

By stating some types of finance charges on a monthly basis and others on an annual basis, S. 5 and H.R. 11602 would eliminate one of the major purposes of the consumer credit disclosure proposal; that is, to permit borrowers to compare different finance charges and to select the most favorable plan.

In order to achieve comparability, we recommend that all finance charges be stated on a monthly basis. We feel there are many good reasons for this and urge your careful consideration of the suggestion. In addition, the elimination of discriminatory methods of quoting charges, monthly disclosure would also automatically solve problems relating to irregular installment contracts. You will be telling the borrower you are going to be charged one point a month, a half point a month, whatever it is. If you skip 2 months or 3 months no problems are involved, in that sort of quotation. There is this in translating it into an annual rate. Moreover, the consumer would be given all information needed for comparing credit costs, and he could easily convert the monthly rate into an annual charge simply by multiplying by 12.

If, however, a universal monthly basis for all consumer credit is not accepted, then we urge that all rates be stated on an annual basis, preferably in terms of dollars per hundred per year on the declining balance. We recognize that this may result in some problems in the case of revolving credit. We recognize also the question of allowing for grace periods, particularly what I am referring to does involve perhaps something misleading to the consumer. This is why we are strongly in favor of the monthly approach. However, these problems are not, in our view, as serious as those imposed on banks and many other creditors by the Senate bill, since the existence of interest-free grace periods and their effect on annual percentages may be adequately disclosed to customers under S. 5.

While the revolving provisions of the Senate bill might be revised so as to eliminate some or all of the discrimination against banks and other creditors on the basis of current practices, we believe that in the long run arbitrary statutory standards and definitions of this sort would be harmful. They would force the finance industry to adjust its operations to fit into an artificial mold, which would be detrimental to the best interests of consumers and the finance industry over the coming years.

I would like now to turn to H.R. 11601, which contains several provisions which differ from the disclosure provisions of S. 5 and H.R. 11602.

The definition of "finance charge" in H.R. 11601 apparently includes credit life and accident and health insurance, and possibly fire and public liability insurance, all of which are specifically excluded from the finance charge under S. 5 and H.R. 11602. We oppose this provision. Credit insurance will benefit the purchaser or borrower as well as the creditor; it is not part of the cost of credit, but the cost of an undertaking to pay the obligation on behalf of the debtor under certain circumstances—certain sorrowful circumstances at times. This provision will distort the credit charge, and make it difficult to achieve one of the objectives of the bill—to enable a prospective borrower to compare interest costs with the interest he is getting on his savings or investments.