

We regard any provision exempting ordinary revolving credit as both unfair to the consumer and as discriminatory against other types of creditors.

It permits one segment of the credit community to continue to use statements which give misleading impressions of the cost of credit. This loophole is effectively closed by H.R. 11601.

2. *First mortgages*

We are glad that H.R. 11601 makes no provision relieving first mortgaged lenders from the obligation to disclose annual rates of charge (defined to include such extras as "points") and the total dollar costs that will accumulate over the life of the loan. Even though simple annual rate computation is characteristic on mortgages, "points" are not taken into account in the calculation, thus resulting in an understatement of the true rate of charge.

Further, we think it is important for home-buyers to have a clear understanding of the substantial dollar costs of interest on long-term loans—often exceeding the amount of the loan itself. This will enable the individual to weigh the advantages of shorter-term mortgages, as well as to appreciate the effect of seemingly small changes in the annual rate. A rise from 5½ percent to 6½ percent on a 25-year, \$20,000 mortgage, for example, adds more than \$3,600 in total interest costs to be paid by the buyer.

3. *Finance charges under \$10*

The Senate bill regrettably exempts from annual rate disclosure any retail credit transaction on which total finance charges are less than \$10. We see no excuse for this exemption, which creates a wide potential for evasion. Large bills made up of small purchases would completely escape annual rate disclosure. If a person buys several items, on no one of which would a finance charge amount to as much as \$10, no rate disclosure would be required even though the combined total of purchases could be substantial as well as the combined finance charges. In particular, the inclusion of revolving credit in the general coverage of the bill will be made meaningless if this finance charge exemption is retained. Large monthly bills are often run up in department stores on the basis of an accumulation of relatively small purchases on which the individual finance charge would certainly come to less than \$10. At an 18 percent annual rate, no disclosure would have to be made so long as the buyer never made any single purchase amounting to more than \$100.

4. *Definition of finance charge*

We support the provisions of H.R. 11601 rather than those of the Senate bill with respect to the definition of finance charge. The finance charge should properly include all items which the buyer must pay as a condition of obtaining the credit, and which would not be present if the purchase were made on a cash basis. Credit life, health and accident insurance clearly fall in this category, as does property and liability insurance which creditors naturally require in connection with loans. The Senate bill, however, permits their exclusion, so long as the cost is itemized. Under H.R. 11601 they are properly covered as part of the finance charge.

We believe that the disclosure provisions of H.R. 11601 on credit contracts are quite satisfactory and we urge their approval by the Subcommittee.

I now turn to the remaining provisions of H.R. 11601, which have no counterpart in the Senate bill or in H.R. 11602. While the AFL-CIO has placed primary emphasis on the long-standing truth-in-lending proposals, we have an inescapable and natural concern for other aspects of consumer credit. The AFL-CIO Executive Council in its February 24, 1967 Statement on Consumer Legislation included a specific endorsement of legislation to end misleading advertising on consumer credit costs and urged the Congress to undertake or authorize a comprehensive study of consumer credit laws and practices. A copy of this statement is attached.

Both these matters are substantively dealt with in H.R. 11601, and we warmly support their enactment, namely the provisions of Title I, relating to credit advertisements and Title III, establishing a Commission on Consumer Finance.

CREDIT ADVERTISING

It would be a simple matter to compile an exhibit of typical advertising copy on credit offers—stressing "low, easy" payments, giving the weekly payments or the monthly payments, but with no mention of total costs, much less of interest