

tified to compensate the creditor for the relatively high out-of-pocket costs of handling the transaction. However, he may be understandably reluctant to disclose the very high rate—perhaps 50 or 100 per cent—and might decide instead simply to discontinue this type of credit transaction.” This is exactly what will happen, especially since the creditor takes a loss on loans which return a finance charge of less than \$10.

Question: Has there been any actual experience that consumers are unable to receive small, short-term credit in the absence of an exemption?

Answer: Yes. This has occurred in the State of Massachusetts and in Nova Scotia.

Question: How much does it cost a creditor to set up a small, short-term loan?

Answer: (1) A witness from the Bank of America testified that his “cost analysts say it costs \$13.50, and that these are facts, not a supposition, to put a loan on the books, whether it be \$100, \$150, or \$200.” He further stated that, “Therefore, we charge a minimum charge of \$15. We are not about to make loans at a loss. * * * This has nothing to do with finance charges. It is merely a cost charge for putting the loan on the books.”

(2) The Executive Vice President of the American Bankers Association testified that a \$15 cost was on the low side. An ABA survey in connection with the guaranteed student loan program showed an average cost of up to \$20.

(3) Assistant Secretary Barr testified that in an area of small transactions, “You cannot get it on the books for much less than \$10. There is a bookkeeping and accounting cost.”

Question: Is there a danger that the exemption could be subject to abuse by the device of dividing a single sales transaction into parts?

Answer: This possibility exists, but can be eliminated by appropriate amendment such as contained in Congressman Hanna’s bill, H.R. 12100. Section 4(b)(7) of H.R. 12100 permits the exemption, “provided that a creditor shall not divide or split up a consumer credit sale with the intent of avoiding disclosure of an annual percentage rate.”

Question: For what reasons did the Senate vote unanimously in favor of the \$10 exemption?

Answer: Relevant portions of the Senate debate, reproduced on the following pages, show that its reasons were:

(1) To preserve the extension of small amounts of instalment credit to consumers; and

(2) To alleviate some of the difficult administrative burdens on small business.

A small transaction exemption was not included in the Truth-in-Lending laws of Massachusetts and Nova Scotia—What has been the result?

“* * * The area of minimum charge in my experience in Massachusetts and Nova Scotia, is the one area where you are killing a very small segment of consumer finance.”

Without providing a minimum charge exemption “you will kill a very small area of finance which is unprofitable to the lenders, it is true, but which may have a socially desirable purpose.” Statement of Charles H. Gushee, President, Financial Publishing House, before Senate Subcommittee on Banking and Currency (S. 5, April 20, 1967, p. 520).

All witnesses agree that legitimate lenders will stop making loans of small amounts (up to \$100) if the \$10 exemption is not enacted. Why? It costs even the Bank of America at least \$13.50 just to put a loan on the books! (Hearings on S. 5, June 23, 1967, p. 23).

[From the Congressional Record, July 11, 1967]

EXCERPTS FROM SENATE DEBATE ON TRUTH-IN-LENDING ACT DEALING WITH \$10 EXEMPTION

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of Calendar Order No. 378, S. 5, the unfinished business.

* * *

Mr. BENNETT. I feel that there should be full disclosure of the dollar costs and under some circumstances, where it is appropriate, a percentage, whether it is stated by the month or by the year, but I do not approve to trying to force all statements of the cost of credit into the straitjacket of a simple annual rate. I think that as the testimony develops before the committee we will discover that there are some types of consumer credit that cannot be forced into that straitjacket.