

what hazy (for example, in the use of an automobile, home-improvement where the business is in the home, etc.)?

5. What would be your response to the following suggestion as a solution to the revolving credit bottleneck: instead of being required to state that the annual rate by which revolving account charges are *calculated* is 18 percent per annum, disclosure would involve statement of a *range* of rates which are actually *paid*, with 18 percent per annum specified as the outer limit or *maximum* rate which *might* be imposed on the account if payment is delayed a full 12 months beyond the initial imposition of credit charges. (This disclosure would both take account of the benefit of the "free-ride" period and provide the consumer with a basis of comparison in terms of annual rates).

I certainly enjoyed your testimony on Monday, and appreciate your offer to respond to my additional questions.

With best wishes, I am,

Sincerely,

SEYMOUR HALPERN, *Member of Congress.*

THE UNDER SECRETARY OF THE TREASURY,
Washington, D.C., August 18, 1967.

HON. SEYMOUR HALPERN,
House of Representatives,
Washington, D.C.

DEAR SY: Let me try to give you some brief answers to your questions on my testimony of last Monday, August 7, on H.R. 11601.

1. I certainly wouldn't want to attribute the rising tide of bankruptcies entirely to lack of consumer information on credit costs. I don't know that there is any statistical information bearing on this, but it seems pretty evident to me that an uninformed consumer is more likely to overextend himself and get into a bankruptcy situation than a consumer who knows what the cost of credit is. I think, as came out before the subcommittee, that a good deal of the bankruptcy problem comes from consumer credit that is sold to the consumer as "instant money" without any disclosure of the price tag.

2. I don't know whether there are indications that consumers are as insensitive to finance charges as has sometimes been supposed. I think a good deal of this supposed insensitivity is due simply to the sometimes deliberately confusing ways in which credit costs are revealed or concealed. I do have reasonable confidence that the disclosure provisions will enhance competition and help to reduce credit costs to as low as possible a level, and I think the advertising provisions are likely to be important in achieving that result.

3. I think the consumer would generally compare the annual rate stated on a retail credit transaction and the annual rate on a savings account and would get substantially the right kind of answer, even though the two rates are not strictly comparable. Under the terms of H.R. 11601 the annual rate stated on the credit transaction might be closer to a conceptually exact rate, but the rate paid by the consumer could differ because of early payments. The rate quoted by a savings institution is an exact rate, usually, only if you put your money in on the 1st of the month and keep it on deposit until the dividend date. You can beat this by taking advantage of grace periods, and, of course, you can lose interest by putting in money after the grace period or by taking money out before the end of the interest period. But again, what we are getting at on a reasonably comparable basis are the terms that are offered to the consumer whether he is a borrower or a lender.

4. I think that in most cases small, family-owned businesses are likely to get most of the benefits of the truth-in-lending disclosure provisions, even if they are not specifically covered. I rather doubt that a credit seller, in particular, would not provide the required information, even though technically he might not be liable to do so, especially where consumer-type goods are concerned.

5. I really think that the proper answer to this question is that the lender should be obliged to state the annual rate as twelve times the monthly rate. I tried to make this point also: if the annual rate at which credit charges are levied is not correct, the monthly rate advocated by the stores is also not correct by the same logic. I don't, however, see anything in the bill that would prevent a credit seller from informing his patrons that on the average he earned 8, 9, or 10 percent, or whatever the figure might be, on his charge accounts, but