans from time to time;
- the unpaid balances of principal and the loan finance and other appropriate charges are debited to an account;
- a loan finance charge if made is not precomputed but is computed on the outstanding unpaid balances of the debtor's account from time to time, and
- the debtor has the privilege of paying the balances in installments.

"**Loan finance charge**" means the sum of all charges payable directly or indirectly by the debtor and imposed directly or indirectly by the lender as an incident to the extension of credit, including any of the following types of charges which are applicable:

- interest or any amount payable under a point, discount, or other system of charges, however denominated; premium or other charge for any guarantee or insurance protecting the lender against the debtor's default or other credit loss; and
- charges incurred for investigating the collateral or credit-worthiness of the debtor.

The term does not include charges as a result of default, additional charges, delinquency charges, or deferral charges.

MAXIMUM CHARGES - The maximum rate(effective 7/01/02); is a melded rate based on a step rate of 36% on the portion of the amount financed up to $960; 21% on the portion of the amount financed from $960.01 to $3,200; and 15% on the portion of the amount financed over $3,200; or 21%, whichever is greater.

There is also a minimum finance charge allowed of $36.00.

Loans which have a rate of 21% or less may contract for impose a loan origination fee of not more than 2% of the loan amount or line of credit on loans secured by an interest in land and not more than 2% up to $40.00 on other consumer loans. This charge is not subject to refund or rebate; and is not permitted if a lender makes a settlement charge under IC 24-4.5-3-202(d)(ii) and is subject to other restriction on loans not secured by an interest in land. Other prepaid finance charges could be subject to refund if the loan is prepaid and the simple interest plus the prepaid finance charges exceed the maximum rate for the term of the loan.

ADDITIONAL CHARGES - Additional charges may be included in the amount financed such as:

- Official fees and taxes.
- Charge not to exceed $20 for each returned NSF check.
- Revolving loan annual or periodic participation fees.
- Property or liability insurance if the cost is disclosed and the buyer may choose from whom the insurance is to be obtained.
- Credit insurance if it is not a factor in the approval of the credit and the buyer gives affirmative, written indication of desire for the insurance. If a creditor requires credit insurance, it must be included in the finance charge and reflected in the APR.
- Closing costs on a debt secured by an interest in land.
- A fee not to exceed twenty dollars ($20) in each billing cycle during which the balance due under a revolving loan account exceeds by more than one hundred dollars ($100) the maximum credit limit for the account established by the lender.
- A transaction fee on revolving loans that may not exceed the lesser of two percent (2%) of the amount of the transaction or ten dollars ($10).

DELINQUENCY CHARGES -
A lender may contract for and receive a delinquency charge (effective 7/1/02) of not more than $16.00 when a payment is made more than 10 day past the due date. Payments are applied to current installments then to delinquent installments.

REBATE UPON PREPAYMENT - Unearned finance charges based on the "Rule of 78s" rebate are to be given upon prepayment in full of a precomputed consumer loan. Loans over 61 months are to have finance charges rebated on an actuarial basis. The actuarial method is computed by applying the disclosed annual percentage rate to the unpaid balances of the amount financed for the full computational periods following the prepayment, as originally scheduled or as deferred.

DEFERRAL CHARGES - A lender may contract for and receive a deferral charge on precomputed contracts at the disclosed APR. Unearned deferral charges must be rebated upon prepayment in full.

BALLOON PAYMENTS - A loan with a final payment twice as large as the earlier scheduled payments have the right to refinance the final payment for no less favorable terms than the original loan.

ATTORNEY'S FEES - A lender may contract for and receive reasonable attorney's fees.

LIMITATIONS ON DEFAULT CHARGES - Except for reasonable expenses incurred in realizing on a security interest, the agreement with respect to a consumer loan may not provide for any charges as a result of default by the debtor other than those authorized by the Indiana Uniform Consumer Credit Code.

USE OF MULTIPLE AGREEMENTS - A lender may not use multiple agreements with the intent to obtain a higher finance charge than would otherwise be permitted by the Indiana Uniform Consumer Credit Code or to avoid disclosure of an annual percentage rate.

EXAMINATIONS - The DFI, in order to determine whether the provisions of the Indiana Uniform Consumer Credit Code are being complied with by persons engaging in acts subject to that Article, may examine the books and records of persons and may make investigations of persons as may be necessary to determine compliance. The DFI shall determine the sufficiency of the records and whether the person has made the required information reasonably available.

The records pertaining to any consumer credit transaction subject to the Indiana Uniform Consumer Credit Code shall be retained for two (2) years after making the final entry relating to the consumer credit transactions.

The DFI shall be given free access to the records wherever located. If the person's records are located outside Indiana, the records shall be made available to the department at a convenient location within Indiana, or the person shall pay the reasonable and necessary expenses for the department or its representative to examine them where they are maintained.

The DFI may assess an examination fee established by the department for each day or partial day by which the examination exceeds three (3) days per location to be examined. However, the examination fee provided for in the Code is payable only to the extent that the fee exceeds the amount of the filing fees paid most recently.

