gages, and discounts, fees, and charges can make up a much larger proportion of total finance charges. Moreover, second mortgage credit is often obtained for purposes such as home modernization, durable goods purchases, and debt consolidation—consumer transactions of the type usually financed with consumer installment credit.

One of the issues that has proved troublesome during consideration of disclosure legislation has been the question of how to treat insurance premiums on policies taken out by borrowers as a condition of, and covering the amount of, the credit contract. If such insurance is required, the borrower bears a cost which probably would not have been incurred if no credit were obtained. Moreover, exclusion of insurance from the finance charge creates a potential area of abuse, since some lenders may be encouraged to promote high-cost insurance to compensate for a somewhat lower finance charge.

The fact remains, however, that inclusion in the finance charge of premiums for insurance that provides a benefit to the borrower over and above the use of credit would overstate the actual charge for credit. Therefore, we think that such premiums are not properly regarded as part of the finance charge, and should be specifically excluded, as provided in S. 5. We do believe, however, that the dollar amount of any such premiums included in the credit extended should be itemized and disclosed, again as provided in S. 5.

Another provision of S. 5 that is omitted from H.R. 11601 relates to closed-end—installment—credit transactions involving small amounts. Presumably no one wants to press disclosure of credit costs to the point where borrowers are denied access to credit at any price. But to require disclosure of an annual percentage rate in small closed end credit transactions might have just that result. For credit of this kind, a high effective rate may be justified to compensate the creditor for the relatively high out-of-pocket costs of handling the transaction. However, he may be understandably reluctant to disclose a high annual percentage rate, and might decide instead simply to discontinue this type of credit. S. 5 would exempt transactions involving a finance charge of less than $10 from the requirement of disclosure of an annual percentage rate, although other disclosure requirements would still apply. We believe that some such exemption is needed.

Turning to the question of effective date, the Board believes that in order to allow sufficient time for consultation, preparation, and publication of regulations by the Board as well as time for those subject to the regulations to study their provisions, procure rate tables, and train their personnel in the new procedures, disclosure requirements should not take effect prior to 1 year after enactment. The Senate bill provides for additional time, so that State legislatures may have time to make any necessary amendments to their existing statutes and to pass similar disclosure legislation.

The Board shares the hope expressed by the Senate committee that enactment of Federal disclosure legislation will prompt the States "to pass similar legislation so that after a period of years the need for any Federal legislation will have been reduced to a minimum"—Senate Report 392, page 8.

In addition to the truth-in-lending provisions just discussed, H.R. 11601 embodies provisions regulating credit advertising that affects