



# Lending with a Purpose

7 Steps to Loaning Money  
to Family, Friends and Charitable Non-Profits



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## Introduction

The purpose of this booklet is to give family, friends, businesses and other organizations a guide to 1) making private loans to family, friends, family businesses, or non-profit charitable organizations; and 2) borrowing from family and friends. It is broken into several sections that direct the reader to do some more research, answer some questions and provides several resources to getting started.

The 2009/2010 recession has made it nearly impossible for consumers, small businesses, and non-profit organizations to qualify for loans. Congress changed banking rules. Regulators are interpreting their meaning. The current administration and congressional leadership declare the need for banks to make loans to small business and consumers, and yet bank regulators keep a chokehold on small business and consumer lending. Community banks and borrowers are deer in the headlights!

What's the solution? We believe that "family and friend" loans are a viable way to help family and friends, revitalize the economy and even create jobs. And private lending can be done safely and prudently. Would you consider inviting your family and friends, your social network, to make a loan to a responsible family member, friend, business or charitable non-profit organization?

It is our thesis that the loans among your family and friends and your social networks can benefit the lender, the borrower and the community in many ways. We'll discuss the benefits of family, friend, small business, and non-profit lending; the guidelines to consider when you decide to make your loan.



## The Benefits of Family and Friend Lending

### ***Do you have the passion to make a loan?***

A loan, properly underwritten, will help the borrower achieve goals and maybe even fulfill someone's life passion. Making a loan takes a mental and financial commitment. The lender has to be willing and have the financial capacity to make the loan. And the borrower needs to be willing and able to pay it back.

Whatever your reason to consider making a loan, only do so if you have the capacity to do so and losing the money won't significantly change your lifestyle. Be honest with the borrower. If you cannot afford to make a loan, tell the borrower so. Creating a financial hardship for yourself will not serve either you or your borrower's best interests.

So if you have a passion for helping and the financial capacity to help, forge ahead.

### ***Why would you lend money?***

What would motivate you to make a loan to a family member, friend or non-profit organizations? We hear the following comments from our ZimpleMoney members. "You lend money because it feels good and I want to help." "It provides me great mental satisfaction and a personal sense of accomplishment to know that I contributed to a positive change."

We just can't help ourselves! Humans innately want to give, volunteer, and help. If the mental benefits are not enough, how about the tangible benefits that lending with a purpose will have on others:

- Capitalize a great idea
- Help family buy or improve a home
- Start a Charter School
- Finance the purchase of a school building
- Earn more interest than at a bank
- Below market interest rates to your borrowers
- Help make a passion a reality

***What are your reasons?***







## Underwriting a Loan - The Five C's of Credit

The five C's of credit is a method used by lenders to determine the creditworthiness of potential borrowers. The system weighs five characteristics of the borrower and helps gauge the chance of default. The five Cs of credit are:

**Character** - the borrower's reputation

**Capacity** - the ability to repay a loan (is the income and or the collateral sufficient to repay the loan)

**Capital** - the amount of capital the borrower has contributed toward the investment (human or financial capital)  
**Collateral** - security for the loan (car, boat, property, stock etc.)

**Conditions** - what is the current economic conditions and terms offered by the borrower

All 5C's are important, and not all are simple to assess.

Character is usually a judgment call. If you know someone, you'll have an understanding of the person's character, good or bad.

Capacity is a tangible measure of someone's ability to pay. I have provided you two worksheets that will help you with assessing a borrower's capacity to pay: see Debt to Income Ratio Sample form and Worksheet, Appendix 2 and 3, respectively. There is also a discussion of Debt to Income in this workbook, see page 6.

Capital can be subjective to if measured in hours committed to a project or know-how. Keep in mind not everyone has the financial capital to invest. They may bring tremendous human capital resources to a project, business or community. So when evaluating projects keep the two types of capital in mind.