If you have any questions regarding consumer lending, contact the Consumer Credit Division of the Department of Financial Institutions.

Copies of the Indiana Uniform Consumer Credit Code may be obtained from the Department in notebook form for $35.00.

LICENSED LENDERS

DEPARTMENT OF FINANCIAL INSTITUTIONS
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317-232-3955
1-800-382-4880

It's difficult to understand; yet nearly all financial institutions use it. In Indiana and other states, it is a method of figuring your cost and refund of credit insurance and/or interest on a precomputed credit transaction. A "precomputed" account is one which the account balance includes the finance charge and each month the full payment is subtracted from the balance. If the account pays off before maturity, a rebate of the unearned finance charge is given based on a method called "the Rule of 78s." More interest and insurance premiums are earned in the early stages of a contract since the amount owing is greater. As the balance decreases, the earned charges are proportionately less for each unit period.

The Rule of 78s is also known as the sum of the digits. In fact, the 78 is a sum of the digits of the months in a year: 1 plus 2 plus 3 plus 4, etc., to 12, equals 78. Under the rule, each month in the contract is assigned a value which is exactly the reverse of its occurrence in the contract. Hence, the 1st month of a 12 month contract gets the value of 12, the second month 11, etc., until the 12th month gets a value of 1. As the months elapse, the interest is earned by the lender equal to the total value of the expired months.

For example, prepaying after 2 months of a 12 month contract would result in the lender being able to keep 29.48% of the finance charges (1st month 12 plus 2nd month 11 = 23/78 or 29.48%). In another example, if the borrower prepays after 6 months, the lender would have earned 57/78s or 73.08% of the finance charges.

EXAMPLE OF RULE OF 78s:

12 Month Loan - Made December 1 - First Payment on January 1

#	Month	Earned Units	Unearned Units	% Rebate
12	Jan	12/78	66/78	84.62%
11	Feb	23/78	55/78	70.52%
10	March	33/78	45/78	57.69%
9	April	42/78	36/78	46.15%
8	May	50/78	28/78	35.90%
7	June	57/78	21/78	26.92%
6	July	63/78	15/78	19.23%
5	Aug	68/78	10/78	12.82%
4	Sept	72/78	6/78	07.69%
3	Oct	75/78	3/78	03.85%
2	Nov	77/78	1/78	01.28%
1	Dec	78/78	0/78	00.00%
78				

FINANCE CHARGE REFUND

EXAMPLE:

If the finance charge on a 12 month precomputed consumer credit transaction is $100.00 and the account is paid-in-full in the 3rd month; the total of the 1st, 2nd, and 3rd monthly earned units is 33/78 and the total unearned units is 45/78 (78 - 33). 45/78 converted to a percent is 57.69%. The unearned finance charge refund would be 57.69% of the $100.00 finance charge which would be $57.69.

As you can see in this example, 42.31% of the finance charge was earned in the first three months of the 12 month contract.

In Indiana under the Rule of 78s, a full month's interest can be earned during the first month of the contract and after one day into the next month. In the example given, if the account was paid in full after February 2 and on or before March 1 the refund would be $57.69. If the account was paid-in-full March 2, the refund would be $46.15.

If you have a precomputed account that you desire to prepay in full, always be sure to pay the account off directly before or on the date it is due. A pay-off one or a few days after the due date will cost you another month's finance charge.

CREDIT INSURANCE PREMIUM REFUNDS

Credit insurance premium refunds are computed in the same manner as finance charge refunds using the Rule of 78s except that another full month is not earned until the 16th day into the next month.

In the example of a contract dated December 1 with a credit insurance premium of $100.00 for a term of 12 months, the $57.69 refund would apply to accounts paid-in-full from February 16 to March 15.

EXAMPLE OF A RULE OF 78s Formula

The following formula is the simplest method of computing the refunds by the Rule of 78s.

FORMULA. . . .

(U * (U + 1)) \ (T * (T + 1)) = Rule of 78s refund decimal * F = Rebate

U = Unearned term periods - U = 9	\ = Divided by
T = Term periods - T = 12	* = Times
F = Finance Charge - F = $100.00	

Example:

This example is for a **12 month** contract which prepaid at **3 months** (**9 months** unearned) with a finance charge of $100.00.

U = 9 (12-3)
T = 12
F = $100.00

(9 * (9 + 1)) \ (12 (12 + 1)) = (9 * 10) \ (12 * 13) = 90 \ 156 =

.5769 Rule of 78s refund decimal

.5769 * $100.00 = **$57.69 Refund**

Charts and other calculating devices are available to creditors for accurately computing the unearned charges under the Rule of 78s. You as a consumer are thus provided with an equitable refund when you prepay your obligation.

CONTRACTS OVER 61 MONTHS

Since July 1, 1992 the Rule of 78s refund can not be used on contracts with a term over 61 months. Refunds are computed by applying the disclosed annual percentage rate to the unpaid balances of the amount financed for the full computational periods following the prepayment, as originally scheduled or as deferred.

