

5. Swift action to insure the safety of consumer products and to prevent accidental death and injury to those who buy them.

The Food, Drug and Cosmetic Act should be tightened to insure that all drugs sold for human use actually meet prescribed standards of safety, quality and efficacy, that cosmetics are tested for safety before sale to the public, and that medical equipment and devices are safe and effective before being prescribed by doctors. Accidents from consumer misuse of drugs, cosmetics and pressurized food containers can be reduced by requiring clear and adequate warning labels. Indiscriminate distribution of "drug samples" should be brought under control as a further safety measure.

In the food field, consumer safety requires inspection for wholesomeness and cleanliness of all meat and poultry, whether or not the meat crosses interstate lines.

The Flammable Fabrics Act needs updating to reach beyond its limited coverage of flammable clothing.

A National Commission on Product Safety, as proposed in a bill sponsored by Senator Warren Magnuson, should be established to study the need for compulsory safety standards in the design of other household equipment and appliances.

6. Establishment of formal governmental machinery to help assure that consumer problems will receive the attention they deserve and that solutions will not only be devised but aggressively promoted both by the Congress and the Executive Branch.

We welcome the formation of consumer subcommittees as parts of existing standing committees of the Congress. In the Executive Branch, we endorse the long-standing proposal for the creation of either a Department of Consumer Affairs or a statutory Office of Consumer Affairs.

President Johnson has focused the attention of the Congress and the nation on the problems of the consumer in his far-reaching message to the Congress last week.

The AFL-CIO, which is probably the largest organized group of consumers in the nation, is delighted that the President has signaled out the problems of the consumer for concerted action.

The Administration intends to make this a major legislative undertaking and so do we. The 90th Congress can—and should—become the consumer-conscience Congress and we are going to do our part to make sure that it does.

Mr. BIEMILLER. Both these matters are substantively dealt with in H.R. 11601, and we warmly support their enactment; namely, the provisions of title I, relating to credit advertisements and title III, establishing a Commission on Consumer Finance.

We are very pleased with the provision of H.R. 11601 establishing a National Commission on Consumer Finance. Because consumer credit has heretofore been so firmly in the province of State legislation, there has been little investigation or concern by the Federal Government either in the Congress or the executive branch with the complexities of present arrangements under State laws, their abuses, nor any realistic assessment of their adequacy in protecting the borrower. With the mounting use of consumer credit and its importance in the economy, certainly an overall investigation plus delineation of areas in which Federal regulation would be desirable is long overdue.

In other major provisions, H.R. 11601 would enact immediate substantive legislation in the consumer credit field, beyond the requirement for simple disclosure. The bill would establish a maximum finance charge of 18 percent per year, abolish cognovit notes, and outlaw wage garnishments, matters currently regulated entirely by State law.

Within the AFL-CIO, efforts to reduce excessive finance charges and reform abusive or inadequate provisions of State laws with respect to debtor-creditor relationships have in most instances been concentrated on State legislatures by State AFL-CIO organizations, operating within their specific jurisdictions. On the other hand, no formal

or specific national policy has been developed by the national AFL-CIO with respect to desirable specifications, standards, and reforms with respect to interest rate maximums, garnishments, cognovit notes nor on most other elements of the complex web of State legislation, and private legal obligations in creditor-debtor contracts.

For the most part these matters have had little or no exploration at the Federal level, although the President has called for a special study of the wage garnishment problem by the Department of Justice, in cooperation with the Department of Labor and the Office of Economic Opportunity. Nor have we ourselves been in a position to accumulate the necessary documentation and evidence necessary for arriving at conclusions on what form Federal legislation should take. It is our best judgment that the subjects of maximum finance charges, cognovit notes, and even wage garnishment are properly ones for inclusion in the investigations by the proposed National Commission on Consumer Finance to be established by title III of H.R. 11601, rather than for immediate legislative consideration in this bill.

We can readily agree, however, with the sponsors of H.R. 11601 and H.R. 11806 that these particular subjects have a high priority in consideration of consumer finance issues.

H.R. 11601 sets up standby controls over consumer credit, to be authorized by the President in case of national emergency and to be administered by the Federal Reserve Board.

In a genuine emergency situation, there is no doubt that such controls would have to be imposed, as during World War II and the Korean war. However, we would prefer that such authorization be included in an overall package of emergency measures, such as may become necessary, rather than as an isolated provision applying to one segment of the economy. Under emergency circumstances, obviously an administration will need a large and flexible repertory of economic controls to combat inflation and to insure the orderly functioning of the economy. We would support consumer credit controls as part of an overall emergency bill.

In conclusion, Madam Chairman, we wish to compliment the courage and initiative of the sponsors of H.R. 11601 in opening up a general exploration of the thorny problems of consumer credit. We know that some of the more direct interventions proposed with respect to State laws will meet with stiff resistance, but we hope that the subcommittee's hearings will have laid the groundwork for further work by the National Commission on Consumer Finance for items that cannot be immediately enacted. And we trust that truth in lending can be reported out immediately without loopholes. This modest contribution to credit reform has been through 7 years of study and has been explored in every minute detail.

Mrs. SULLIVAN. Let me refer first to the section of your statement on emergency control on consumer credit, because you have opened up a very interesting aspect here. What kind of emergency bill are you proposing for "a large and flexible repertory of economic controls to combat inflation" which you say the credit control provision should be made part of? That is on page 9 of your statement.

Mr. BIEMILLER. The AFL-CIO Executive Council has repeatedly said that if there are to be controls imposed on the economy, they

should be controls across the board, controlling profits, incomes, wages, prices, and hence as part of price control the whole question of control of installment credit. This position has been reiterated over and over again. We, on the other hand, object to the imposition of any part of those controls without the total package.

Mrs. SULLIVAN. When should that legislation be taken up? Should we be drafting it now and working on it now?

Mr. BIEMILLER. We have no objection to such things being done. But we just don't believe it should be done piecemeal, one part at a time.

Mrs. SULLIVAN. We plan to hear the Office of Emergency Planning on this issue. That agency is supposed to be working now on standby controls and anti-inflation machinery for a genuine emergency. Have they consulted with your people or have your people consulted with them on what should be included in such legislation?

Mr. BIEMILLER. I would have to consult with the director of our research department. I assume he has been consulting—I have not been in such discussions if they have been going on.

Mrs. SULLIVAN. Do you not think these problems should be worked out in a calm atmosphere before any bombs are dropping on our cities or before the economy is careening from inflationary pressures growing out of a war or war scare?

Mr. BIEMILLER. Most certainly.

Mrs. SULLIVAN. You say that in a genuine emergency credit controls would be necessary and should be provided. Why can we not pass the laws now, then put them in mothballs and have them on hand?

Mr. BIEMILLER. We have no objection to it being done. But we repeat, we think it ought to be an integrated program of controls over all aspects of our economic life and not just over this one aspect.

Mrs. SULLIVAN. Now, to turn to another subject, is the problem of garnishment a new problem?

Mr. BIEMILLER. It is not a new problem as far as State legislation is concerned. It has never been raised to the best of my knowledge as a Federal matter.