Collateral is a tangible measure as well. Many private loans are not secured by anything other than someone's personal commitment to pay it back. If you are helping someone buy real property, a school building, church, a car, or other tangible property, you might want to consider securing your loan with the property being purchased. Additionally, there is nothing that precludes a lender from taking collateral in something unrelated to the loan. Maybe a second trust deed on a house or land, or whatever might be available.

Conditions are a very subjective measure. Knowing the conditions of a local market may be more important than understanding that the National unemployment is over 9.5%. What I mean is that there may be terrific local reasons that are screaming make the loan that may or may not be supported by the larger view of the US economy. This is one area where asking around would be helpful. Knowing your borrower is employed by a large company and they just got a huge contract, might be useful information.

## The ABC's of Borrowing

Do you have a passion you want to fulfill by borrowing money? Borrowing money from friends, family, a family business, or trust is a real and serious commitment and must be managed responsibly. Borrowing for the right reason can increase the chances of getting a loan.

### ***So then why would I borrow from my family or friends?***

There are many good reasons to borrow from family and friends. The following are a few examples:

- 
- Buying a home
  - Building your credit history
  - Getting a car loan
  - Getting a college or technical education
  - Lowering your monthly payments "debt to income"
  - Loan to a family business
  - Medical Procedures
  - Supplement an existing bank loan
  - Home improvements
  - Consolidating credit card, personal or education loans

### ***If I have a good reason to borrow, what do I need to know?***

Be prepared to answer some basic personal and financial questions about your loan request. Be honest and straightforward with your answers.

- How will I use the money?
- How will I pay back the loan?
- What is my personal income and expenses?
- If I am borrowing for a business, what is my business income and expenses?
- Am I offering collateral for the loan?
- How will this loan help me achieve my personal or business goal?

Now that you have a little more information; are you willing and prepared to take the next steps?

## Why do I need the loan? How much money do I need?

Approach borrowing from a family member, friend, or family trusts the same way you would approach a bank. Start a loan application. Writing the answers to the following questions will get you started in the right direction:

- What is the purpose of this loan?
- How much money do I need to borrow?
- How many months do I want to make payments?
- Where is the loan repayment coming from?
- What if I am late making payments, what is a fair late fee?
- Can I offer any collateral?
- How often am I going to make a payment?
- What interest rate am I willing to pay?
- What monthly payment can I afford to pay?



## How much can I afford to borrow?

### Debt-to-income ratio

A common way to understand if someone can afford to make a monthly payment is to calculate the total amount of current payments and add this amount to the new loan payment; then divide the total payments by the borrower's net monthly income.

The financial term for this calculation is the "debt-to-income" ratio. You basically add up all your required monthly payments and divide it by your monthly net income (after taxes). All payments would include: credit cards, car loans, other loans, housing expenses, mortgage payments, property taxes, interest, insurance, and homeowners fees.

Here is the formula to calculate "Debt to Income":

X = total monthly payments

Y = new monthly loan payments

Z = total monthly income

$$\frac{X + Y}{Z} = \text{Debt to income} \\ \text{("the affordability of the monthly payments")}$$

### Debt-to-income ratio Example:

Expenses	Current Payment	Proposed Payments
Credit Card Payments	\$ 300	Paid off
Education Loan	\$ 500	Paid off
Rent	\$ 800	\$ 800
New Consolidated Loan	n/a	\$ 350
Total Expenses	\$ 1,600	\$ 1,150
Net Income after taxes	\$ 3,500	\$3,500
Debt to income (Payment Expenses/Net Income)	45.7%	32.9%

See Appendix B for a more complete debt-to-income sample form and Appendix C for a blank debt-to-income worksheet.



## How do I use my debt-to-income ratio?

Lenders have different requirements, but a debt to income ratio of 35% is preferred. Once you calculate your debt-to income ratio, you can use it to justify your loan request and your ability to repay the loan.

One of the benefits of a private loan is a family or friend lender might be more willing to advance money with a higher debt-to-income ratio than a bank. Knowing your debt-to-income ratio demonstrates that you understand how to borrow and will likely help your lender make their decision to make you a loan.

