

CONSUMER CREDIT PROTECTION ACT

Installment buying often results in charges of anywhere from 15 to 25% and even higher. The record of fantastic interest charges is well known. Among the illiterate poor, charges have run as high as 100 to 200 percent.

Credit cards and revolving credit accounts used by many department stores leave the impression with the consumer that there is little or no interest charge involved except, perhaps, a small service charge. However, in fact, they are charging from 11 to 20 percent. Many department stores receive more profit on the interest charged than on the original sale.

Money Tends to Seek the Places Where the Interest Rates are Higher

One of the most striking things about the recent tight money crisis is that there was never any tight money crisis in consumer loans. These are the types of loans which have had little or no controls or regulations and very high interest rates. The consumer cannot, in most cases, compare the interest rates that he is being charged. The loan sharks, the finance companies, and auto sale loan operations are very creative in disguising the interest rates.

Most of the credit cards carry a $1\frac{1}{2}\%$ interest rate per month on the unpaid balance. There has been no shortage of department store credit.

Looking at it another way, in a tight money situation a banker will look around as to where he can get the most interest for his money. Why should he lend Mr. Jones \$3000 for a farm loan at 7% when he can, through an intermediary such as the department store or car dealer, lend Mr. Jones that same \$3000 in two or three loans at interest rates of from 9 to 18%. Why should he invest his money in school bonds or governmental bonds at 3 or 4% when he can get much more for making the money available to a department store for consumer loans and have very little risk for his bank. Money could even be obtained for home loans if people wanted to pay enough points.

For example, you can get a home loan at 7% if you pay enough points (or a finders fee) which is nothing more than a way to disguise the increased interest rate bringing up the actual interest to 14 or 15% for the first year. Figuring it another way, with a mortgage at $5\frac{3}{4}\%$ and a 10 point fee (payable in advance), a \$20,000 loan nets the borrower only \$18,000; so the interest rate is jacked up to 6.4% over the term of 20 years.

The practice of applying "points" in making housing loans is simply deceptive interest rate charges and should also be prohibited by the proposed Truth in Lending Bill.

In 1952, urban home loans were at $4\frac{1}{2}\%$ often without any additional points being added. In the fall of 1966, according to the National Association of Home Builders, home loans were averaging $6\frac{1}{2}\%$ with an average of 7 or 8 points. Home loans in rural areas were considerably higher. While they have fallen some, they are definitely not anywhere near where they were in 1952 or even where they were a couple of years ago. Last year housing starts fell to a 20 year low. The money had simply gone elsewhere.

CONSUMER CREDIT INTEREST RATES SKYROCKET

Consumer Credit is up \$7 Billion each year. Consumer credit his \$92.5 billion in 1966 as consumer credit interest rates skyrocketed. It is expected to go to \$101 billion this year. There has been no tight money market on installment, personal, car, or revolving credit card loans, nor any effective limit on the interest that is charged on most areas.

Installment Loans now are estimated at \$20 billion, used to be 8 to 12% interest. Today the charges are from 1% to $1\frac{1}{2}\%$ per month (or 12 to 18% in annual interest) to 2% per month (24% annual interest). Some department stores make more on the interest and service charges, plus insurance and late charges than they can make on the original sale. Installment loans have doubled since 1959. Although the amount of home loans have been at a 20 year low this winter, home installments are at an all time high.

Between 70 and 80% of the money used by *finance companies* comes from commercial banks. Banks give 5% return to the depositor, they loan it out at from 12 to 40% through the finance companies or their bank installment loan department.

Revolving Credit Card Loans are now on an estimate of \$5 billion. The usual charge is $1\frac{1}{2}\%$ per month (18% simple interest) plus late charges, etc. More banks are making widespread use of this type of "instant" credit card loans.