If you think that your refund has been computed incorrectly or if you have other questions regarding consumer credit, contact this Department.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
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- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
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THE RULE OF 78s WHAT IS IT?

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1-800-382-4880

PRECOMPUTED ACCOUNTS AND THE RULE

OF 78S

A "precomputed" account is one which the account balance includes the finance charge and each month the full payment is subtracted from the balance. If the account pays off before maturity, a rebate of the unearned finance charge is given based on a method called "the Rule of 78s."

The Rule of 78s is commonly, even widely, used but is understood by very few people. It is a method of refunding finance charges and/or credit insurance premiums on consumer credit precomputed transactions when the borrower prepays the account in full. It is not the only refunding method that is available under the law.

The Rule of 78s is also known as the sum of the digits. In fact, the 78 is a sum of the digits of the months in a year: 1 plus 2 plus 3 plus 4, etc., to 12, equals 78. Under the rule, each month in the contract is assigned a value which is exactly the reverse of its occurrence in the contract. Hence, the 1st month of a 12 month contract gets the value of 12, the second month 11, etc., until the 12th month gets a value of 1. As the months elapse, the interest is earned by the lender equal to the total value of the expired months.

For example, prepaying after 2 months would result in the lender being able to keep 29.48% of the finance charges (1st month 12 plus 2nd month 11 = 23/78 or 29.48%). In another example, if the borrower prepays after 6 months, the lender would have earned 57/78s or 73.08% of the finance charges.

This is not as unfair as it seems. Even with a simple interest refunding, the borrower would not get a 50 percent interest rebate for having prepaid after half the term for the simple reason that you have more money borrowed early in the contract than at the end. The Rule of 78s will cost more upon prepayment but not as disproportionately more as it might seem.

Of course, most consumer credit contracts are longer than 12 months now and the sum of the digits is not confined to a 12 month contract.

EXAMPLE OF A RULE OF 78s FORMULA

(U*(U+1))\(T*(T+1)) = decimal * F = Rebate

U = Unearned term periods - U = 9	\ = Divided by
T = Term periods - T = 12	* = Times
F = Finance Charge - F = $100.00	

Rule of 78s refund

In this refund example, the term of the contract is 12 months and the account prepaid after 3 months, leaving 9 months of the term unearned, and the finance charge is $100.00.

U = 9 9 * (9 + 1)) \ (12 *(12 + 1)) =
T = 12 (9 * 10) \ (12 * 13) =
F = $100.00 90 \ 156 = .5769 refund decimal

.5769 * $100.00 = $57.69 Refund

As you can see, after 3 months of a 12 month contract, 42.31% of the finance charge is earned.

SIMPLE INTEREST

Simple interest is calculated from payment date to payment date on the principal balance outstanding at the contracted rate. When a payment is received the interest due is subtracted from the payment and the remaining amount is applied to reduce the principal balance.

At prepayment the amount due is the principal balance plus the interest due since the last payment.

NOTE. . . If a contract is paid out to the full term, the type of loan, precomputed or simple interest, is of no consequence if payments are made on time in a simple interest account.

The Rule of 78s does not have any effect on the earnings of a contract which is paid at maturity. Only prepayment will have the effect of the Rule of 78s raising the cost of the credit. Under the law, an actuarial rebate (based on an amortization of interest) is given on precomputed accounts with a term over 61 months instead of by the Rule of 78s.

RULE 78s Vs SIMPLE INTEREST CHART

From the following chart, we can see the percentage difference of the cost of a loan between a simple interest unearned and the Rule of 78s refund.

In the example given, if the precomputed account pays at maturity, the total finance charge paid would be the $1,462.36. If a simple interest account did not have payments made on time, the interest could be greater than the precomputed account since interest is computed from payment date to payment date.

Simple Interest Vs Rule of 78's					
$5,000 Loan for 36 months @ 17.5%, Interest $1,462.36					
Mo.	Simple Interest		Rule of 78's		Difference
	%	Unearned	%	Refund	Amount
1	95.01	$1389.44	94.59	$1383.25	6.19
2	90.13	1318.08	89.34	1306.47	11.61
3	85.36	1248.29	84.23	1231.75	16.54
4	80.70	1180.11	79.28	1159.36	20.75
5	76.15	1113.55	74.47	1089.02	24.53
6	71.71	1048.64	69.82	1021.02	27.62
7	67.38	985.40	65.32	955.21	30.19
8	63.18	923.85	60.96	891.45	32.40
9	59.08	864.02	56.76	830.04	33.98
10	55.11	805.94	52.70	770.66	35.28
11	51.26	749.63	48.80	713.63	36.33
12	47.53	695.12	45.05	658.79	36.43
13	43.93	642.43	41.44	606.00	36.04
14	40.45	591.59	37.99	555.55	36.00
15	37.11	542.62	34.68	507.15	35.47
16	33.89	495.56	31.53	461.08	34.48
17	30.80	450.43	28.53	417.21	33.22
18	27.85	407.26	25.68	375.53	31.73
19	25.03	366.08	22.97	335.90	30.18
20	22.36	326.92	20.42	298.61	28.31
21	19.82	289.80	18.023	263.52	26.28
22	17.42	254.76	15.77	230.61	24.15
23	15.17	221.83	13.66	199.76	22.07
24	13.06	191.03	11.71	171.24	19.79
25	11.11	162.40	9.91	144.92	17.48
26	9.30	135.97	8.26	120.79	15.18
27	7.64	111.77	6.76	98.86	12.91
28	6.14	89.84	5.41	79.11	10.73
29	4.80	70.21	4.20	61.42	8.79
30	3.62	52.91	3.15	46.06	6.85
31	2.60	37.97	2.25	32.90	5.07
32	1.74	25.43	1.50	21.94	3.49
33	1.05	15.33	.90	13.16	2.17
34	.53	7.70	.45	6.58	1.12