### Can I reduce my debt-to-income ratio?

Yes! Borrowing to lower your monthly costs makes sense everyone! Sometime you'll read advertisements that refer to debt consolidation loans. Those debt consolidation loans generally help reduce a borrower's debt-to-income ratio. If your debt-to-income ratio is higher than 36%, here are some ways to reduce it:

- Extend the term of the loan so your payments are smaller
- Don't take on any more debt
- Don't use your credit cards
- Consider using layaway programs
- Avoid increasing your monthly fixed expenses
- Rather than making large purchases on credit, consider paying off debt by making extra principal payments and postponing any major purchase.

Whether you are borrowing to buy your first house, a business, or to go to school; understanding how debt and income work together will help you make great borrowing decisions your entire life!

## Is it a Loan or a Gift

First let me answer the following question, why would you want to make a loan rather than a gift? The tax code establishes a maximum annual gift limit. It is called the "gift tax exclusion." As of this writing the annual gift tax exclusion is \$13,000. Any amount gifted over the gift tax exclusion triggers a tax payable by the person making the gift.

If I wanted to get my daughter \$130,000 to help her buy a house, I have two choices. Gift the entire amount and pay the taxes. Or, extend a \$130,000 loan, pay no gift tax and reduce the principal annually by the maximum gift tax exemption.

Properly documenting a loan and collecting regular payments from the borrower demonstrate that a loan is a loan and not a gift. The IRS can deem a loan to be a gift if it's not properly documented or if payments are not made at least annually subjecting the lender and borrower to unanticipated tax liabilities.

It is highly recommend that you discuss your individual situation with a CPA or an attorney.





## Here is how it works!

- Mom and Dad make their daughter a \$130,000 interest only loan to buy a house
- In year one Mom gifts \$13,000 and reduces the principal by the same amount
- In year one Dad gifts \$13,000 and reduces the principal by that same
- Total gifts to the daughter total \$26,000 – no taxes triggered
- The gifts are applied to the loan, paying the loan down to \$104,000 at the end of the first year
- All interest paid by the daughter is tax deductible

If you are considering lending and gifting as a tax or wealth transfer strategy, this is a great time contact your estate attorney or CPA.

## Family Trusts, Family Businesses and Estate Planning

Family Loans are useful tools for family trust and estate planning transactions. Loans can be used to help transfer assets to family members by documenting transfers and extending credit.

Gifting can be used to pay off debt between lenders and borrowers and between other family members. Trust departments routinely manage similar transactions for families. Alternatively, using online software providers like [www.ZimpleMoney.com](http://www.ZimpleMoney.com) puts the payment and financial accounting tools in your hands or the hands of your family office team. This can save thousands of dollars annually on trust management fees.

## Program Related Investments (PRI's)

If you have a Charitable Trust or Foundation, you may want to consider using lending as part of your investment strategy and charitable purpose.

IRC Section 4944 outlines Program Related Investments as an investment for philanthropic trusts and foundations. The Ford Foundation and The John D. and Catherine T. MacArthur Foundation, have engaged extensively in venture philanthropy through the use of program-related investments for more than 30 years. The Gates Foundation made a \$400 Million dollar commitment for PRI's in 2009.

A program-related investment is an investment that has all of these characteristics:

1. The primary purpose is to accomplish one or more charitable purposes.
2. No significant purpose of the investment is to produce income or capital appreciation.
3. No purpose of the investment is to influence legislation or take part in political campaigns on behalf of candidates.

Qualifying program-related investments also can help satisfy a foundation's 5 percent minimum annual distribution requirements under IRC Section 4942.

Program-related investments come in all shapes and sizes. Common-examples include:

1. Loans to, or investments in public charities supporting low income housing projects;
2. Loans to or investments in businesses owned by economically disadvantaged groups in areas where commercial investment or reasonable rate loans are not readily available; and
3. International loans to, or investments in not-for-profit and for-profit organizations work on solutions to world hunger.

Program-related investments can be structured through direct investments, generally in the form of low-cost loans or indirectly using financial intermediaries.

