

CONSUMER CREDIT PROTECTION ACT

With regard to the bulk of bank consumer installment loans, as far as we can determine the great majority of banks make insurance coverages optional to the borrower. One borrower may choose to take credit life insurance or accident and health coverage, whereas another borrower may not take these coverages. To require that these insurance coverages be included in the finance charge which would be converted to an annual percentage rate in many cases would substantially distort the rate and would not give the borrower a single, uniform measure for comparing credit charges or rates.

We clearly prefer the provisions of S. 5 which do not require that insurance charges be included in the finance charge, but which correctly require that these charges must be separately itemized and disclosed to the borrower in terms of their respective dollar costs.

The most important point to remember is that the borrower in a very direct sense derives the primary protection from this type of insurance coverage. If the borrower should die before the loan is paid off, the insurance would discharge the unpaid balance of the obligation and the borrower's estate would not be liable. On the other hand, if the insurance coverage had not existed, the lender would look to the deceased borrower's estate for satisfaction. It is clear that credit life insurance affords a very direct and beneficial form of protection to borrowers.

Mrs. SULLIVAN. Dr. Walker, the staff has already pointed out to us the provision in H.R. 11601 which seems to permit lenders to express a dollar per hundred rate on the unpaid balance only for the period between now and the time the law would actually become effective. I am informed that was done in order to accommodate as much of the bill as possible to the exact language of S. 5, with only those changes essential to accomplish our purposes.

Would it be a fair summary of your position to say that, one, you think the States can and should handle this whole problem, but if we are not willing to wait for the final outcome of the 7-year-drafting effort by the commissioners of uniform State laws, we should pass only a disclosure law, generally as passed by the Senate, but with one major change; and that is, remove the distinctions and discriminations in expression of the rate between the revolving charge and the installment loan transactions?

Mr. WALKER. I am not supporting S. 5. Amendments are possible which would make it gain our support. But S. 5 is a tremendous improvement over original disclosure legislation, and far preferable to H.R. 11601 in our judgment.

Mrs. SULLIVAN. But anyway, you ask that we remove the distinctions and discriminations between the two types of credit. And you suggest that we do that by letting the installment loan transactions be disclosed in terms of a monthly percentage rate rather than an annual percentage rate.

Mr. WALKER. Correct.

Mrs. SULLIVAN. However, if we decide against that, then you suggest that we should, in this one instance, follow the provisions of H.R. 11601 rather than the Senate bill, and require all types of transactions, including open ended revolving charge, to be disclosed on an annual percentage rate basis?

Mr. WALKER. Hopefully with a permanent option between dollars per hundred and percent per year.

Mrs. SULLIVAN. Otherwise, outside of that, there isn't much else that you support in H.R. 11601.

Mr. WALKER. The advertising has great promise.

Mrs. SULLIVAN. I hope that we can get that in, too.