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This letter asks the DC City Council and the Mayor to revisit a section of the DC Code whereby maximum allowable credit rates are to be adjusted in accordance with the prevailing economic conditions. The interest rates have flucuated considerably since the regulation was enacted in the early 1980's, yet the maximum rate for new and used vehicle loans has not changed, and it does not reflect current economic conditions. (The maximum rate that can be charged consumers is *28.33* percent.) The Section asks that the Council and the Mayor reexamine the law, or amend it to better serve the public interest.

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May xx, 1995

The Honorable Marion Barry
Mayor of the District of Columbia
441 4th Street, NW
Washington, DC 20001

The Honorable David Clarke
Chairman, Council of the District of Columbia
The District Building
1350 Pennsylvania Avenue, NW
Washington, DC 20004 BY FACSIMILE

Dear Mayor Barry and Chairman Clarke:

The Antitrust, Trade Regulation, and Consumer Affairs Section of the District of Columbia Bar[1] is writing to recommend that the Mayor and Council revisit important issues involving the maximum rates which lenders may charge to persons purchasing motor vehicles in the District of Columbia.

These issues were last addressed in the early 1980's. The prevailing view then, as codified now at DC Code Section 40-1102(d), was that the maximum rates allowed by law should be adjusted in step with changing economic conditions:

> The mayor shall from time to time investigate the economic conditions and other factors relating to and affecting finance charges, and shall ascertain all pertinent facts necessary to determine what maximum charges should be permitted in such transactions. Upon the basis of such ascertained facts, the Council of the District of Columbia . . . shall from time to time by regulation or order determine and fix the maximum finance charges sufficiently high to result in a fair return on investment to persons engaged in the business of financing retail installment transactions, but not so high as to constitute an unreasonable economic burden on the purchasers of motor vehicles under retail installment contracts. The Council may from time to time, upon the basis of changed conditions

Mayor Marion Barry and

[1] The views expressed herein represent only those of the Antitrust, Trade Regulation, and Consumer Affairs Section, and not those of the DC Bar or its Board of Governors.

> or facts, redetermine and refix any such maximum finance charge . . . DC Code Section 40-1102(d).

This statute established maximum rates for new vehicles at 21.5%, and allowed rates as high as 28.33% on used vehicles more than four years old, for loans made after March 15, 1981. And while this legislation clearly anticipated that rates would be modified periodically to correspond to market conditions, this has not happened.

Since passage of the law, interest rates have fluctuated considerably. For example, in 1981, the prime rate exceeded 20%, but then proceeded to enter a slow but fairly steady decline from that level to a low of some 6 % in 1992. More recently, the prime has begun to climb again, and now stands at about 8%. However, throughout the thirteen or fourteen years since enactment of the law, and despite the dramatic changes in interest rates, neither the Mayor nor the Council has taken any action to adjust the maximum allowable rate for motor vehicle loans. It therefore appears to the Consumer Affairs Committee that the current mechanism for adjusting these rates is ineffective.

This letter should not be construed as either an endorsement of, or opposition to, regulation of interest rates in the District of Columbia. The Committee takes no position in this regard, believing that regulation of interest rates is a matter for the legislative and executive branches to decide, based on an appropriate factual record and policy considerations beyond the ken of this Committee. However, the Committee does urge the Mayor and Council to enforce the law as intended, or to reexamine it to determine if it is within the public interest. Important issues are at stake for consumers, lenders, and the public.

Sincerely,

Lisa Jose Fales, Co-Chair
Consumer Affairs Committee
Committee
Antitrust, Trade Regulation, and
and Consumer Affairs Section

Laura Polacheck, Co-Chair
Consumer Affairs
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and Consumer Affairs Section