
AN ACT

To amend Chapter 7 of Title 33 of the Trust Territory Code as amended by Public Law No. 1-117, to establish new usury limits on major loans, to provide remedies for credit customers, and for other purposes.

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

1 Section 1. Section 251 of Chapter 7 of Title 33 of the Trust Terri-
2 tory Code is hereby repealed and a new Section 251 is hereby enacted to
3 read as follows:

4 "Section 251. Statement of policy. It is hereby declared to
5 be the policy of the Federated States of Micronesia that the
6 interest rates legally permitted to be charged by creditors
7 shall be at such reasonable levels as to afford a competitive
8 rate of return, thereby encouraging and facilitating an in-
9 crease in the extension of credit to the people of the Federated
10 States of Micronesia."

11 Section 2. Section 252 of Chapter 7 of Title 33 of the Trust Terri-
12 tory Code is hereby repealed and a new Section 252 is hereby enacted to
13 read as follows:

14 "Section 252. Definitions.

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

20 (2) "Cardholder" means any person to whom a credit card
21 is issued.

22 (3) "Card issuer" means any person who issues a credit

1 card, or the agent of such person with respect to such card.

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

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

13 (6) "Credit" means the right granted by a creditor to a
14 customer to defer payment of debt, incur debt and defer its
15 payment, or purchase property or services and defer payment
16 therefore.

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

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

23 (9) "Customer" means:

24 (a) A person to whom credit is extended, and includes
25 a comaker, endorser, guarantor, or surety for such person who

1 is or may be obligated to repay the extension of credit; or
2 (b) a cardholder.

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

6 (11) "Net yield rate" means the rate of interest
7 established by the Federal Home Loan Mortgage Corporation
8 for real estate transactions, as published in the Money Rates
9 section of the Wall Street Journal, under the category of
10 noncompetitive offers.

11 (12) "Person" includes individuals, corporations,
12 partnerships, unincorporated associations, as well as
13 banks, savings and loan associations, credit unions, and
14 other institutional lending organizations.

15 (13) "Prime rate" means the rate of interest charged on
16 loans by large United States money center commercial banks
17 to their best business borrowers, as published in the Money
18 Rates section of the Wall Street Journal.

19 (14) "Real property" means property which is real property
20 under the law of the Federated States of Micronesia.

21 (15) "Security interest" means any interest in property
22 which secures payment or performance of any obligation in a
23 credit transaction.

24 (16) "Usury" is the exacting, taking, or receiving of an
25 interest charge in an amount or at a rate in excess of that

1 allowed by law for the use of money or extension of credit."

2 Section 3. Section 253 of Chapter 7 of Title 33 of the Trust
3 Territory Code is hereby repealed and a new Section 253 is enacted
4 to read as follows:

5 "Section 253. Consumer credit transactions: maximum rates
6 of interest.

7 (1) In consumer credit transactions in which the princi-
8 pal amount exceeds \$300, no person may directly or indirectly
9 receive or charge interest which exceeds an annual percentage
10 rate of 15 percent.

11 (2) Nothing contained in this Section shall prevent
12 a creditor from charging and receiving, in addition to
13 interest permitted by this Section, a late charge on all or
14 any portion of any payment due on a consumer credit transaction
15 which is unpaid after 15 days from the due date of the payment,
16 provided that such late charge shall not exceed \$5 or 5 percent
17 of the amount overdue, whichever is less, on any payment."

18 Section 4. Section 254 of Chapter 7 of Title 33 of the Trust
19 Territory Code is hereby repealed and a new Section 254 is enacted to
20 read as follows:

21 "Section 254. Commercial credit transactions: maximum rates
22 of interest.

23 (1) In commercial credit transactions in which the
24 principal amount is less than \$500,000, no person may directly
25 or indirectly receive or charge interest which exceeds an

1 annual percentage rate 2.0 percent per annum in excess
2 of the prime rate published on the day before the transac-
3 tion. Subsequent changes in the prime rate shall not
4 increase or decrease the maximum permissible interest for the
5 transaction.

6 (2) In commercial credit transactions in which the
7 principal amount exceeds \$500,000, but less than \$1,000,000,
8 no person may directly or indirectly receive or charge inter-
9 est which exceeds an annual percentage rate 2.25 percent per
10 annum in excess of the prime rate published on the day before
11 the transaction. Subsequent changes in the prime rate shall
12 not increase or decrease the maximum permissible interest for
13 the transaction.

14 (3) The provisions of Subsections (1) and (2) of this
15 Section notwithstanding, in commercial credit transactions in
16 which the principal amount is less than \$1 million, no person
17 may directly or indirectly receive or charge interest which
18 exceeds an annual percentage rate of 22 percent.

19 (4) In commercial credit transactions in which the
20 principal amount exceeds \$1,000,000, no maximum interest rate
21 shall be imposed."

22 Section 5. Section 255 of Chapter 7 of Title 33 of the Trust Terri-
23 tory Code is hereby repealed and a new Section 255 is enacted to read
24 as follows:

25 "Section 255. Credit transactions secured by real property:

1 maximum rates of interest.

2 (1) In credit transactions in which real property
3 is the primary security interest, and in which the
4 principal amount is less than \$500,000, no person may
5 directly or indirectly receive or charge interest which
6 exceeds an annual percentage rate 2.0 percent per annum in
7 excess of the Federal Home Loan Mortgage Corporation net yield
8 rate published on the day before the transaction. Subsequent
9 changes in the net yield rate shall not increase or decrease
10 the maximum permissible interest for the transaction.

11 (2) In credit transactions in which real estate is
12 the primary security interest, and in which the principal
13 amount is \$500,000 or more but less than \$1,000,000, no
14 person may directly or indirectly receive or charge interest
15 which exceeds an annual percentage rate 2.25 percent per annum
16 in excess of the Federal Home Loan Mortgage Corporation net
17 yield rate published on the day before the transaction.
18 Subsequent changes in the net yield rate shall not increase
19 or decrease the maximum permissible interest for the trans-
20 action.

21 (3) The provisions of Subsections (1) and (2) of this
22 Section notwithstanding, in credit transactions in which real
23 estate is the primary security interest and in which the
24 principal amount is less than \$1 million, no person may
25 directly or indirectly receive or charge interest which

1 exceeds an annual percentage rate of 22 percent.

2 (4) In credit transactions in which real estate is the
3 primary security interest, and in which the principal amount
4 exceeds \$1,000,000, no maximum interest rate shall be imposed."

5 Section 6. A new Section 256 is hereby added to Chapter 7 of Title
6 33 of the Trust Territory Code to read as follows:

7 "Section 256. Credit card, applicable law. The extension
8 of credit arising from the use of a credit card issued to a
9 resident of the Federated States of Micronesia shall be sub-
10 ject to any applicable usury laws of the jurisdiction where
11 the principal place of business of the credit card issuer is
12 located, and not to the provisions of this Chapter."

13 Section 7. A new Section 257 is hereby added to Chapter 7 of
14 Title 33 of the Trust Territory Code to read as follows:

15 "Section 257. Remedies. Any credit transaction in which
16 the annual percentage rate exceeds those limits established
17 in Sections 253 through 255 as amended above, is void and
18 furthermore:

19 (1) The creditor in such transaction shall have no
20 right to collect or receive any money, whether principal or
21 interest;

22 (2) The customer shall, within six years of the last
23 payment to the creditor, be entitled to bring suit to recover
24 any interest or principal paid to the creditor, plus costs
25 of suit and reasonable attorney's fees; and

