

a clear, written statement of the amount of the finance charge to be paid for the extension or use of credit both in dollars and cents and as an approximate annual percentage rate.

(2) Require equivalent disclosure in advertising the terms on which credit is available.

There are, however, basic exemptions for:

(1) Business credit.

(2) Credit transactions involving the purchase and sale of stocks, bonds, and other securities which are already under the jurisdiction of the securities law.

"Credit" is clearly defined to mean consumer credit and credit for agricultural purposes. As a rough rule, this would mean that credit incurred in the purchase of "depreciable property," except for agricultural purposes, as interpreted by the Internal Revenue Service, would be exempt. The bill also exempts credit with Government agencies, and their instrumentalities and credit transactions with a broker-dealer registered with the SEC.

"Finance charges" includes most of the charges which result from the consumer's use of credit and from which he would be free if he had paid cash or not borrowed from the lender. The general guideline—to which I would subscribe—is that finance charges include all of the charges that accompany credit and which the consumer becomes liable for if he borrows or buys on credit.

Two areas of concern are credit life insurance and housing closing costs:

With respect to insurance, some creditors carry this risk at no direct cost to the individual borrower. Until 1955, for example, small loan companies, operating under the Russell Sage philosophy that the customer should be quoted one credit charge only—to eliminate any temptation to hide the cost of credit in an underbrush of additional charges—were expressly prohibited from making additional charges, including any charges for insurance.

Mrs. SULLIVAN. Mr. Secretary, could you tell me why this was stopped? You say "until 1955."

Mr. BARR. I will have to consult with counsel here. I am informed that there was a change in the law of the legislature of the State of Kansas that prompted this change in this practice of credit of small loan companies.

Credit unions typically insure their borrowers for life and disability; the cost is included in the interest rate paid by the borrower.

Some other financial institutions also follow this practice of carrying blanket policies. Others, however, give consumers the option of carrying insurance. And a third group makes the insurance coverage a condition of the loan extension.

Clearly the latter class of creditors should include premiums in the finance charge. In those cases where insurance is clearly optional or, as stated in the Department of Defense directive, neither the vendor nor lender has a direct interest in the sale of the insurance, then the insurance premiums would not be part of the finance charge. What remains, admittedly, is a gray area which would bear further study of prevailing practices to determine their rightful placement.

I would like to add that this is a confusing area and I think all of us can profit from the hearings on which you are embarking.