Mrs. SULLIVAN. Is it not true that you testified in the Douglas hearings back in 1961—I think it is on page 418 of that volume—and introduced into the record articles from the Milwaukee Journal dealing with the problems of personal bankruptcy and garnishment? That was at least 6 years ago.

Mr. BIEMILLER. Simply as evidence to show our belief in the need for disclosure legislation. We agree with Senator Douglas that such legislation would go a long way toward stopping the very improper use of pressure credit which is one of the reasons we have so many garnishments.

Mrs. SULLIVAN. In your statement you say that the AFL-CIO has not been in a position to "accumulate the necessary documentation and evidence necessary for arriving at conclusions on what form the Federal legislation should take" with regard to garnishment.

Mr. BIEMILLER. That is correct.

Mrs. SULLIVAN. How much time does it take to get that information?

Mr. BIEMILLER. This is the first time the issue has ever been raised in a piece of legislation, hence we have no action by any convention, or by any executive council meeting on this matter. It has always been con-

sidered a State matter and has never been considered by the AFL-CIO as a Federal question.

Mrs. SULLIVAN. And yet, knowing what a big problem it is, I am amazed that the AFL-CIO has not already made a nationwide study of the garnishment problem. Probably that is as good a reason as any why the problem has had, as you put it, little or no exploration.

Mr. BIEMILLER. Our State organizations have lots of studies on this question which we would be happy to get for you. All I am saying is, that the national organization has never been confronted with this problem in any way, shape, form, or manner.

Mrs. SULLIVAN. It is true this is largely a State problem and has been, but so is truth in lending and so are the other things in this bill which you do support.

Mr. BIEMILLER. Truth in lending has been a national issue now for at least 7 years and we have been working on the matter during that time.

The question of Federal garnishment has not been.

Furthermore, on the whole question of Federal garnishment legislation or usury legislation, our lawyers want to look at it very carefully before we would begin to take a firm position on the matter.

Mrs. SULLIVAN. But you say that many of the unions in the States do have this information. It would seem to me that any local union or any union member could tell you what the garnishment system has meant in terms of hardship.

Mr. BIEMILLER. We would be very happy to supply you with material from our State legislative bodies.

The point that I am making is, we are not in a position to take a firm stand on Federal legislation. We have a very firm stand, trying to straighten out the evils of garnishment problems in our State legislatures, but we are not as yet convinced that it is a Federal problem, and we are—I repeat—we are hopeful you will establish your National Commission, that it will go into the matter and come up with a firm conclusion as to whether or not this is a proper subject for national legislation and whether that is the best way to handle the problem.

Mrs. SULLIVAN. We see in the Federal laws that most workers must receive a specified minimum wage, and yet in millions of instances the people who work to earn their pay often see very little of it because they have fallen into the trap of excessive credit and garnishment. What is the solution if we do not get at it from a Federal level?

Mr. BIEMILLER. We are asking that your National Commission go into this matter and investigate it thoroughly.

Mrs. SULLIVAN. Thank you. Mr. Stephens?

Mr. STEPHENS. Thank you for coming before us with the information that you have given us. You made use of the words, as I understand you correctly, that I would like to get you to define a little further—when you use the words “pressure credit”? Did you use that terminology?

Mr. BIEMILLER. Yes.

Mr. STEPHENS. Would you explain what that is?

Mr. BIEMILLER. I think you meet it partly in the question of advertising that this bill is attempting to regulate, and partly in terms of the kind of just selling pressures that one gets, to induce people

to buy beyond any conceivable means of meeting the installments on their purchases. We have it right in this city, and I understand at this moment that the Washington Board of Trade is trying to find ways of correcting this evil.

Unfortunately the victims come from the lowest economic strata in our society.

Mr. STEPHENS. I appreciate your bringing that forward because I believe there is a Federal responsibility about overselling by a person who is making the sale as well as responsibility in trying to protect the consumer who is making a purchase from excessive charges, at least to let him know what he is getting.

I do think that we ought to look into that matter also, and I like your expression, "pressure credit," where people are oversold and where this happens. I know from the experience of my nephew who worked for a bank. The bank had an arrangement with a company whereby the company would make a sale and would sell the contract to the bank. The bank took the responsibility of repossessing; if necessary, the purchased merchandise. In one instance, my nephew was called upon to go out and repossess a grand piano. He went out to this house in Atlanta. It was a two-room house. One room was filled with the grand piano and he asked the logical question of the purchaser.

He said, "What in the world did you want to buy a grand piano for when you have a two-room house and your income is of such a low level?"

The answer was, "Well, I just always wanted a grand piano."

The man who had sold him that was using pressure tactics. He had no idea of finding out whether or not the man could buy it and I think, Madam Chairman, I hope part of our investigation here will bring out more of the responsibility of a lender to find out whether or not the purchaser can pay on the installment basis.

Mrs. SULLIVAN. May I say, if the gentleman will yield, that this is a part of the reason why a prohibition of garnishment of wages is in this bill—to make the seller just a little more careful about the kind of credit they give to people who have great desires but not the financial ability to fulfill those desires by paying for them. If they can buy what they desire so easily, without worrying about how to repay then it is enticing them into buying something which they are too weak to resist.

Mr. STEPHENS. One question I would like to ask, Mr. Biemiller. You are advocating provisions of H.R. 11601, as opposed to the lack of provision of S. 5, about finance charges under \$10. I would like to know if you know the reason why that was left out of S. 5? What are the reasons advanced for it being left out of S. 5?

Miss DRAPER. As I recall this, the idea was that it would be less burdensome on small merchants if they didn't have to worry about the finance charges on relatively small amounts. However, our problem is, we think, it will create evasion. I suspect the revolving credit in particular would benefit by this provision. This is not a stated reason. The stated reason was to ease the burden on small merchants.

Mr. STEPHENS. Let me get into the field of garnishments just a minute.

I was very much interested in what you said about having no official position on that at the present time.

Mr. BIEMILLER. Federal garnishment.

Mr. STEPHENS. As far as this bill was concerned. That's what I meant. Is it not true that if you go into the question of garnishment, garnishment is probably the least of the steps that are involved, is that not true? When you get a garnishment against a person, you have to have taken a judgment out initially, in order to run your garnishment? You just cannot go and tell the owner of the business that his employee owes you money. You still have to go through the process of suing the person on the account, get a judgment, and there are costs involved in that.

If you are going to look into the question of garnishment, that is merely an easier way to collect a judgment. You could proceed in that way or against any other property he might have, and that would not be a garnishment. You could attach his property. So we would have to look into that and look into attachments, and we are going to get so far afield that we will never get anything accomplished in truth in lending.

Garnishment is only one facet of it. I am sure that we would like to see some of the studies that your State groups have done.

Miss DRAPER. I don't think we have studies by our State groups. There have been resolutions.

Mr. BIEMILLER. We have them.

Miss DRAPER. At any rate, I have not seen them.

Mr. ANNUNZIO. Will the gentleman yield?

Has the lady ever paid dues in a union?

Miss DRAPER. Yes.

Mr. ANNUNZIO. What local?