A good resource for those of you interested in PRI's is the PRI Makers Network at [www.primakers.net](http://www.primakers.net). [www.ZimpleMoney.com](http://www.ZimpleMoney.com) can provide trusts and foundation the software tools to manage direct program related investments.

### **Loans from a 401K**

If you manage your 401K with an independent custodian, check to see if you are allowed to loan money to family and friends with cash from your 401K.

## **OK, I said yes! Now what's next ?**

Now that I made the decision to move forward with a loan, what do I do next?

### **Step 1: Fairness and transparency are your guide**

When you are borrowing from friends and family members, treat your lender better than a bank. Make certain the loan agreement fair to the borrower and lender. Give them a reason to be thrilled with the decision to help out. Here are some ways you might do just that.

If you are the borrower, provide your financial information to your lender and periodically update them on your personal and financial progress. News of a raise at work, or a promotion, or that you are paying the loan off early is the kind of news lenders want to hear. Even if you are making the payments as agreed, the family member who made the loan will appreciate staying well informed.

### **Step 2: Should we use a legal agreement or handshake?**

A legally binding agreement can be written or oral. If you are lending money, I highly recommend a written and signed note that clearly describes the loan's terms. Even written agreements are subject to interpretation, so before making or receiving a loan, get it in writing. This is another good time to get advice and help from an attorney.

### **Step 3: Loan Agreements**

Some loans use loan agreements to describe certain terms and conditions that supplement the note. Complex business loans often have terms and conditions that define a loan default, valuation of collateral, and audit requirements. For most family and friend loans, this is probably overkill. However, if this loan is part of buying real property, business assets, estate planning process, a business, or a Program Related Investment from a Charitable Trust or Foundation to a non-profit organization, then a comprehensive written loan agreement makes sense.





## Step 4: Promissory Note

A note is a formal promise to pay based on the terms in the note. The borrower and lender need to agree to some basic items to document a loan with a note. They need to know the following to continue the conversation:

1. Legal name of the borrower and lender
2. The start date of the loan (the day the lender provides the money to the borrower)
3. The amount of the loan
4. Is there collateral
5. How many payments need to be made to pay off the loan
6. What is the interest rate
7. What is the interest rate if the loan is in default
8. How about late payments and fees
9. Is the lender going to gift funds annually to help pay off the loan
10. The date the loan becomes due (some notes are due on demand)
11. The payment terms: twice a month, monthly, quarterly, annually
12. Is the loan fully or partially amortized
13. Are there late penalties
14. What happens if the borrowers check is returned
15. Who pays the costs of collecting the loan if the loan is in default
16. What rights do the lender and borrower have if the loan is in default
17. How will we handle a default

The above list is not all encompassing and is meant only as a guide.

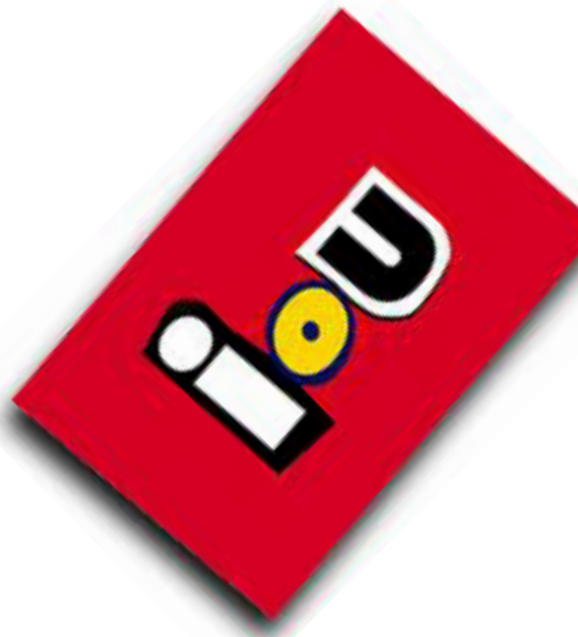
## Step 5: Loan Payment Types

Loan payments can be calculated in a variety of ways, here are some examples:

