

credit terms offers no compensation to the employer burdened with collecting debts for creditors who resort to wage assignments and garnishment proceedings. Nor is full disclosure much comfort to the obligor who learns too late that he signed a confession of judgment when he signed the contract. The first Consumer Advisory Council recommended in 1964 that study be made of the social pathology of the credit addict. (See June 10, 1964 press release). Hopefully, the proposed National Commission on Consumer Finance, would conduct or encourage such studies. Such a Commission is needed and I commend you for introducing its proposal in this bill.

CONSUMER CREDIT COST AND ANNUAL RATE DISCLOSURE

I will now focus my statement particularly on the "Truth in Lending" provisions of the bill for two reasons. First, as a teacher I say we desperately need the standardization of terminology which this bill provides. Teachers are greatly handicapped. We must combat the false misleading and deceptive advertising with its come-easy, go-easy, live-a-little, commercialized consumer education. This is our competition—not for profits, but for developing a way of thinking and conceptualizing. We lack the basic and most elementary tool for efficient communication, a standard vocabulary. For example, at about the seventh grade level students learn about *interest*. They use the $I = Prt$ formula to figure either the amount of interest, if the rate is given, or the rate, if the cost is given, for a given principal amount and time. Then later they learned that the cost is not *interest* at all, but a *finance charge*, a *service charge*, a *time-price differential*. . . . And they also learn that bank 6% car financing isn't just 1% more than the bank's 5% on savings. . . . And bankers now say simple interest isn't simple, that interest rates are deceptive, yet banks continue to advertise their mythical low bank rates for financing cars and plaster billboards with percentage rates on savings. . . . Then we hear from retailers and bankers that $1\frac{1}{2}\%$ a month is not 18% a year. . . . So much classroom time is needed to bring a ray of light into this jungle of credit terminology, there is no time to discuss the Rule of 78's, discounts or points, much less focus attention on how to shop for credit and the major decisions of when and how to use credit wisely. So as a teacher of family finance, I say we desperately need the disclosure and advertising provisions of this bill.

Second, I wish to focus on the truth-in-lending aspects because out of necessity and curiosity I have developed some facility in this area. As I teach, I try to learn and then share this information with others. I have testified three times before the Senate subcommittee and twice in California. (S. 2755, 1968, pp. 583-639; S. 1740, 1961, pp. 304-369, 1085-6; S. 1740, 1962, pp. 396-9; S. 750, 1963-4, pp. 1366-77, 1622; S. 5, 1967, pp. 532-561 and Congressional Record, May 2, 1967, S. 6164-9). Three of my pamphlets written for the Council on Consumer Information were recently published: Pamphlet Number 16, *Shopping for Credit*; Number 17, *Truth-in-Lending*; and Number 18, *Credit Cost Computations*. And a graduate student, Miss Louise Leonard, published a study made under my direction on the "Impact of the Department of Defense Directive Number 1344.7 on Creditors Bordering Fort Riley." This is available from our department. Her master's thesis, giving further details, is available through the Kansas State University library.

OBSERVATIONS

Since these materials are readily available to the Committee, I thought it best to single out for your attention a few points:

1. The poor pay more is clearly evident in the monthly payments required to raise \$2,000. This is illustrated on page 17 in my pamphlet *Shopping for Credit*.

If your economic position allows you to *save up to spend*, your monthly savings at 6% need be \$50.84. But if you are always behind and use credit to "save up" for what you've spent, your monthly payments are 80% higher borrowing at 3% a month, or even 31% higher if you borrow at the credit union and pay 12%, that is, 1% per month, or \$6.50 add-on. Even if the rate is the same, the payments are about 20% higher (\$50.84 vs \$50.84 at 6%). This is how much more it costs to pay backward than forward, and even more so if the rate differential is high.

2. Today, the consumer who wants to know the annual rate on instalment credit and asks for it, is most likely to get a quotation that is only about half right. (This study is reported on pages 6 to 9 of the *Truth in Lending* pamphlet, and supporting data for a period of several years appear in the master's thesis,