Miss DRAPER. American Newspaper Guild.

Mr. ANNUNZIO. Did you ever attend a meeting of the State convention or a city council meeting, or industrial group or trade group? How can you sit there and say there have been no resolutions on garnishment or wages?

Miss DRAPER. I didn't say that. There have. This is what I was saying.

Mr. BIEMILLER. Mr. Congressman, you misunderstood the witness. She said there had been resolutions but she was not aware of any studies. I say there have been some studies made by our large State organizations.

Miss DRAPER. I might say I have seen some of the resolutions. They vary as to what they recommend be done about garnishment. There are some that wish to reform garnishment and some that wish to abolish it. Some say, don't have a wage garnishment without a court judgment.

Now, there are situations in which garnishments are made without court judgments possibly because of a cognovit note, or possibly the garnishment by default where the person does not show up in court after receiving a notice of garnishment and the garnishment is executed, and the judgment is issued. Perhaps this is the situation where it occurs.

Not being a lawyer, it is a little hard for me to untangle what is causing what in this area. There are different kinds of judgments you can get—the circumstances where the person is apt to be caught in a trap.

Mr. STEPHENS. Thank you. My time is up.

Mrs. SULLIVAN. Mr. Annunzio?

Mr. ANNUNZIO. Thank you, Madam Chairman.

Mr. Biemiller, yesterday I read a letter from a vice president of the Inland Steel Co. in Chicago and, as you know, the Inland Steel Co. has a contract with the United Steelworkers of America. They have a union shop contract. I wrote Joseph Block, chairman of the board of Inland Steel, whom I know, and I asked for the position of the company with reference to garnishment of wages. As one of the sponsors of the bill with Mrs. Sullivan, I share her deep concern about garnishment of wages.

In their answer to me, they cited provisions of the proposed bill which have a direct relationship to their operations. They endorsed legislation which would require the full disclosure of credit terms and which would prohibit the garnishment of wages. Inland Steel stated, "We are in favor of both of these provisions in the bill."

Here we have a company which, because of their experiences with garnishment problems totaling annually \$500,000 a year, has stated forthrightly to me that they are in favor of the garnishment provisions in this bill.

Also, yesterday, when Miss Furness appeared before the subcommittee representing the administration in a light vein, I took her to task because 5 months ago the administration ordered an investigation of this garnishment problem, along with the Department of Labor and the Office of Economic Opportunity, and as I understand it, for over 5 months there has been no concrete proposal forthcoming from the administration on this.

I sympathize with your problem. This is a Federal problem. But as you know, I am a former officer of a State labor organization, an industrial organization, and I was chairman of the legislative committee in Illinois of our State organization, and this is a problem that we have struggled with for many, many years.

In fact, the problem is so severe and so great that I now liken this problem to many of the situations which are occurring in the large cities.

As an example, the local governments are spending through the courts thousands and millions of dollars in litigation. This money, which they are spending in the courts for garnishment of wages could be rechanneled and put into other programs that would help the people who need help. We have a tremendous backlog in most of the courts in our big cities—in Cook County, in Los Angeles County, and so forth. This backlog includes personal injury cases, workmen's compensation cases, unemployment compensation cases, and so forth. We likewise have a big backlog of garnishment cases that are encroaching on the time which could be devoted to settling these other cases.

And, actually, I am disappointed that the national AFL-CIO could not take a position at this time on this legislation. I am hoping that soon if the national AFL-CIO does conduct a study or has a meeting of the minds that we on this subcommittee can know about it.

Mr. BIEMILLER. Congressman Annunzio, with your background in the labor movement, you understand fully the fact that in the labor movement we do not move in areas of legislation without authorization

of conventions or between conventions, executive council actions. So this is exactly the situation which now prevails.

Furthermore, one of the things that we agree with you on is, we think the Federal Government by now should have come up with some answers but we also think that one of the kinds of problems which your proposed National Commission could well go into is whether you might not run into even worse situations in clogged courts, and so on, if you had a Federal law on this subject. This is one of the problems that we want to thrash out and thrash out pretty thoroughly.

I would also add that I am delighted to learn Mr. Block, whom I also know, would like to see a garnishment law, but I would suggest that if Inland Steel would exert a little of its influence on the Indiana Legislature you might get some quicker action—he might get some quicker action than he would out of the Congress.

MR. ANNUNZIO. He has been doing a good job with the Illinois Legislature. I am not familiar with what they are doing with the Indiana Legislature. But again, you made a statement about first mortgages and points.

MR. BIEMILLER. Yes.

MR. ANNUNZIO. Can I have about 2 minutes?

MRS. SULLIVAN. Without objection.

MR. ANNUNZIO. Mr. Biemiller, you made reference to points in your prepared statement to the committee. Points are extra charges made to people buying large apartment buildings and other types of real estate. As you know, many unions are investing in large real estate holdings and they are paying points. I am talking now about a steelworker who buys a \$20,000 or \$25,000 home, and if he is fortunate enough, his first mortgage is paid up and he owns the home. Then he finds that this home is in need of repairs.

So he goes out and they repair the roof and do many other things, and he has to go back to the bank and he has to get a first mortgage because he finds himself in the hands of unscrupulous outfits who are in the renovation business. I know you are familiar with them, and these outfits have to be paid once a commitment is made.

How can we write into this bill some sort of legislation to prevent a homeowner from being victimized by this unscrupulous operator who makes these repairs on a home that is already paid for, causing a steelworker to go out and get a first mortgage in order to pay for these repairs?

MR. BIEMILLER. Are you referring now to the finance problem or to the gyp artist problem?

MR. ANNUNZIO. Both. You say you have changed your position in the testimony?

MR. BIEMILLER. The finance problem is very simple. Take a \$10,000 mortgage. If you pay 6 points, you get \$9,400. You don't get \$10,000 and the true interest rate then on a 30-year mortgage is 6.59 percent. That is the point that we are making.

Now as far as the gyp artist is concerned, that is a problem that I don't think you can approach by this kind of financial legislation. You have a problem there of just plain fraud and unfortunately if people get caught by the gyp artist who travels around, and there are even bands of them in some parts of the country who do this, you have

to rely on the commonsense of the individual and the local police enforcement agencies to track down these people who do shoddy work.

I, for example, just plain flatly say no to anybody who comes off the street and says, "I would like to get up on your roof to see if it needs repairing, or something."

That kind of person you better be pretty suspicious of. But on the financing matter, it is just the question, I repeat, the points have become so common—discounting of even smaller sized home improvement loans—that the true interest rate is not reflected as it was for many, many years in the question of mortgages. So that a 6-percent rate on a \$10,000 mortgage with 6 points becomes 6.59 percent. That is the only point we are making.

Mr. ANNUNZIO. Thank you.

Mrs. SULLIVAN. Mr. Bingham?

Mr. BINGHAM. Thank you, Madam Chairman. Mr. Biemiller, I would like to compliment you on your statement so far as it deals with the truth-in-lending part of this legislation. I confess that I, too, am somewhat disappointed that you have no wisdom for us on the new substantive provisions that are contained in this legislation.