- A **“fully amortized loan”** - is a loan with a fixed monthly payment for the life of the loan. The payment amount is the approximate amount necessary to pay the loan in full on the last payment.
- An **“interest only loan”** – is a loan that only the interest is due each month and at the end of the loan term the entire principal plus any outstanding interest is due.
- A **“partially amortized loan”** – is a loan in which the monthly payment is not high enough to pay the loan off in full at the end of the loan term, and at the end of the loan term there is some principal due plus any outstanding interest.
- A **“principal and interest due at maturity loan”** – is a loan used for projects, construction and farming. The loan principal plus all the accumulated interest are paid in full at the end of the loan term.

You can find sample note documents and loan payment calculators on the [www.ZimpleMoney.com](http://www.ZimpleMoney.com) website. The note documents and the calculators are free to use and will help borrowers and lenders reach an agreement that can be documented and signed.

Before entering into any contract, have a competent attorney review and document your agreement. You can also consider using websites like [www.LegalZoom.com](http://www.LegalZoom.com) to document your agreements.



## Step 6: Interest Rates

All 50 states have rules defining how much interest a private lender can legally charge. These rates do change periodically. Consider searching the Internet for the most current rates allowed state by state. You might also try reviewing the following sites: <http://www.usurylaw.com/usury-rates>; <http://www.lectlaw.com/files/ban02.htm>; and <http://www.usurylaw.com>.

Each month, the IRS provides various prescribed rates for federal income tax purposes. These rates, known as Applicable Federal Rates (or AFRs), are regularly published as revenue rulings. The website URL is as follows: <http://www.irs.gov/app/picklist/list/federalRates.html>.

The AFR rules establish a minimum rate of interest on a loan. If a loan has an interest rate that is too low, then the IRS may consider the difference between the AFR and the rate being charged income to the borrower/payer. The IRS rules can be complicated when making a loan, so please check with an attorney and CPA familiar with interest rates.

## Step 7: Sharing the Risk

Sharing the risk and minimizing concentrated investments is a fundamental principal of lending and investing. If you are considering a loan to friends or family members, you might ask the borrower who else might be able to participate in the loan. If there is consistent encouragement from family or a peer group, there will be a higher likelihood of the loan being paid off.

## Managing your loan and portfolio

Software companies like [www.ZimpleMoney.com](http://www.ZimpleMoney.com) provide lenders and borrowers software tools that help you manage financial agreements online.

ZimpleMoney, provides a loan workspace for borrowers and lenders to manage their private, interfamily or business financial agreements. It is like having bank software and financial tools for your private and personal use.





## Conclusion

Making a loan to a family member, friend, organization or business associate is a viable investment option for people with the capital and willingness to help others.

As a family and friend lender, you have an opportunity for a QUADRUPLE benefit:

1. Your loan directly benefits a family member, friend, organization or business,
2. You receive an investment yield that is better than you can get in a bank,
3. The borrower receives financing at more competitive rates than a bank, plus
4. The psychological benefit of knowing your doing something good for someone important to you.

Any lending activity must be done following the rules of the State in which you live. Find local legal counsel to provide you advice when making a loan.

Use software from companies like [www.ZimpleMoney.com](http://www.ZimpleMoney.com) that provide tools to manage family and friend loans and other financial agreements.

Be a responsible lender and more importantly a responsible borrower.

At ZimpleMoney our mission says it all, "Capitalize Life's Passions!"

### Starting the conversation

#### Questions you need to answer for the lender:

1. What is the purpose of the loan?
2. How will you use the money?
3. How can you pay back the loan?
4. What is your personal income and expenses?
5. If I am borrowing for a business, what is my business income and expenses?
6. Am I offering collateral for the loan?
7. How will this loan help me achieve my personal or business goal?
8. Where is the money coming from to repay the loan?