35	.18	2.58	.15	2.19	.39
36	-0-	-0-	-0-	-0-	-0-

Remember. . . .

✓ No refunding method makes any difference if the account is paid to maturity on schedule.

✓ Under all refunding methods, more interest is earned at the beginning of the contract than at the end because more money is owed during that period in the contract.

✓ The law requires that you be advised of the refunding method and, generally speaking, the simple interest method or actuarial method will be better for the consumer if there is going to be prepayment. Precomputed accounts with a term over 61 months must have the refund computed on an actuarial method.

✓ With a Rule of 78s contract, making payments early will not reduce the total interest owed; paying the entire loan early will save some interest.

✓ When deciding whether to prepay an account, consider the potential rebate of credit insurance as well as interest.

If you have any questions concerning finance charge and/or credit insurance refunds, call one of the numbers listed on the cover.

Our representatives are always available to answer your consumer credit questions.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.

Rule of 78s Vs Simple Interest

DEPARTMENT OF FINANCIAL INSTITUTIONS
Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880
Web Site http://www.dfi.state.in.us

WHAT IS THE DEPARTMENT OF FINANCIAL INSTITUTIONS?

It is Indiana's Department of Financial Institutions and is a service of the State Government for the people of Indiana.

The department was created by the Indiana Financial Institutions Acts of 1933 with the responsibility of supervising commercial banks, trust companies, private banks, savings banks, building & loan associations, credit unions, and finance companies incorporated under the laws of the State of Indiana.

The department is responsible for protecting the interest of depositors, shareholders, borrowers, and consumers. The department is a self-supporting branch of State Government and its operating expenses are not paid out of the State General Fund.

The department consists of a division for Depository Institutions and a division for Non-Depository Institutions.

THE NON-DEPOSITORY DIVISION

The Non-Depository Division regulates the following businesses:

Licensed Lenders
Credit Sellers
Consumer Credit Lessors
Pawnbrokers
Rental Purchase Businesses
Check Cashers
Money Transmitters
Budget Service Companies

Non-Depository institutions include a wide variety of businesses from small independent companies to large multi-state companies.

The division protects citizens of the state by ensuring that these non-depository institutions comply with the Indiana statutes regulating their transactions. This is accomplished through licensing and registration; examination; and consumer and industry education.

We are constantly reviewing our procedures, policies, and philosophies to achieve our goal to represent and serve the consumer and industry.

LICENSING & REGISTRATION

Licensing through the Department of Financial Institution, Non-Depository Division is required to conduct the following businesses:

Licensed Lenders - making more than five second mortgage loans or 25 consumer loans annually in Indiana.
Pawnbrokers
Check Cashers
Money Transmitters
Budget Service Companies

Registration with the Department of Financial Institutions is required for businesses who are regularly engaged in consumer credit sales and leases under the Indiana Consumer Credit Code and rental purchase businesses under the Rental Purchase Agreement Act.

These businesses include:

Companies taking assignment of credit sales contracts made in Indiana.

Retail merchants who finance their credit sales/leases and/or assign contracts to financial institutions

Persons who finance their services and/or assign contracts to financial institutions.

Businesses who make consumer leases.

Businesses who make rent-to-own agreements.

Any business not licensed who engages in more than 25 consumer credit transactions for a personal, family, or household purpose or more than five consumer credit transactions secured by an interest in land which is not a first lien, is required to register with the Department of Financial Institutions. There is no fee for registration. There is an annual volume fee on the original unpaid balances (volume) of new credit extended in the year. The first $100,000 volume is exempt from fee and the current fee is $14 per $100,000 or part thereof on volume over $100,000.

Contact the Non-Depository Division of the Department of Financial Institutions for further licensing or registration information.