I would like to ask you whether you have a means of determining from your constituent unions the kind of complaints that come in from your members.

Mr. BIEMILLER. On garnishments, you mean, particularly?

Mr. BINGHAM. No; I am thinking of the whole problem of consumer credit. The legal aid societies and other such services around the country get an enormous number of complaints in this area. I wondered if there was any special area that your members have complained of?

Miss DRAPER. One that I know comes up a great many times is the situation where the person buys from the seller of goods, gets some shoddy goods, goes to complain to the merchant, and then finds that the note has been discounted to a finance company. This seems to be the most enraging of the complaints that come to my attention.

Incidentally, he is forced to keep on paying to the second buyer of that note and has no leverage over the original seller and this, I would say, has been the most frequent complaint I personally have come across just from exposure.

The next thing is the deficiency judgment where the person can't keep up his payments. The seller comes in, repossesses the goods, and what happens then is that he sells them at a nominal price and the wage earner then must continue to pay, so as to make up the difference between the balance that he owes and the amount that is realized from the sale of the property. This has been a source of cheating, fraud, and this has also been a subject suggested for abolition, the deficiency judgment.

Mr. BINGHAM. Have you made any proposals for legislation to deal with either of these evils?

Miss DRAPER. No. There are so many things I expect that are wrong with the creditor-debtor problem within the State situation that nobody has come up with a rounded set of proposals, probably because up to this point the prospect of Federal entry was perhaps the last thing on earth anybody thought would happen. There are a lot more. You get into a great many problems.

I am just mentioning two that have happened to come to my attention.

Mr. BINGHAM. What about the area of the first mortgages?

Miss DRAPER. On first mortgages? I can't say that I personally have heard much about this, except complaints about the points that greatly add to the cost of the loan.

Mr. BIEMILLER. This, I might add, is a comparatively recent development. Points have not been widespread in most parts of the country. They have been common on the Pacific coast for many, many years, but in general, it is only within the last 2 or 3 years that we are getting this complaint on points generally.

Mr. BINGHAM. What about the revolving type of credit?

Mr. BIEMILLER. We get a lot on this. Our people don't realize they are paying 18 percent annually. They have a feeling they are paying about 1½ percent in many cases. You know, you get into the sort of thing, too—there is a certain credit service in this city that is now trying to heavily promote revolving credit, and in their brochure that they enclose with their bills urging you to get into revolving credit, they don't say 1½ percent a month. All they say is, a very nominal charge of 1½ cents per dollar. They don't say month, year, or anything.

This is about the extreme that I have run into on this. But this is the kind of abuse that we think is going around.

Mr. BINGHAM. That, by the way, is the kind of specific that would be helpful for the committee to have. If you can lay your hands on that brochure, I think we ought to have it for the record.

Thank you.

Mrs. SULLIVAN. Mr. Halpern?

Mr. HALPERN. Thank you.

I wish to compliment Mr. Biemiller, a distinguished former Member of this House, on his perceptive testimony this morning.

Although I share the views of my colleague from New York, Mr. Bingham, that I wish they extended more to the full objectives of this legislation. The opinions of organized labor are vital to this committee and I wish to commend the gentleman for his fine presentation here this morning.

Do you feel that the Federal Trade Commission would be more appropriate to do the regulation of advertising rather than the Federal Reserve?

Miss DRAPER. I don't suppose we care too much who does it, just so it gets done. The Federal Trade Commission has had some prior experience in this field, and from that viewpoint—

Mr. HALPERN. You would have no objection?

Miss DRAPER. No.

Mr. HALPERN. This is an important point.

Miss DRAPER. Unless the coverage of the Federal Trade Commission Act is somewhat less. We haven't given that a lot of thought.

Mr. HALPERN. I think the committee should consider this aspect and I would like to suggest to our chairman that maybe it would be a good idea to have a representative of the Federal Trade Commission here at these hearings in connection with the advertising rather than the Federal Reserve.

Mrs. SULLIVAN. The Chairman of the Federal Trade Commission has been invited to testify and will appear here tomorrow afternoon, I believe.

Mr. HALPERN. I think that would be an excellent idea.

Mr. Biemiller, you mentioned in your statement that there is a larger proportion of installment buyers among union members than in the economy as a whole. Now do you have any idea as to why this might be so?

Miss DRAPER. This survey which was done in 1960, the survey of consumer finances, I think it was partly a matter of age—the active union members are in the age group that most use installment credit. I think that would be a major factor.

Mr. HALPERN. Does the union through the lines of communication available to it, ever attempt to educate its members in the proper use of credit?

Miss DRAPER. Oh, yes. We have a consumer education program that is run by the community service department of the AFL-CIO and they use our little booklet here, "Consumer Beware." If the committee would like to have it, we would be happy to leave it with you.

Mr. HALPERN. I think it would be very helpful, and I commend the union.

Do many workers lose their jobs as has been pointed out as a result of garnishment of their wages. Is this issue ever considered in union negotiations with management, and, if so, what sort of reasons are made?

Miss DRAPER. Yes, it is. The main thing that comes up as a subject in collective bargaining is trying to get an agreement that the employer will not fire a worker when he is served with a garnishment. I couldn't really testify just what kind of provisions are in the contracts. My guess would be that sometimes they can at least succeed in preventing discharge until after there have been multiple offenses. It is not always successful—the union won't necessarily go out on strike with this provision, and the employer is very reluctant to give up the prerogatives of management.

So it is not an easy thing to negotiate.

Mr. HALPERN. Are many union members subject to this difficulty of garnishment?

Miss DRAPER. I would think so. We have no figures on this, but I certainly think it would be a considerable problem.

Mr. HALPERN. Do you feel the practice should be completely abolished, or do you feel that some compromise should be worked out that would give creditors some security while safeguarding workers against abuses?

Miss DRAPER. This is one reason we are not able to take a flat position on just what is in this bill. Honestly, I don't know. The resolutions that I was referring to, some of them advocate abolition; others advocate reform.

Mr. BIEMILLER. I might add on that, as Miss Draper said, our State organizations don't have a consistent policy on this matter.

Miss DRAPER. If they had, I think we would have been able to.

Mr. HALPERN. I have one more question. I was interested in your observation on page 5 of your testimony that the inclusion of revolving credit in the general coverage of the bill will be made meaningless if this finance charge exemption is retained. It does seem likely that much revolving credit applies to purchases under \$100 in price.

What are your views on the suggestion that inclusion of small transactions might create such a burden for the lender that this type

of credit might become unavailable to the consumer and what of the related idea that the finance charges are often necessarily high and rather than be forced into disclosure of these rates the lender would simply not supply this kind of service.

MISS DRAPER. I am not sure I can fully respond to that. One thing that occurred to me when I was considering that last point was why they should make big credit charges on such small items at all. I think the merchants can probably speak to this point better than we can, as to how burdensome it would be.

MR. BIEMILLER. Let me add to that. What we are particularly concerned about here is the sort of merchant that Congressman Stephens was referring to—in my dialog with him—the type of unscrupulous merchant who we think would use such a loophole to sell a family a \$55 item, a \$44 item, and a \$33 item at the same time. That he will insist, under the Senate-passed bill, in not disclosing what his finance charges were. This is the kind of thing we are talking about. I think also the point that Mrs. Sullivan made toward the end of her colloquy with Senator Douglas about the finance charges was a very excellent example of the kind of thing we are after here.