#### Note Terms:

1. The start date of the loan (the day the lender provides the money to the borrower)
2. The amount of the loan
3. Is there collateral
4. How many payments need to be made to pay off the loan
5. What is the interest rate
6. What is the interest rate if the loan is in default
7. How about late payments and fees
8. Is the lender going to gift funds annually to help pay off the loan
9. Legal name of the borrower and lender
10. The date the loan becomes due (some notes are due on demand)
11. The payment terms: monthly, quarterly, annually
12. Is the loan fully or partially amortized
13. Are there late penalties
14. What happens if the borrower's check is returned
15. Who pays the costs of collecting the loan if the loan is in default
16. What rights do the lender and borrower have if the loan is in default
17. Are there processes the borrower or lender must follow if the borrower is in default



## Appendix B - Debt-to-Income Ratio – Sample Form

Income (List net income for all borrowers)	
Borrower: Wages	\$3,500
Co-Borrower: Wages	n/a
Other Household Income	100
Rental Income	300
Alimony	n/a
Social Security	600
Other Income	n/a
<b>Total Net Income</b>	<b>\$4,500</b>

Expenses (List minimum monthly payment)		
	Current	Proposed
1st Mortgage	\$1,000	\$1,000
2nd Mortgage	n/a	n/a
Mortgage Taxes & Insurance	100	100
Auto loan	250	250
Other installment loans	n/a	n/a
Credit cards	250	Paid
School loans	350	Paid
New loan	n/a	250
<b>Total Debt Payments</b>	<b>\$2,350</b>	<b>\$1,600</b>

Debt to Income Ratio	Current	Proposed
Total Debt Payments (divided by)	\$2,350	\$1,600
Total Income	\$4,500	\$4,500
<b>Debt-to-Income Ration</b>	<b>52.2%</b>	<b>35.5%</b>

## Appendix C – Debt-to-Income Ratio – Worksheet

Income (List net income for all borrowers)	
Borrower: Wages	
Co-Borrower: Wages	
Other Household Income	
Rental Income	
Alimony	
Social Security	
Other Income	
<b>Total Net Income</b>	

Expenses (List minimum monthly payment)		
	Current	Proposed
1st Mortgage		
2nd Mortgage		
Mortgage Taxes & Insurance		
Auto loan		
Other installment loans		
Credit cards		
School loans		
New loan		
<b>Total Debt Payments</b>		

Debt to Income Ratio	Current	Proposed
Total Debt Payments (divided by)		
Total Income		
<b>Debt-to-Income Ration</b>		

## Appendix D – State by State Usury Rates

**ALABAMA**, the legal rate of interest is 6%; the general usury limit is 8%. The judgment rate is 12%.

**ALASKA**, the legal rate of interest is 10.5%; the general usury limit is more than 5% above the Federal Reserve interest rate on the day the loan was made.

**ARIZONA**, the legal rate of interest is 10%.

**ARKANSAS**, the legal rate of interest is 6%; for non-consumers the usury limit is 5% above the Federal Reserve's interest rate; for consumers the general usury limit is 17%. Judgments bear interest at the rate of 10% per annum, or the lawful agreed upon rate, whichever is greater.

**CALIFORNIA**, the legal rate of interest is 10% for consumers; the general usury limit for non-consumers is more than 5% greater than the Federal Reserve Bank of San Francisco's rate.

**COLORADO**, the legal rate of interest is 8%; the general usury limit is 45%. The maximum rates to consumers is 12% per annum.

**CONNECTICUT**, the legal rate of interest is 8%; the general usury rate is 12%. In civil suits where interest is allowed, it is allowed at 10%.

**DELAWARE**, the legal rate of interest is 5% over the Federal Reserve rate.

**DISTRICT OF COLUMBIA**, the legal rate of interest is 6%; the general usury limit is in excess of 24%.

**FLORIDA**, the legal rate of interest is 12%; the general usury limit is 18%. On loans above \$ 500,000 the maximum rate is 25%.

**GEORGIA**, the legal rate of interest is 7%; On loans below \$ 3,000 the usury limit is 16%. On loans above \$ 3,000, the limit appears to be 5% per month. As to loans below \$ 250,000 the interest rate must be specified in simple interest and in writing.