EDUCATION & ASSISTANCE

Consumers and industries have rights and responsibilities and Department of Financial Institutions provides educational services assistance to both groups, such as:

- Study units and Mini-Lessons for High Schools and Colleges.
- A statewide toll-free consumer help line, 1-800-382-4880 is available for information and requests for assistance.
- Various brochures are provided for individuals or groups seeking credit information.
- The department coordinates or participates in public consumer education events.
- Industry groups and the department share information regarding consumer needs and trends.
- Consumer assistance in understanding the terms of contracts and the legal rights of both parties.
- Educate consumers on the advantages, consequences, and wise use of borrowing or buying on credit.
- Assistance in consumer complaints. Complaints within the department's jurisdiction are handled to a conclusion. Recommendations are given for assistance in complaints outside the jurisdiction of the department.
- Simplify, clarify, and modernize the laws the division regulates to keep them conformed to the policies of federal statutes.
- Foster competition among suppliers of consumer credit so consumers may obtain credit at reasonable cost.
- Protect consumer buyers, lessees, and borrowers against unfair practices by some suppliers of consumer credit, having due regard for the interest in legitimate and scrupulous creditors.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
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WHAT IS THE

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There is a law in Indiana which regulates how much you can be charged for credit, restricts what can happen to you if you pay late, and defines what information must be provided to you before you commit to any credit transaction. The name of that law is the Indiana Uniform Consumer Credit Code ("UCCC"), IC 24-4.5. Some of the UCCC's more important provisions are given below.

While you have the duty to pay your debts, you also have certain rights:

You have the right to be informed in advance about the costs of credit so that you have the opportunity to find the best deal or to decide against using credit;

You have the right to use credit at rates that do not exceed the limits set by law;

You have the right to shop around for insurance and to refuse to purchase credit and other types of insurance from the lender;

You have the right to cancel certain door-to-door contracts and certain real estate transactions.

WHAT IS CONSUMER CREDIT?

Consumer credit is a credit sale or loan which meets all of the following conditions:

* the credit is extended by a person who does so regularly;
* the borrower is an individual or individuals;
* the credit is primarily for a personal, family, or household purpose, and **not** primarily for a business, investment, or agricultural purpose;
* either a finance charge is made or the debt is payable in five or more installments besides the down payment; and
* the amount borrowed does not exceed Fifty thousand dollars ($50,000) or the credit is secured by real estate.

Consumer credit is a credit sale if the seller of goods or services arranges or extends the credit, such as when an automobile dealer sells you a car and obtains financing for you.

Consumer credit is a loan if a lender, such as a bank or finance company, extends the credit directly to you.

Consumer credit may be either closed-end or open-end. With closed-end credit, you borrow a fixed amount for a set term and pay that amount back in installments with interest. The most common example of open-end credit, sometimes referred to as revolving credit, is a credit card.

DISCLOSURES

The privilege of borrowing money to be repaid at a later date will cost you something. This cost is called a finance charge, commonly known as interest. It is possible that on some loans you could end up paying more in finance charges than you borrowed in the first place.
Both the Federal Truth-in-Lending Act and the Indiana Uniform Consumer Credit Code require that the finance charge be disclosed to you in terms of a dollar amount and as an annual percentage rate (APR). The APR is the cost of credit expressed as a yearly rate of interest.

Creditors are required to disclose the cost of credit so that you can compare costs from several different creditors. Different creditors will charge different amounts and rates even for the same types of credit. It is up to YOU, as a consumer concerned about the costs associated with credit, to shop around for the best deal.

The creditor usually will not give you this disclosure until you are just about ready to sign the loan papers. You should begin your comparison shopping much sooner than that.

THE COST OF CREDIT

You can start shopping early by calling, writing, or visiting different types of creditors. Ask the merchants or sellers what they will finance and at what cost. Next contact banks, credit unions, and finance companies to see who will give you the best deal. You may have to provide credit information. Depending upon the results of your investigation, you may decide that using credit is too expensive and perhaps will choose to wait awhile. If it is an option, you may decide to pay cash or to make a larger down payment in order to reduce the costs of credit.

Maximum Rates… The Indiana Uniform Consumer Credit Code limits the amount of finance charge a creditor in Indiana can receive.

Credit Sales/ Loans

The following rates can be charged on credit sales or loans:

36 % on amounts financed up to $960, plus
21 % on the portion of the amount financed from $960.01 to $3,200, plus
15 % on the portion of the amount financed over $3,200; or 21%, whichever is greater.

A seller/lender can collect a minimum finance charge of $36.

These are the highest rates that a creditor in Indiana can charge. However, many creditors charge much lower rates. If you take the time to shop around, and if you have a sound credit history, you should be able to negotiate a much lower rate. You should not borrow at the maximum rates unless absolutely necessary.

Out-of-state credit card issuers can export their state's higher rates.

Delinquency Charges… The maximum delinquency charge allowed is $16.00. The account must be delinquent more than 10 days for a delinquency charge to be imposed. Payments are applied to current installments, then to delinquent ones. Only one delinquency change may be imposed on a delinquent installment no matter how long it is past due.

INSURANCE

Credit Insurance… When you buy something on credit or borrow money from a lender, you may be asked if you want to purchase credit insurance. This is insurance which will pay your debt if you die, become disabled, or are involuntarily unemployed. If you purchase this insurance from a creditor, it can be expensive. So, if you think that you might need credit life, accident and health, or involuntary unemployment insurance, you should first review your current insurance coverage to see if any additional coverage is necessary. If after reviewing your current coverage you still believe that you need credit insurance, you should consult your own insurance agent who may be able to offer you similar coverage at lower rates.