I repeat, as I also said to the chairman, during an earlier colloquy, I am not saying that everyone would do this, and I think most department stores would not do it, but I am talking about the fact that loophole does exist.

Furthermore, I don't know why a \$55 item is any different than a \$120 item in terms of the fact that I think there ought to be disclosure of the finance charges.

MR. STEPHENS. One question. If that is possible under the Senate bill, it is possible for an amendment to be made where the \$10 could still be exempt but the account must be considered as one entity and this would stop the loophole.

MR. BIEMILLER. That would correct that type of loophole but not the type of example Mrs. Sullivan gave.

MISS DRAPER. It wouldn't help too much on the revolving credit, assuming it gets put back in the bill. I think the average revolving credit balance is somewhere in the neighborhood of \$100 and they could just manage to stay under it even if you included the whole thing.

MRS. SULLIVAN. Frankly, I do not think it would involve the revolving credit plan except for those who wanted to seek a loophole.

MR. BIEMILLER. That is right.

MRS. SULLIVAN. I think it would apply more often in single purchases—single personal loans. I would say the majority of those who need money desperately often are those who have to go and borrow \$55 or \$100, and have to have it right now, and it makes no difference to them what they have to pay for it. But if they can be educated they can be protected against their own lack of knowledge on credit costs. These changes are needed and would be helpful.

MR. BIEMILLER. And also, may I add to what you said—I quite agree with everything you have said—those people who get pressured into buying a \$55 item without being told what the finance charges are, I think sometimes those of us who live in the comparatively affluent society, as most of us do, forget how many people will buy a \$55 item and pay for it in six or seven installments. This is the kind of thing. This is where the real evil would be.

MRS. SULLIVAN. I have had many experiences with this problem in my city because I have stayed very close to my constituents in the low-

income group. I have tried to help them and to advise them on how to buy and how to use credit. But I have seen some of these unscrupulous people that we are talking about sell them items of furniture, for instance, and I have seen, in a number of instances, where they are charged twice the value of the furniture and the people are told, "Now we do not want you to pay this all at once; we want to make it easy on you. All you have to do is pay so much a week and you do not have to pay anything down."

I have gotten hold of some of these furniture companies and others back in St. Louis, and I can say that two of them, after 8 or 10 years of operating in the town, sold out because the people became aware of the bad practices of overpricing on the one hand, and then charging a very, very high rate of interest on the debt, getting people coming and going.

So again, it is like every law that is made, you make it to cover the violators of good practices, and, of course, then, everybody has to be subjected to it. We appreciate your coming, Mr. Biemiller, and also Miss Draper. We were a bit rough on you, perhaps, on the garnishment issue, but in your position, knowing that this is a very serious part of the problem today—not only garnishment of wages, but the personal bankruptcies involving people who get involved in credit deeper than they should—you realize, I am sure, and agree with us, that the problem is growing each day. I just think that you people have a responsibility as legislative representatives of a big union, to get deep enough into this to give us some help and guidance.

Mr. BIEMILLER. Madam Chairman, I want to add something on that point so our position is clearly understood. We are constantly accused when we come before the Congress of not speaking for our members—of simply speaking our own ideas.

Now actually this is never true. We never testify on legislation unless there has been action by our conventions or between conventions by our executive council. And all I am saying is that we have no such action and hence we cannot testify on matter on which there has been no action taken by the AFL-CIO through its official procedures. That is the only reason we are not testifying on this question.

Mrs. SULLIVAN. All right. Thank you very much, both of you, for coming.

Mr. BIEMILLER. Happy to have the opportunity, and we are delighted that you are pressing ahead with this legislation.

Mrs. SULLIVAN. I have just learned that there is trouble on the floor in getting unanimous consent to hold a hearing this afternoon. Every request of this nature must be asked under unanimous consent and is sometimes refused. At this time we do not know whether we can continue here this afternoon. If I can have the indulgence of my colleagues and get a few more members back, I would like to continue our session now until the bells ring, and at least hear some of the other witnesses that we had scheduled to go on today, in case we cannot come back this afternoon at 1:30, as scheduled.

Are the gentlemen from the American Retail Federation here—Mr. DeShazor from Montgomery Ward? Before you gentlemen set up all of your paraphernalia, I want to say that we are anxious to hear you. We know that you are here in opposition to some of the provisions of the bill. I do not think it is fair to have just two of us hear your statement. Are you able to stay over and come back in the morning?

Mr. DESHAZOR. I could arrange to do that.

Mrs. SULLIVAN. If things should clear up on the House floor in the next hour so that we can meet this afternoon, is there some place we could contact you and have you here this afternoon?

Mr. DESHAZOR. It would be convenient for us to stay and have lunch somewhere nearby.

Mrs. SULLIVAN. All right. If you gentlemen will do that—have your lunch and then check with the Banking and Currency office—we will keep in touch with them, too. If we can come back, we would like to give you a proper hearing and have enough members present to make your presentation worth while.

Mr. DESHAZOR. Thank you. That is very kind of you.

Mrs. SULLIVAN. Mr. Klein? Are you in the audience?

(No response.)

Mrs. SULLIVAN. If we do not reconvene here this afternoon, we will meet again in the morning.

Numerous Members of Congress are interested in this legislation and have inquired about the possibility of testifying before the subcommittee. In view of our very heavy schedule of administration and outside witnesses, I have urged interested Members of Congress to submit statements for the record outlining their views, and then, if we need additional information or data, we can perhaps have a separate hearing just for Members of Congress.

The first Member to take my suggestion and submit a statement is Representative Edna F. Kelly of New York, who was prepared to testify and is most anxious to demonstrate her support for "truth in lending" legislation. I am going to insert her statement at this point in the record, as follows:

**STATEMENT OF HON. EDNA F. KELLY, MEMBER OF CONGRESS FROM
THE 12TH DISTRICT, BROOKLYN, NEW YORK**

Madam Chairman and distinguished Members of this Committee:

I am most happy that this Subcommittee on Consumer Affairs of the House Committee on Banking and Currency, chaired by our able colleague, Hon. Leonor K. Sullivan, has begun extensive hearings on H.R. 11601, the "Consumer Credit Protection Act"—legislation which is vitally needed to protect all of our fellow Americans, and particularly those of modest or low income.

Lending of money and the extension of credit are now among the largest businesses in the United States. Most often, those who are least able to protect their own interests and who do not fully understand complex lending and credit techniques, are the people who rely most on loans and the purchase of goods on credit. The magnitude of the problems involved is evidenced by the scheduled long hours of investigation, study and hearings that are being devoted by this subcommittee to this legislation.

On February 1st of this year, I introduced H.R. 4485, the "Truth in Lending Act," which would accomplish many of the objectives of Title I of H.R. 11601. A bill with provisions similar to mine, S. 5, but with certain exemptions I do not support, passed the Senate on July 11, 1967. On the other hand, the bill before the Committee today, H.R. 11601, includes additional consumer credit safeguards which I do support.