**HAWAII**, the legal rate of interest is 10%. The usury limit for consumer transactions is 12%. **IDAHO**, the legal rate of interest is 12%. Judgments bear interest at the rate of 5% above the U.S. Treasury Securities rate.

**ILLINOIS**, the legal rate of interest is 5%. The general usury limit is 9%. The judgment rate is 9%.

**INDIANA**, the legal rate of interest is 10%. Presently there is no usury limit; however, legislation is pending to establish limits. The judgment rate is also 10%.

**IOWA**, the legal rate of interest is 10%. In general consumer transactions are governed at a maximum rate of 12%.

**KANSAS**, the legal rate of interest is 10%; the general usury limit is 15%. Judgments bear interest at 4% above the federal discount rate. On consumer transactions, the maximum rate of interest for the first \$ 1,000 is 18%, above \$ 1,000, 14.45%.

**KENTUCKY**, the legal rate of interest is 8%; the general usury limit is more than 4% greater than the Federal Reserve rate or 19%, whichever is less. On loans above \$ 15,000 there is no limit. Judgments bear interest at the rate of 12% compounded yearly, or at such rate as is set by the Court.

**LOUISIANA**, the legal rate of interest is one point over the average prime rate, not to exceed 14% nor be less than 7%. Usury limit for individuals is 12%, there is no limit for corporations. (As warned, you cannot evade the limit by forming a corporation when the loan is actually to an individual.)

**MAINE**, the legal rate of interest is 6%. Judgments below \$ 30,000 bear 15%, otherwise they bear interest at the 52 week average discount rate for T-Bills, plus 4%.



**MARYLAND**, the legal rate of interest is 6%; the general usury limit is 24%. There are many nuances and exceptions to this law. Judgments bear interest at the rate of 10%.

**MASSACHUSETTS**, the legal rate of interest is 6%; the general usury rate is 20%. Judgments bear interest at either 12% or 18% depending on whether the court finds that a defense was frivolous.

**MICHIGAN**, the legal rate of interest is 5%; the general usury limit is 7%. Judgments bear interest at the rate of 1% above the five year T-note rate.

**MINNESOTA**, the legal rate of interest is 6%. The judgment rate is the "secondary market yield" for one year T-Bills. Usury limit is 8%.

**MISSISSIPPI**, the legal rate of interest is 9%; the general usury limit is more than 10%, or more than 5% above the federal reserve rate. There is no usury limit on commercial loans above \$ 5,000. The judgment rate is 9% or a rate legally agreed upon in the underlying obligation.

**MISSOURI**, the legal and judgment rate of interest is 9%. Corporations do not have a usury defense. (Remember that a corporation set up for the purpose of loaning money to an individual will violate the usury laws.)

**MONTANA**, the legal rate of interest is 10%; the general usury limit is above 6% greater than New York City banks' prime rate. Judgments bear interest at the rate of 10% per annum.

**NEBRASKA**, the legal rate of interest is 6%; the general usury limit is 16%. Accounts bear interest at the rate of 12%. Judgments bear interest at the rate of 1% above a bond yield equivalent to T-bill auction price.

**NEVADA**, the legal rate of interest is 12%; there is no usury limit.

**NEW HAMPSHIRE**, the legal rate of interest is 10%; there is no general usury rate.

**NEW JERSEY**, the legal rate of interest is 6%; the general usury limit is 30% for individuals, 50% for corporations. There are a number of exceptions to this law.

**NEW MEXICO**, the legal rate of interest is 15%. Judgment rate is fixed by the Court.

**NEW YORK**, the legal rate of interest is 9%; the general usury limit is 16%.

**NORTH CAROLINA**, the legal interest rate and the general usury limit is 8%. However, there is a provision for a variable rate, which is 16% or the T-Bill rate for non-competitive T-Bills. Above \$ 25,000 there is no express limit. However, the law providing for 8% is still on the books- be careful and see a lawyer!