Under most circumstances, a creditor cannot require you to purchase its credit insurance. A creditor cannot condition a lower rate or more favorable terms upon the purchase of credit insurance.

Your decision to purchase credit insurance must be completely voluntary for the premium to be an additional charge. Be prepared to say "no" if you do not want and do not need credit insurance.

If a creditor required credit insurance, the premium must be included in the finance charge and reflected in the Annual Percentage Rate. It cannot be an allowable additional charge.

Property Insurance…Property insurance covers losses on damaged, lost, or stolen property. A creditor can require you to maintain property insurance on personal or real property that you have pledged as collateral. For example, a creditor will most likely require that you have insurance (collision as well as liability) on your car in connection with an automobile loan. However, you cannot be required to purchase property insurance through the creditor.

If you already have property insurance (such as homeowner's, renter's, or automobile insurance) which covers the collateral, you can have your insurance company add a loss payable clause. The loss payable clause will make the creditor a beneficiary on the policy. If you do not have property insurance, you should check with an insurance agent who can probably offer you coverage at a lower price than that offered by the creditor.

Other Insurance… You may be offered the opportunity to purchase other insurance, such as standard life insurance, from the creditor. This life insurance is not credit insurance in that it does not pay off the balance of your loan in the event something happens to you. Rather, a standard life insurance policy will pay proceeds directly to your designated beneficiary. In most cases, the creditor will not require you to purchase other insurance. Once again, before agreeing to purchase any other insurance coverage from the creditor, check to see if your own insurance agent can offer you a better deal.

GUARANTEED AUTO PROTECTION

Guaranteed auto protection ("GAP") is very similar to insurance. In the event your vehicle is declared a total loss due to accident or theft, GAP will pay any deficiency between your insurance reimbursement and the balance outstanding on your loan at the time of the loss. If your vehicle depreciates in value faster than you are able to reduce the balance of your loan, GAP may reduce your risk of being left with a balance owing after your car has been totaled or stolen and not retrieved.

Like most insurance sold by the creditor, GAP products can be expensive. The creditor cannot require you to purchase GAP. As always, you should check with your own insurance agent to find out if similar, less costly coverage is available.

LOANS SECURED BY REAL ESTATE

If you are shopping for a second mortgage or home equity loan, you may encounter the following costs or additional charges:

Loan Origination Fee… A lender may contract for and receive a loan origination fee of 2% of the loan amount on loans secured by an interest in land or 2% of the loan

amount not to exceed $40.00 on other Indiana consumer loans. The loan origination fee is in addition to any maximum rate and not subject to any refund or rebate upon prepayment. It is not allowed on loans with a rate in excess of 21%.

Points... Prepaid finance charges, or points, are part of the finance charge but are usually financed or added to the principal balance at the time you take out your loan. A point is simply one percent of the loan amount.

To illustrate: A lender offers to loan you $8,000 at 16 percent interest plus 2 points for 36 months. Points would be ($160 ($8,000 x 2%); Amount Financed $8,000; Amount of loan $8,160; finance charge would be $2,327.68 ($160 plus $2,167.68 Interest) and Total payments $10,327.68. Your monthly payments would be $286.88 and the Annual Percentage Rate would be 17.42 percent.

Variable Rates... You may run into variable rates in connection with some credit cards as well as on loans secured by real estate. With variable or adjustable rate transactions, the interest rate can increase or decrease over the life of the loan. You should ask the following questions with respect to variable rate loans:

* when and by how much can the interest rate or finance charge change;
* is there any limit or cap on the amount by which the interest rate can be increased over the life of the loan;
* will increases in the interest rate result in increases in payments, negative amortization, or both; and
* has the initial interest rate been discounted, and if so, by how much and for how long?

Closing Costs... Fees may be added to the amount financed on a loan secured by real estate if they are bona fide and reasonable in amount:

Prepayment Penalty... Indiana consumer loans secured by an interest in land may have a prepayment penalty of 2% of the unpaid principal balance at the time of prepayment less any rebates. It may not be imposed: after three years from the contract date; if refinanced or consolidated by the same creditor; or if prepaid by insurance or accelerated after default.

At the time of prepayment on a simple interest account, the total finance charge, including the prepaid finance charge but excluding the loan origination fee allowed under IC 24-4.5-3-201, may not exceed the maximum charge allowed for the period the loan was in effect.

REVOLVING CREDIT

Revolving credit is a plan under which the creditor will allow you to borrow amounts up to a set limit as you need the money. You may borrow funds, repay those funds, and borrow them back again. A finance charge will be computed from time to time on the unpaid balance.

The most common example of revolving credit is a credit card. Interest rates, annual fees, transaction fees, and other charges can vary widely from credit card to credit card. It is up to you to shop around for the best deal.