One of the most significant of these additional safeguards is the prohibition against the garnishment of wages to satisfy debts. While it is true that people must learn to pay their debts and meet their obligations, when the salary of a working person is garnisheed, there is not only no incentive to continue to work, but often the person garnisheed is fired and cannot obtain other employment. This is tragic. In my State, New York, only up to 10% of one's wages is subject to garnishment and there is a prohibition against an employer dismissing an employee for a single garnishment. This is the minimum an antigarnishment law should provide. I strongly believe, however, that garnishments should be done away with completely, because they encourage the worst abuses in the consumer credit field.

The most important similarity between H.R. 11601, under consideration, and my bill is the requirement in both bills for full disclosure of all finance charges in terms of dollars and cents and also of an annual percentage rate in all consumer credit transactions, without the weakening exemptions of the Senate bill. This provision will insure that a borrower is informed of the full cost of credit, including the true rate of interest being charged, instead of being led to believe by the lending institution, as so often happens, that a lesser rate is being charged. For example, lending institutions discounting interest in advance on monthly payment loans would have to reveal that they are charging between 11% and 12% interest, when they now claim the rate is only 6%. Most importantly, the public will be made aware of the fact that interest is being paid on the full amount of the loan and not merely on the unpaid balance. A lending institution will no longer be able to claim that it is charging only 6% interest if it discounts in advance \$7.20 on a \$120.00, one-year, monthly payment loan when, in fact, 6% interest computed on the unpaid balance would amount to only \$3.90 for a year, and \$7.20 would represent an annual rate of between 11% and 12% on the actual amount received of \$112.80. On an "add-on" basis of \$7.20 in interest for \$120.00, repayable in 12 installments of \$10.60 each, the rate would still be 11%, even though the claim is made that it is only 6%.

In addition, H.R. 11601 would establish a Federal ceiling of 18% on the annual percentage rate in any extension of credit to an individual without disturbing State laws which provide lower ceilings.

This bill is a major forward step in protecting consumers in their dealings with lenders and with those who provide goods and services on credit. There are many other areas that require study leading to remedial legislation, and, in this regard, H.R. 11601 would create a National Commission on Consumer Finance to investigate all aspects of the consumer finance industry and report back to Congress no later than December 31, 1969.

I respectfully urge that the basic provisions of this legislation be favorably reported and speedily enacted so that the consumer will no longer be deceived or defrauded in the expanding use of credit. Undoubtedly, this is a field in which the consumer needs far more protection than is presently available to him.

Mrs. SULLIVAN. With that, we will recess the committee until we can get a better idea of the situation in the House, relative to an afternoon session.

(Whereupon, at 12:15 p.m., the subcommittee recessed to reconvene at 9 a.m., Wednesday, August 9, 1967.)

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CONSUMER CREDIT PROTECTION ACT

WEDNESDAY, AUGUST 9, 1967

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSUMER AFFAIRS OF THE
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9 a.m., in room 2128, Rayburn House Office Building, Hon. Leonor K. Sullivan (chairman of the subcommittee) presiding.

Members of the subcommittee present: Representatives Sullivan, Stephens, Gonzalez, Minish, Hanna, Annunzio, Bingham, Dwyer, Fino, Halpern, Wylie, and Williams.

Also present: Representatives Widnall and Brown.

Mrs. SULLIVAN. Good morning. The subcommittee will come to order.

I want to say, first, that I am sorry that this very early hour will cause some inconvenience to all of us, but this is the only way we could assure an opportunity for the gentlemen who were scheduled to testify yesterday afternoon to be heard without having to come back to Washington at another time. We had hoped to be able to sit yesterday afternoon, but it requires the unanimous consent of the entire House for a committee to meet when the House is in session. We cannot meet if there is an objection in the House, and yesterday all such requests for permission for committee hearings or meetings during the afternoon were objected to.

Our first witnesses today are from the American Retail Federation, which represents many National and State associations of retailers. I understand that Mr. Eugene Keeney, executive vice president, is here and will introduce the witnesses to us.

Before we start, I would like to announce that we are going to set aside the time between now and a few minutes before 10 o'clock for this discussion, but at 10 the Secretary of Commerce and the Director of the Office of Economic Opportunity are to be heard.

They were originally scheduled to come at 9:30, but when we scheduled you gentlemen for 9 a.m. we notified Secretary Trowbridge and Mr. Shriver to come at 10 o'clock instead of 9:30 and so we will recess for a few minutes when we are through with you gentlemen, before the others go on. If we still have questions for you at that time, we will ask you to answer them in writing when you receive the transcript of your testimony, and then you can send it back to us with your further answers by the first of next week.

So with that understanding, we will be happy to hear you. Mr. Keeney, you may introduce the gentlemen.

**STATEMENT OF EUGENE A. KEENEY, EXECUTIVE VICE PRESIDENT,
AMERICAN RETAIL FEDERATION**

Mr. KEENEY. Madam Chairman and members of the subcommittee, my name is Eugene A. Keeney. I am the executive vice president of the American Retail Federation which appears here today to present comments on H.R. 11601 and H.R. 11602.

The field of consumer credit is complex and highly technical. A thorough knowledge of its workings and an appreciation of the effect of proposed legislation on this economy's established systems of consumer credit can be acquired only through intensive study and experience.

I, therefore, am honored and highly pleased to present to this committee, on behalf of the American Retail Federation, a man whose experience in retailing spans a quarter century of merchandising, Mr. Ashley D. DeShazor, vice president, Montgomery Ward & Co., Inc. With him are Mr. Joseph Garcia, credit manager for Federated Department Stores, Cincinnati, Ohio, and Dr. James Wooley of the international accounting firm of Touche, Ross, Bailey & Smart, New York, N.Y. These gentlemen meet the criteria most needed in your consideration of consumer credit legislation.

Mrs. SULLIVAN. May I suggest this? I believe that when the letters went out inviting you to appear, it was explained that if you have a prepared statement the full statement will be placed in the record, and in order to give us time to question and discuss the issues back and forth, you could summarize your statement instead of reading through the whole thing since the entire statement will be put in the record, we could save time.

Mr. DESHAZOR. Madam Chairman, I intend to do exactly that. On parts of the prepared statement I would like to read certain parts in the beginning and then go on to certain revisions which I think are indicated by some of the previous testimony, where we feel that certain clarifications may be in order. I don't need to read it all.

Mrs. SULLIVAN. What about the other two gentlemen?

Mr. GARCIA. I have no statement.

Dr. WOOLEY. I have no prepared statement. I am just going to use the illustration.

Mrs. SULLIVAN. Very well, you may proceed.