**NORTH DAKOTA**, the legal rate of interest is 6%; the general usury limit is 5 1/2% above the six-month treasury bill interest rate. The judgment rate is the contract rate or 12%, whichever is less. A late payment charge of 1 3/4% per month may be charged to commercial accounts that are overdue provided that the charge is revealed prior to the account being opened and that the terms were less than thirty days, that is, that the account terms were net 30 or less.

**OKLAHOMA**, the legal rate of interest is 6%. Consumer loans may not exceed 10% unless the person is licensed to make consumer loans. Maximum rate on non-consumer loans is 45%. The judgment rate is the T-Bill rate plus 4%.

**OREGON**, the legal rate is 9%, the judgment rate is 9% or the contract rate, if lawful, whichever is higher. The general usury rate for loans below \$50,000 is 12% or 5% above the discount rate for commercial paper.

**PENNSYLVANIA**, the legal rate of interest is 6%, and this is the general usury limit for loans below \$ 50,000, except for: loans with a lien on non-residential real estate; loans to corporations; loans that have no collateral above \$ 35,000. Judgments bear interest at the legal rate. It is criminal usury to charge more than 25%.

**PUERTO RICO**, the legal rate of interest is 6%; all other rates are set by the Finance Board of Office of Commissioner of Financial Institutions. Judgments bear interest at the same rate as the underlying debt.

**RHODE ISLAND**, the legal rate of interest and judgment rate is 12%. The general usury limit is 21% or the interest rate charged for T-Bills plus 9%.

**SOUTH CAROLINA**, the legal rate of interest is 8.75%, and judgments bear interest at the rate of 14%. Subject to federal criminal laws against loan sharking there is no general usury limit for non-consumer transactions. The South Carolina Consumer Protection code provides regulations for maximum rates of interest for consumer transactions. Please consult with counsel for the latest rates.

**SOUTH DAKOTA**, the legal rate of interest is 15%, judgments bear interest at the rate of 12%. There is no other usury limit. There are certain limitations on consumer loans below \$ 5,000.00.

**TENNESSEE**, the legal rate and judgment rate of interest is 10%. The general usury limit is 24%, or four points above the average prime loan rate, WHICHEVER IS LESS.

**TEXAS**, the legal rate of interest is 6%. Interest does not begin until 30 days after an account was due. The judgment rate of interest is 18% or the rate in the contract, whichever is less. There are a number of specific ceilings for different types of loans, please see counsel for information.

**UTAH**, the legal rate of interest is 10%. Judgments bear interest at the rate of 12%, or a lawfully agreed upon rate. There are floating rates prescribed for consumer transactions. Please see counsel for information.

**NEW MEXICO, VERMONT**, the legal rate of interest and judgment rate of interest is 12%. On retail installment contracts the maximum rate is 18% on the first \$ 500, 15% above \$ 500. The general usury limit is 12%.

**VIRGINIA**, the legal rate of interest is 8%. Judgments bear interest at the rate of 8%, or the lawful contract rate. Corporations and business loans do not have a usury limit, and loans over \$ 5,000 for "business" or "investment" purposes are also exempt from usury laws. Consumer loans are regulated and have multiple rates.

**WASHINGTON**, the legal rate is 12%. The general usury limit is 12%, or four points above the average T-Bill rate for the past 26 weeks, whichever is greater. (The maximum rate is announced by the State Treasurer.) Judgments bear interest at the rate of 12% or the lawful contract rate, whichever is higher.

**WEST VIRGINIA**, the legal rate of interest is 6%. The maximum "contractual" rate is 8%; Commissioner of Banking issues rates for real estate loans, and, may establish maximum general usury limit based on market rates.

**WISCONSIN**, the legal rate of interest is 5%. There are a myriad of rates for different type of loans. There is no general usury limit for corporations. Note that a loan to an individual, even if a corporation is formed, will violate the law. The judgment rate of interest is 12%, except for mortgage foreclosures, where the rate will be the lawful contract rate.

**WYOMING**, the legal rate and judgment rate of interest is 10%. If a contract provides for a lesser rate, the judgment rate is the lesser of 10% and the contract rate.





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