RIGHT TO CANCEL

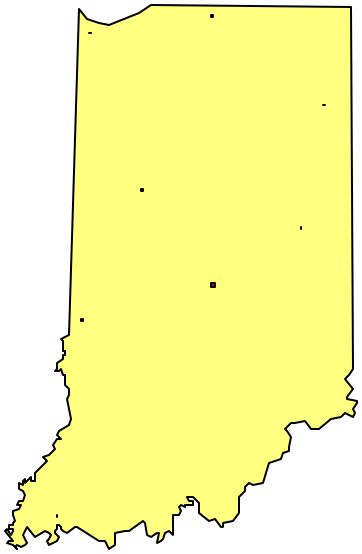
Once you have signed a contract, you are legally bound. You do not have the right to cancel except under the following special circumstances:

Home Solicitation Sales - You have until midnight of the third business day after you have signed an agreement to cancel a home solicitation sale. A home solicitation sale is a sale in which you sign the purchase agreement at your residence, you have not negotiated the sale previously at a business establishment, and you do not use a credit card.

Loans Secured by Your Home - If a creditor takes a security interest in your home, you have the right to cancel the agreement until midnight of the third business day after the contract is signed. This right to cancel is also known as your right to rescind. Your loan proceeds may not be disbursed until your right to rescind has expired. You may waive your right to rescind in certain emergency situations. Interest cannot be imposed during the rescission period.

Protect your credit rating and don't get in over your head. If you run into problems paying your debts, try to work things out with the creditor or seek help from a licensed debt management company. If you feel that you need legal assistance, contact a private attorney. If you suspect that a creditor has violated Indiana's credit laws, send your complaint to Indiana Department of Financial Institutions.

INDIANA CONSUMER CREDIT



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Unless a person is a supervised financial organization or has first obtained a license from the department, the person shall not engage in this state in the business of making small loans.

Persons wishing to make small loans (payday loans) must apply for a Small Loan License.

A license shall not be issued unless the department finds that the financial responsibility, character and fitness of the applicant, members or officers and directors of the applicant are such as to warrant belief that the business will be operated honestly and fairly within the purposes of the Indiana Uniform Consumer Credit Code.

The application for a small loan license must be accompanied by the following:

1. A CPA prepared audited or reviewed financial statement showing at least $100,000 net worth with $50,000 in liquid assets.
2. An application fee of $2,000 plus $1,000 for each branch location in Indiana after the first location.
3. Applicant must show minimum two (2) years finance related experience for anyone who will be managing an Indiana location.
4. If a corporation, a copy of Certificate of Authority to do business in Indiana from the Secretary of State.
5. If d/b/a, copy of assumed name certificate from County Recorder.
6. State Police Report of State of residence for each principal (officers/partners/owner/Indiana manager).
7. Credit Report for business and/or principals (unless you have audited financials).
8. Three reference letters, one must be a financial institution.
9. Copy of Indiana business plan.
10. Business resume for the manager, owner, partners, and all officers, as applicable.
11. List of other states where operating as a lender and/or broker.
12. Example of loan application.
13. Sample of a completed Note and Disclosures.

Attach a detailed explanation of the following:

- How loans will be made.
- Written description of the funding of the loan to the consumer.
- Security
- Estimated Average Loan.
- Will you retain servicing on the loans? If No, who will be servicing?
- Software the applicant proposes to use for disclosure and/or record keeping.
- Give full details as to how you will comply with requirement to verify customer's monthly net income. See IC 24-4.5-7-110 and 7-402.

Be sure to answer all the questions on Pages 4 & 5 of the application. Loan license applications can be obtained on the Internet or by contacting the Consumer Credit Division of the Department of Financial Institutions (DFI).

The Indiana Uniform Consumer Credit Code Chapter 7 (IC 24-4.5-7) contains regulations concerning small loans.

DEFINITIONS:

"Small loan" means a loan:
(a) with a principal loan amount that is more than fifty dollars ($50) and less than four hundred one dollars ($401); and
(b) in which the lender holds the borrower's check under an agreement, either express or implied, for a specific period before the lender:
(i) offers the check for deposit or presentment; or
(ii) seeks authorization to transfer or withdraw funds from the borrower's account.

"**Principal**" means the total of:
(a) the net amount paid to, receivable by, or paid or payable from the account of the consumer; and

(b) to the extent that the payment is deferred, the additional charges permitted by this chapter that are not included in subdivision (a).

"**Check**" has the meaning set forth in IC 26-1-3.1-104.

"**Renewal**" refers to a small loan that takes the place of an existing small loan by:
(a) renewing;
(b) repaying;
(c) refinancing; or
(d) consolidating;
a small loan with the proceeds of another small loan made to the same consumer by a lender.

"**Consecutive small loan**" means a new small loan agreement that the lender enters with the same consumer not later than seven (7) calendar days after a previous small loan made to that customer is paid in full.

"**Paid in full**" means the termination of a small loan through the payment of the consumer's check by the drawee bank or authorized electronic transfer, the return of a check to a consumer who redeems it for consideration, or any other method of termination.

"**Monthly net income**" means the income received by the consumer in the four (4) week period preceding the consumer's application for a small loan under this chapter and exclusive of any income other than regular net pay received, or as otherwise determined by the department.