**STATEMENT OF ASHLEY D. DESHAZOR, VICE PRESIDENT OF
CREDIT, MONTGOMERY WARD & CO., INC., CHICAGO, ILL.; AC-
COMPANIED BY JOSEPH GARCIA, CREDIT MANAGER, FEDER-
ATED DEPARTMENT STORES, CINCINNATI, OHIO; AND DR. JAMES
WOOLEY, OF TOUCHE, ROSS, BAILEY & SMART, NEW YORK, N.Y.**

Mr. DESHAZOR. Madam Chairman and members of the subcommittee, I am Ashley DeShazor, vice president of credit for Montgomery Ward & Co., Inc., Chicago, Ill. I appear here on behalf of the American Retail Federation, and I am grateful for the opportunity to present the views of the federation on H.R. 11601 and H.R. 11602.

The American Retail Federation is a federation of 26 national retail associations and 47 statewide associations of retailers. There is agree-

ment within the federation on the majority of the points we are making.

The policy of the federation on consumer credit and economic controls is as follows:

The American Retail Federation is committed to the principle of honest, reasonable, and meaningful disclosure by all parties to consumer transactions, and to the vital freedom of choice among credit methods.

The American Retail Federation is opposed to Federal regulation of credit which would limit the consumer's choice or add significantly to the cost of providing credit or decrease competition by standardizing the methods of doing a retail credit business.

The American Retail Federation is opposed to legislation creating standby authority to impose price, wage, and other direct economic controls.

These policies were reaffirmed at the annual meeting of the federation on May 15, 1967.

With respect to H.R. 11601, the association members of the federation are opposed to some of its disclosure provisions and most of its regulatory provisions.

The committee also has before it H.R. 11602 which is identical with S. 5 as passed by the Senate. On this bill the membership of the federation is not in complete agreement. While most believe that the bill represents a real step toward a workable disclosure bill, some feel that their own particular lines of business, or their own credit methods will suffer a competitive disadvantage.

DISCLOSURE

H.R. 11601 provides for a single yardstick of rate disclosure, an annual percentage rate. Insistence on an annual percentage rate for all credit was the stumbling block with delayed passage for so long in the Senate because it is simply impossible to state a truthful and meaningful annual rate on revolving credit.

Efforts to devise a formula which would produce such a rate for revolving credit have been made for 7 years by government and industry alike, but the impossibility of doing so was acknowledged in the final draft of S. 5. Thus, H.R. 11601 represents a backward step. It moves toward the Massachusetts example which as you know is currently being challenged in the courts.

Because of what was said Monday, with respect to revolving credit, I feel that I should make some explanations in addition to my prepared statement, which I hope will shed some light on the matters discussed by both Mr. Barr and Governor Robertson.

First, I hope that everyone on the committee understands very clearly that the "exemption" spoken of for revolving credit contracts is by no means an exemption from the requirements of the bill. There will be disclosed, under S. 5, a full and complete statement of dollar cost of credit for every retail transaction. No one will be ignorant of what he is paying. From the questions asked, as well as some of the answers given, it appeared that some members of the committee were under the impression that any one offering revolving credit need make no disclosure statement at all. That, of course, is not the fact.

What S. 5 does not require, however, is disclosure in terms of an annual rate. The reason is simple—it cannot be truthfully done on revolving charges. The only real yardstick in this area is the dollar cost. This must be disclosed under S. 5—and we do not object to such disclosure.

Now let me turn to another statement of Mr. Barr's, which was reiterated in substance by Governor Robertson. This was the comment which he made, under questioning, that we retailers are right about our $1\frac{1}{2}$ monthly revolving charges not being 18 percent a year if you assume that the credit is extended at the time of the sale.

Let us look at the assumption itself. This is precisely the situation based not on artificial assumptions but on plain commonsense.

When a customer walks from the store, any one of our stores, with a purchase under her arm for which she has not paid, this is either a credit sale or shoplifting. Without money in hand, it is not a cash sale. If it is not a cash sale, it is a credit sale. If it is a credit sale, credit has been extended as of that moment.

From this simple reasoning, I think it is clear that credit is extended to the customer at the time of the transaction. The Barr assumption to the contrary is a fallacy and the conclusion is, therefore, erroneous.

I should now like to introduce Dr. James Wooley of the international accounting firm of Touche, Ross, Bailey & Smart, who will explain to the committee why it is impossible to annualize a monthly charge in revolving credit.

Dr. WOOLEY. My name is James Wooley. I am testifying as a technical witness for the American Retail Federation in regards to truth-in-lending bills before this committee. My purpose is to illustrate for you the annualized interest charge, service charge on revolving credit accounts. The principles I will use are those principles which are taught early in schooling around the sixth and seventh grade, depending where one attends school, to deal with the principle, time rate equal interest, WRT equally, and the variances thereto.

I have a large graph which illustrates this for you. However, you have a copy in appendix A of the printed testimony which has a duplication of this graph.

I would like to stand up and run through this illustration with you and make some comments.

This is an actual customer account taken from a department store which demonstrates the annual service charge rate and is involved—what is involved in preparing this calculation.

The period which is involved runs from February 1, 1966, to January 31, 1967.

The columns are as indicated—there is a purchase column indicated without bracket and payment column with bracket.

In addition to the monthly service charge, charges to the account during the year are placed in the appropriate month and appropriate date when the charge was made. The balance of the account is also shown at each day on which there is a transaction occurring throughout the entire year. This information is in essence what appears on the customer's charge card and on his charge record.

You will note that there is a total service charge of \$2.14. These last two columns, number of days and dollar days are simply taking the

number of days in the month that this balance was present on the card.

For example, in the first case the balance of \$41.26 was carried from February 1 to February 18, a total of 18 days. The \$742 is simply an extension of 18 times \$41.26, giving \$742.66. Each of these items is in the far right column, on my left, and is the result of the calculation of daily balance times the number of days outstanding.

Now, this is necessary because we have to convert this to an annualized rate. We have to come up with an average for each day during the year in which credit was outstanding, in which credit was extended and in that way we can convert it back to a 365-day year. Without this we could not come up with an annualized rate.

In this particular illustration, as I indicated, the total service charge was \$2.14 during the year. The number of days during which credit was outstanding during the year was 319 days and the total dollar days during the year came to \$6,791.97. What we do at this point, and this may be a little difficult for you to read, is, we determine an average daily balance. This is no more than dividing 319, the number of days credit was outstanding into the total dollar days, leaving us an average daily balance of \$21.29. We then also determine an average daily service charge, taking the \$2.14, total service charge charged to this account during the year and dividing that by 319 days, thus giving us an average daily service charge of approximately two-thirds of a cent.

We then convert this to an annual service charge rate and this is simply dividing the total daily interest, which is two-thirds of a cent by the average daily balance and multiplying that by the number of days in a year giving us an annual service charge rate of 11.49 percent.

Mrs. SULLIVAN. May I interrupt you just a moment? Where do you get your $1\frac{1}{2}$ percent per month? How do you arrive at it?

Dr. WOOLEY. The $1\frac{1}{2}$ percent is not $1\frac{1}{2}$ percent a month. It is $1\frac{1}{2}$ percent on the beginning balance. Now, there is a big difference.

Mrs. SULLIVAN. You lost me there and I think I know a little bit about interest.

