

on an effective annual-rate basis, as well as the less controversial idea that full dollar costs be disclosed. But unfortunately, the bill contains several exemptions, which will greatly weaken its effectiveness if ultimately accepted by the Congress.

The most serious defect of S. 5 as it passed the Senate and of H.R. 11602 is its virtually complete exemption from annual rate disclosure requirements of so-called "revolving credit," widely used in department stores and banks. Probably less than 15 percent of an estimated \$3.5 billion of revolving credit would be covered. In future years revolving credit will become an increasingly important segment of the consumer lending industry.

The customary retailer charge on revolving credit is $1\frac{1}{2}$ percent per month, or a true annual rate of 18 percent per year.

We see no reason why a store or bank that charges at the rate of $1\frac{1}{2}$ percent per month on the unpaid balance should not be required to translate this percentage into 18 percent per year. Despite all the protestations of retailer representatives to the effect that 18 percent per year overstates the actual rate of charge on an annual basis, straight reasoning on this point has demonstrated that $1\frac{1}{2}$ percent is, in fact, 18 percent per year, when computed without regard to the so-called "free ride period" during which no finance charge is imposed. We regard any provision exempting ordinary revolving credit as both unfair to the consumer and 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.

We are glad that H.R. 11601 makes no provision relieving first mortgage 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. I want to emphasize there, as Senator Douglas just has, that particularly in recent years with the widespread use of points we no longer are getting the true interest rate on the statements that are made on mortgages. In some of our earlier testimony on this legislation before the Senate committee we stated that we did not see any need for including first mortgages at that time and in fact complimented the industry on the fact that it did use a true annual interest rate, but I checked only yesterday with our financial adviser in the AFL-CIO Building and he tells me that now that 5 or 6 points is virtually common in any kind of conventional mortgage transaction which means that the true annual interest rate is now 6.5 or 6.6 instead of 6 percent, using that as a basic figure on mortgages and he tells me roughly it would translate into one-tenth of a percentage for each point—one-tenth of a percentage above the stated percentage figure.

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