of collateral, and credit standing of the borrower. Hence we fear that potential borrowers, with legitimate and often compelling needs for credit, would be refused accommodation within the rate ceiling set by law.

The selection of an appropriate ceiling rate also would pose very serious problems for the Congress. A maximum of 18 percent might seem generous—overly so, in the view of many—but it probably would not cover lender costs in some types of transactions. For a small loan, the finance charge may need to be very high—expressed in percentage terms—since many costs incident to the transaction are more or less fixed, regardless of the size of the loan. Moreover, collection costs can be very substantial on some classes of loans and these, too, bear little relation to the amount of credit extended. Indeed, almost all States now have special small loan laws, in recognition of the impossibility of providing some types of credit to consumers within the ordinary usury ceiling. For companies chartered under these laws, permissible finance rates run as high as 42 percent per annum in some States.

Effective enforcement of a ceiling finance charge also could be very difficult to achieve. There is a strong possibility that many consumers, refused credit from legitimate sources within the statutory ceiling, would turn to illegal lenders—the so-called loan sharks—and other unethical sources of credit. Some retail merchants, dependent chiefly on credit business, would be tempted to avoid the ceiling simply by inflating the price of goods sold. Under-the-counter agreements and devices to conceal part of the finance charge would flourish. As is often the case, the stronger the incentives to circumvent a restriction, the more difficult it is to enforce.

And, as you know, in some situations there is a tendency for ceilings to become floors as well. I am sure none of us would like to see a Federal ceiling rate operate to raise borrowing costs.

For all of these reasons, the Board strongly urges deletion of this provision. We prefer to see the problem attacked through the disclosure requirements of the bill, in the belief that informed consumers will be in a better position to choose among the various financing options available to them in their particular circumstances.

H.R. 11601 contains sections not in the Senate bill that prohibit garnishment of wages and use of any documents, in connection with the extension of credit, authorizing the confession of judgment against the debtor. It is abundantly clear that both procedures are subject to serious abuse in the hands of unscrupulous creditors. An unwary consumer can sign away most of his rights to legal defense against creditor claims and, upon failure to make a payment, may find his wages attached without prior notice. Indeed, in many States he may be deprived of the major share of his current income, with obvious consequences for the continued well-being of his family, and often the fact of garnishment may jeopardize his job.

These considerations raise serious questions as to whether such practices should be condoned from the standpoint of public policy. The Board is not prepared to comment on the legal points at issue, or on the social consequences involved in continuation or prohibition of these practices. But we should bear in mind that these devices, by