



Department of Business Regulation
1511 Pontiac Av.
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Banking Bulletin Number 2003-1

Interest on Retail Installment Contracts

The Department of Business Regulation ("Department"), Division of Banking ("Division") issues this bulletin to clarify the types of retail installment contracts that are subject to the interest rate limitations under "The Rhode Island Truth in Lending and Retail Selling Act" (R. I. Gen. Laws § 6-27-1 *et seq.*).

R. I. Gen. Laws § 19-1-1 defines a "Retail installment contract" as any security agreement negotiated or executed in this state or under the laws of this state including, but not limited to, any agreement in the nature of a mortgage, conditional sale contract, or any other agreement whether or not evidenced by any written instrument to pay the retail purchase price of goods, or any part thereof, in installments over any period of time and pursuant to which any security interest is retained or taken by the retail seller for the payment of the purchase price, or any part thereof, of the retail installment contract.

R. I. Gen. Laws § 6-27-2 provides that economic stabilization would be enhanced and that competition among the various financial institutions and other firms engaged in the extension of consumer credit would be strengthened by the informed use of credit. The informed use of credit results from an awareness of the cost of credit by consumers. The purpose of this chapter is to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him or her and thus avoid the uninformed use of credit.

R. I. Gen. Laws § 6-27-4(a) limits the interest that a "Creditor" may impose to an amount equal to eighteen percent (18%) simple interest per annum.

R. I. Gen. Laws § 6-27-3(1) defines "Credit" as any loan, mortgage, deed of trust, advance, or discount; any conditional sales contract; any contract to sell, or sale or contract of sale of property or services either for present or future delivery, under which part or all of the price is payable subsequent to the making of the sale or contract and the creditor imposes a finance charge; any contract or arrangement for the hire, bailment, or leasing of property in connection with which the creditor imposes a finance charge; any option, demand, lien, pledge, or other claim against or for the delivery of property or money; any purchase, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

R. I. Gen. Laws § 6-27-3(2) (2) defines a "Creditor" as any person engaged in the business of extending credit, including any person who as a regular business practice

makes loans or sells or rents property or services on a time, credit, or installment basis, either as principal or as agent, who requires, as an incident to the extension of credit, the payment of a finance charge.

R. I. Gen. Laws § 6-27-6(b) provides that if exemption from the law or regulation of the federal government of the disclosure class of covered credit transactions cannot be affected, the laws of the federal government shall preempt the provisions of this chapter.

R. I. Gen Laws § 6-26-1 provides that interest in all business transactions where interest is secured or paid, shall be computed at the rate of twelve dollars (\$12.00) per one hundred dollars (\$100) for one year, unless a different rate is expressly stipulated. Any stipulated rate is subject to the limitations provided for in R. I. Gen. Laws § 6-26-2.

12 C.F.R. 226.2 defines consumer credit as credit offered or extended to a consumer primarily for personal, family, or household purposes.

Based on the foregoing, the Division has determined that the provisions of the Rhode Island Retail Selling Act are intended to apply solely to consumer "Credit" as opposed to business "Credit", however, the interest rates for business transactions in Rhode Island are subject to the usury limits set forth in R. I. Gen. Law § 6-26-1 *et seq.*

The Division will therefore only impose the limitations of R. I. Gen. Laws § 6-27-4(a) on "Credit" transactions that are consumer credit transactions as defined in 12 C.F.R. 226.2.

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