MAXIMUM CHARGES -

(1) Finance charges on the first one hundred dollars ($100) of a small loan are limited to fifteen percent (15%) of the principal.

(2) Finance charges on the amount of a small loan greater than one hundred dollars ($100) are limited to ten percent (10%) of the amount over one hundred dollars ($100).

(3) The total amount of finance charges may not exceed thirty-five dollars ($35).

ADDITIONAL CHARGES

Delinquency Charges

The parties may contract for a delinquency charge of not more than five dollars ($5) on any installment not paid in full within ten (10) days after its scheduled due date.

A delinquency charge under this section may be collected only once on an installment, however long it remains in default. A delinquency charge may be collected any time after it accrues.

Returned Check Fee

An additional charge may be made not to exceed twenty dollars ($20) for each return by a bank or other depository institution of a dishonored check, negotiable order of withdrawal, or share draft issued by the consumer. This additional charge may be assessed one (1) time regardless of how many times a check may be submitted by the lender and dishonored.

DISCLOSURES

For purposes of this section, the lender shall disclose to the consumer to whom credit is extended with respect to a small loan the information required by the Federal Consumer Credit Protection Act.

In addition to the requirements above, the lender must conspicuously display in bold type a notice to the public both in the lending area of each business location and in the loan documents the following statement:

"WARNING: A small loan is not intended to meet long term financial needs. A small loan should be used only to meet

short term cash needs. Renewing the small loan rather than paying the debt in full will require additional finance charges. The cost of your small loan may be higher than loans offered by other lending institutions. Small loans are regulated by the State of Indiana Department of Financial Institutions.

A consumer may rescind a small loan without cost not later than the end of the business day immediately following the day on which the small loan was made. To rescind a small loan, a consumer must inform the lender that the consumer wants to rescind the small loan, and the consumer must return the cash amount of the principal of the small loan to the lender."

The notices must be in 14 point bold face type in the loan documents and not less than one (1) inch bold print in the lending area of the business location.

The following provisions apply to **licensees and unlicensed persons**. A contractual agreement in a small loan transaction must include the language below in **14 point bold type**.

"IC 26-1-3.1-502.5 , IC 26-2-7 , IC 34-4-30 (before its repeal), IC 34-24-3, and IC 35-43-5 apply to small loans only when a check is used to defraud another person. IC 24-4.5-3-404 does not apply to a small loan. (*IC 24-4.5-7-409(2)*) "

The lender shall provide to each consumer a copy of the required loan documents **before the disbursement of the loan proceeds**.

TERM

Except as provided below, a small loan may not be made for a term of less than fourteen (14) days.

After the consumer's third consecutive small loan renewal, another small loan may not be made to that consumer within seven (7) days after the date of the third consecutive small loan unless the new small loan is for a term of twenty-eight (28) days or longer.

CONSUMER INCOME REQUIREMENT

A lender is prohibited from making a small loan to a consumer if the total payable amount of the small loan exceeds twenty percent (20%) of the consumer's monthly net income.

A small loan may be secured by only one (1) check or electronic debit per small loan. The check or electronic debit may not exceed the amount advanced to or on behalf of the consumer plus loan finance charges contracted for and permitted.

A consumer may make partial payments in any amount on the small loan without charge at any time before the due date of the small loan. After each payment is made on a small loan, whether the payment is in part or in full, the lender shall give a signed and dated receipt to the consumer making a payment showing the amount paid and the balance due on the small loan.

The lender shall provide to each consumer a copy of the required loan documents before the disbursement of the loan proceeds.

A consumer may rescind a small loan without cost not later than the end of the business day immediately following the day on which the small loan was made. To rescind a small loan, a consumer must:

- inform the lender that the consumer wants to rescind the small loan; and
- return the cash amount of the principal of the small loan to the lender.

ATTORNEY'S FEES - A lender may **NOT** contract for and receive attorney's fees.

USE OF MULTIPLE AGREEMENTS - A lender may not use multiple agreements with the intent to obtain a higher finance charge than would otherwise be permitted by the Indiana Uniform Consumer Credit Code or to avoid disclosure of an annual percentage rate.

EXAMINATIONS - The DFI, in order to determine whether the provisions of the Indiana Uniform Consumer Credit Code are being complied with by persons engaging in acts subject to that Article, may examine the books and records of persons and may make investigations of persons as may be necessary to determine compliance. The DFI shall determine the sufficiency of the records and whether the person has made the required information reasonably available.

The records pertaining to any consumer credit transaction subject to the Indiana Uniform Consumer Credit Code shall be retained for two (2) years after making the final entry relating to the consumer credit transactions.

The DFI shall be given free access to the records wherever located. If the person's records are located outside Indiana, the records shall be made available to the department at a convenient location within Indiana, or the person shall pay the reasonable and necessary expenses for the department or its representative to examine them where they are maintained.

If you have any questions regarding small loans, contact the Consumer Credit Division of the Department of Financial Institutions or visit our Web Site.

SMALL LOANS

DEPARTMENT OF FINANCIAL INSTITUTIONS
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