

whether he is in California, New Jersey or Missouri, he is confronted by a fairly standardized system of charges which is not going to come as a big shock to him and on which he can make a reasonable judgment. Perhaps I have a personal bias in this area.

Mrs. SULLIVAN. Mr. Secretary, before you go on—

Mr. BARR. The record will show that.

Mrs. SULLIVAN. Before you go on with the rest of your statement—going back to page 10 where I questioned you as to why this practice was stopped, of including all charges as part of the cost of a loan, would you please provide the subcommittee with some further information for the record on the reasons this practice was stopped and how it was done.

Mr. BARR. I will be delighted to do that, Madam Chairman.
(The material referred to follows:)

BRIEF HISTORICAL SKETCH OF CREDIT LIFE INSURANCE

The Uniform Small Loan Law, commonly known as the Russell Sage Act, limited the charges to those specified in the law, which did not include the sale of credit life insurance. Furthermore the licensee, under Section 12 of the Act, was prohibited from conducting the business of making loans within any office in which any other business was solicited or engaged in.

Some major small loan companies carried credit life insurance as a service to their customers and to avoid the embarrassment of collecting debt from the estate. The cost of bearing this insurance and the potential for the profitable sale of such insurance built up pressure for the modification of state laws.

Kansas, one of the few states without a Small Loan Act, enacted such legislation in 1955 after much debate. National attention focused on Kansas as it struggled with the advocates of the old Russell Sage philosophy of no extra charges, and those who wished to give licensees the opportunity to charge for credit life insurance.

The break-through in Kansas reflected the ascendancy of new leadership in the small loan field who wished to discard the Russell Sage philosophy. They pressed for amendments successfully in the various state legislatures, and as a result most states allow a separate charge for credit life insurance.

Credit unions continue to absorb this in their single rate. Credit life insurance has been profitable for those making the extra charge, according to testimony recently presented to the Senate Anti-Trust Committee.

Mr. BARR. We can jump over to page 15 now.

Mr. WILLIAMS. Madam Chairman, may I make a suggestion that Mr. Barr also send the additional information to each member of the subcommittee so we can have it at the conclusion of the statement?

Mr. BARR. I will be delighted to do so, Mr. Williams.

We can go to page 15 of my statement now. The intervening sections there are rather technical discussions of why certain charges are included as incident to the lending and why others are excluded.

At this point, Madam Chairman, it might be useful if I take a simple example to show you what we mean by this actuarial rate that the Government has used since 1789 and that is used by all banking institutions and in most large financial institutions. If you will just take a pencil and your pad, let us assume that you have an obligation with a \$100 balance, 6 percent simple annual interest rate. You are going to make a \$10 monthly payment on that balance. All right—the first thing that you must determine is how much of that \$10 is interest, how much is principal. A 6-percent annual rate figures out to a half of 1 percent monthly rate which would be a half of 1 percent times \$100, or 50 cents. So 50 cents out of that total of \$10 monthly