To amend title 34 of the Code of the Federated States of Micronesia by amending sections 202, 203, and 204; by repealing section 207 in its entirety, and enacting a new section 207 in lieu thereof; by adding a new section 208 for the purpose of increasing the permissible rate of interest charged by lending institutions; to delete the definition of net yield rate; to expressly allow fees for processing loans; to authorize the use of "floating interest rates," and require the posting of interest paid on deposits and the prime rate; and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

Section 1. Section 202 of title 34 of the Code of the Federated States of Micronesia is hereby amended to read as follows:

"Section 202. Definitions. As used in this chapter:

(1) 'Annual percentage rate' means the annual percentage rate of interest. This rate shall be computed in the manner prescribed in the Truth in Lending Act, 15 U.S.C. section 1601 et seq., and regulations promulgated thereunder, 12 C.F.R. section 226.1 et seq.

(2) 'Cardholder' means any person to which a credit card is issued.

(3) 'Card issuer' means any person who issues a credit card, or the agent of such person with respect to such card.

(4) 'Commercial credit' means credit extended to a person in which the money, property, or service which is the subject of the transaction is primarily for business purposes, excluding those credit transactions in which real property is the primary security interest.

(5) 'Consumer credit' means credit extended to a natural person in which the money, property, or service which is the subject of the transaction is primarily for personal, family, household, or agricultural purposes,
excluding those credit transactions in which real property
is the primary security interest.

(6) 'Credit' means the right granted by a creditor
to a customer to defer payment of debt, incur debt and
defer its payment, or purchase property or services and
defer payment therefor.

(7) 'Creditor' means a person who in the ordinary
course of business regularly extends credit.

(8) 'Credit card' is any card, plate, coupon book, or
other single credit device existing for the purpose of
being used from time to time upon presentation to obtain
money, property, labor, or services on credit.

(9) 'Customer' means:

(a) a person to whom credit is extended, and
includes a co-maker, endorser, guarantor, or surety for such
person who is or may be obligated to repay the extension of
credit; or

(b) a cardholder.

(10) 'Interest' is any and all compensation paid or
agreed to be paid by regarding the use, forbearance, or
detention of money or the extension of credit.

(11) 'Person' includes individuals, corporations,
partnerships, unincorporated associations, as well as banks,
savings and loan associations, credit unions, and
other institutional lending organizations.
(12) 'Prime rate' means the rate of interest charged on loans by large United States money-center commercial banks to their best business borrowers, as published in the Money Rates section of the Wall Street Journal.

(13) 'Real property' means property which is real property under the law of the Federated States of Micronesia.

(14) 'Security interest' means any interest in property which secures payment or performance of any obligation in the credit transaction.

(15) 'Usury' is the exacting, taking, or receiving of an interest charge in an amount or at a rate in excess of that allowed by law for the use of money or extension of credit."

Section 2. Section 203 of title 34 of the Code of the Federated States of Micronesia is hereby amended to read as follows:

"Section 203. Consumer credit transactions.

(1) In consumer credit transactions, no person may directly or indirectly receive or charge interest which exceeds an annual percentage rate of 15 percent.

(2) Nothing contained in this section shall prevent a creditor from charging and receiving, in addition to interest permitted by this section, a processing fee with respect to the transaction, not to exceed $25, or a late charge on all or any portion of any payment due on a
consumer credit transaction which is unpaid after fifteen
days from the due date of the payment, provided that such
late charge shall not exceed five dollars or five percent
of the amount overdue, whichever is less, on any payment."

Section 3. Section 204 of title 34 of the Code of the Federated
States of Micronesia is hereby amended to read as follows:

"Section 204. Commercial credit transactions.

(1) In commercial credit transactions in which the
principal amount is less than $1,000,000, no person may
directly or indirectly receive or charge interest which
exceeds the prime rate in effect on the date of the
transaction plus four percent.

(2) The provisions of subsection (1) of this section
notwithstanding, in commercial credit transactions in which
the principal amount is $1,000,000 or less, no person may
directly or indirectly receive or charge interest which
exceeds an annual percentage rate of 24 percent per annum,
or if the lender is a commercial bank or savings
institution, no person may directly or indirectly receive
or charge interest which exceeds by more than 8 percent the
lowest rate paid by the lender on any savings deposits or
savings account, not including certificates of deposit.

(3) In commercial credit transactions, a reasonable
commitment fee, not to exceed one percent of the amount of
the loan may be charged by the lender in addition to any

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interest rate permitted by this section.

(4) The provisions of subsections (1), (2) and

(3) of this section notwithstanding, nothing in this

section shall be construed to prohibit the use of an

adjustable interest rate in a consumer or commercial loan

transaction, so that the interest rate of a transaction may

be adjusted from time to time to reflect changes in the

prime rate."

Section 4. Section 207 of title 34 of the Code of the Federated
States of Micronesia is hereby repealed in its entirety and a new
section 207 is hereby enacted to read as follows:

"Section 207. Remedies. No credit transaction in which the

annual percentage rate exceeds those limits established in

sections 203 and 204 of this chapter shall for that reason

be void, but:

(1) The creditor in such transaction shall have no

right to collect or receive any interest;

(2) The debtor shall within two years of maturity of

the loan be entitled to bring suit to recover two times

any interest paid to the creditor, plus costs of the suit

and reasonable attorney's fees; and

(3) The debtor shall also be entitled, at any time,

to assert the remedies of this section by way of a defense

or counterclaim to any action by the creditor."

Section 5. Title 34 of the Code of the Federated States of
Micronesia is hereby amended by adding a new section 208 to read as follows:

"Section 208. Current interest rates. Every bank shall post in a public place within each of its branches located in the Federated States of Micronesia the current rate of interest paid on deposits held, including demand deposits, savings deposits, and certificates of deposit, by such bank and the prime rate currently in effect for loans. In any loan in which an adjustable interest rate is used, the lender shall notify the borrower by mail of any changes in the rate of interest applicable to the loan, at least 10 days in advance of such changes taking effect."

Section 6. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without such approval.

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Bailey Olter
President
Federated States of Micronesia

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