

I would like to go back to a question by Mr. Stephens concerning the deduction of interest on the income tax return, and apropos of that, I notice in the Internal Revenue regulations the provision relating to the deduction of interest is as follows: Now, I suppose that the reason for fixing the deduction at 6 percent is because it is hard to determine what the actual annual interest rate might be under a credit plan. Would you recommend a change in the IRS regulations to include 18 percent interest as a deduction if this bill is passed?

Mr. BARR. If this legislation passes, I think we would have to consider whether to conform IRS regulations to this statute. In other words, what this committee says is the interest payment perhaps should be the interest payment we would allow as a deduction.

Mr. WYLIE. Would there be a way of determining how much that might cost as far as the amount of income taxes which would be collected?

Mr. BARR. I would say, Mr. Wylie there would be some loss in this area.

Mr. WYLIE. All right. Now, I would like to—

Mr. BARR. Mr. Wylie, I am advised by my general counsel that there might be a distinction here. We would have to check the code, the tax statutes, and see whether they refer to the interest or finance charges. We are dealing here with finance charges. It may be that there will be a question of changing the income tax statute to conform the deductible charge with this committee's and the Congress definition in this bill. I would think they possibly should be reconciled to avoid forcing to break out the interest from the credit charge. That would be a burden.

Mr. WYLIE. In changing the language, it is my hope that a tax increase will not result.

You mentioned FHA and GI loans, and I have had some experience in this area in closings, as a closing attorney, and I have not encountered anything in the area of credit financing that has caused more heartache at the closing table. Is there something we can do about this? For instance, I have encountered many situations where the points were determined in advance on an FHA loan, say one point, and at the time of closing we found that the points were increased by 2 percent to three points. The seller had decided he was going to take whatever balance he received from the transaction, whatever money he had left and purchase a new home. After the points were added he did not in fact have enough money left to carry out his plan. Is there an area here of disclosure that we should get into? Is this an area where we can limit the amount of the points or set the number of points to a particular period?

Mr. BARR. I think that any limitation, any ceiling, inevitably becomes counterproductive and costs the consumer money. We have a vast market here in the United States. This market is an informed market and if the people who are in the market know the facts, I think this is the best that can be done. Attempts to set rate ceilings inevitably are counterproductive. We have a 41¼-percent ceiling on our Government obligations. It costs the taxpayer more money because we are forced to finance in the short-term area. I am not saying anything here