Dr. WOOLEY. The difference is simply stated, when a service charge is charged to an account, revolving credit account, it is charged at a point in time, the point being the first day of the month. It is not charged on all of the amounts outstanding during that month, only on the amount at that given point of time. The charge does not read $1\frac{1}{2}$ percent per month. It reads $1\frac{1}{2}$ percent on the end of the month balance, and these are two different distinct things, because as you can see, many things can happen during the month. The balance in this account, April 1 was \$27.14 and that held up for months—for most of the month of April. In reality the service charge which was taken at the end of June was only taken on the balance at the last day of the preceding month, May 30, \$13, $1\frac{1}{2}$ percent of that—13 plus a half being 7 or 20 cents in this case. So we are not—the service charge as charged is not $1\frac{1}{2}$ percent per month, it is simply $1\frac{1}{2}$ percent of a balance at a given point in time. And this is why—this is where the problem comes in trying to state this as a percentage rate, because depending on how the customer pays his bill, this is the determining factor as to what is annualized, what his annualized rate will be, it is really impossible to tell a person in advance what his charge will be.

Mrs. SULLIVAN. Now, what I am interested in knowing—you or Mr. DeShazor mentioned the moment that a purchase is made on credit, at that moment the credit charge starts. What about the people who come in and pay cash? Do you not think they ought to have a discount?

Mr. DESHAZOR. Madam Chairman, here is exactly what I think, and we discussed this again last night, because it is an interesting question.

Under the IRS rulings and for the reason I stated a moment ago, at the moment of that transaction none of us can determine with any individual customer just exactly what his intentions may be in the future. We have to classify as an account receivable at that moment in time. The customer may elect 30 days after that or whenever his cycle billing comes up to pay that bill.

Now, our own continuing studies of this kind indicate that more often than not it is not the same customer every month. If we knew that it would be one situation it would be different, but we don't know that. We know that a given percentage in our company, for example, pay every month. But of that percentage a very small fraction of them repeat every month. So in our own price policies, to come back to your question, we try very hard in this competitive environment that we have, and it is competitive, to eliminate from our cash prices anything related to credit. In fact, I think we do.

Now, in those cases where a customer in fact does not pay, that is a cost of doing business, it is a general administrative expense which we have to bear.

Now, I think that varies considerably by type of operation in a store where most of the business is on a 30-day charge business, then the general administrative expense would be higher to carry that than in a store that did a large part on time payment contracts or in some other method of credit. And it is a factor increasingly in the cash price of goods as that happens. But where we do up to 45, 50 percent of our business on credit and maybe 10 or 15 percent of that is payable monthly, then you have an entirely different set of criteria with which to work.

Mr. WILLIAMS. Madam Chairman, may I ask a question?

Mrs. SULLIVAN. Yes. Just let me finish this one thought.

I can appreciate that it might cost any firm doing a credit business 18 percent a year, as has been discussed over the years. You have to charge that and I think you should disclose it if you have to charge it. But whatever started the revolving credit in the first place? I know it is only in recent years that I discovered it—I guess in the last 4 or 5 years.

Mr. DESHAZOR. I think I will refer that question to Mr. Garcia, if I may. He has been with us a great many years, longer than I have in credit. Would you care to answer that?

Mr. GARCIA. The question, Madam Chairman—how did revolving credit start? Well, I guess it started because our customers asked for it.

Mrs. SULLIVAN. You mean they were not paying their bills on time?

Mr. GARCIA. Credit as we know it started on a big ticket item-type of transactions—people required more time to pay for refrigerators and major appliances and furniture. That was just about the only form of credit that could be paid over a period of time.

Mrs. SULLIVAN. That is the installment-type.

Mr. GARCIA. People were given books to come into the store and pay so much a week or whatever it may be. The other form of credit available at that time was the 30-day charge account. This was given to people who really didn't need credit. It was a convenience. These people didn't like to carry a lot of cash with them. These accounts were used primarily for everyday needs. They didn't require the long term. Now, there are other groups of people who wanted to buy everyday items but couldn't afford to pay for it in full—small items, soft goods. And this is where the revolving budget accounts, which is a takeover from the 30-day charge account—

Mrs. SULLIVAN. How long has that been in existence?

Mr. GARCIA. Since World War II, shortly after World War II. I think it was Wanamaker in Philadelphia who originated it.

Mrs. SULLIVAN. Mr. Williams?

Mr. WILLIAMS. Without making it appear that I either skipped the fifth or sixth grade which Dr. Wooley referred to, I would like to ask a question about this chart. First of all, you are starting out here, Doctor, with an already existing account?

Dr. WOOLEY. Yes, sir. This is an actual account.

Mr. WILLIAMS. So you do not show an account that is being started with a purchase.

Dr. WOOLEY. No. That is why you will note the monthly service charge here at the end of February is 48 cents. The balance at January 31 is here.

Mr. WILLIAMS. Is not the reason you started this way that you did not want to show that you were charging interest from the day the purchase is made?

Dr. WOOLEY. I really had no ulterior motives. I just chose an account which we felt was a typical account showing typical transactions throughout the year.

Mr. WILLIAMS. What you actually do is, you take all the transactions, new purchases or payments and whatever is owed by the customer the first of the following month, even though he has only had the use of that money for perhaps only a very few days. You are showing that you are making an interest charge on him already just exactly as though he had just had the use of the money for the entire month.

Dr. WOOLEY. I think you will note that the service charge is applied on the balance on the preceding month. For example, the \$26.74 is the balance on February 28. The 1½ percent is taken on March 31, one month later, on a preceding month's balance.

Let me illustrate what happens.

Mr. WILLIAMS. In other words, on any purchases made during the previous month you do not place any interest charge on the purchases made during that month?

Dr. WOOLEY. That's correct, in this particular store. In most stores this is the way it works.

Mr. WILLIAMS. Why did Mr. DeShazor say as soon as the purchase is made that the interest charge is started?

Dr. WOOLEY. He said as soon as the purchase is made the store is extending credit. He does not say that the store is charging for that credit at that point. There is a distinction—a distinction that the store is actually granting to the customer.

Mr. WILLIAMS. That is a controversial question. But Madam Chairman, as I understand this thing, what they are actually doing is charging the interest rate, whatever monthly interest charges they are charging, not on the balance, it is on the balance of the previous month, so you are not charging 11½ percent on the unpaid balance at the time the statement is issued.

Dr. WOOLEY. That is correct.

Mr. DESHAZOR. That is correct.

Mr. WILLIAMS. This is a little different thing than we have been hearing about.

Mrs. SULLIVAN. I think each store has its own way of doing it. They all do not charge in the same manner.

Mr. DESHAZOR. You are correct, but this is the most frequently used method.

Dr. WOOLEY. One other thing, this business about your extending credit as soon as the purchase is made—I don't think that is the attitude you take with your regular charge account customers to whom you send the bill to the first of the month and they remit to you a check or complete payment. You are regarding payments within 30 days as payments. The same happens here as you will note down here, the individual had a balance on June 30 of \$27.20—July 31, \$27.56. He paid that off on August 20, therefore at the end of August there was no service charge.

Mr. WILLIAMS. What I am saying, there has been a statement made that you are extending credit the minute the customer walks out of the store with a package under his or her arm, but this is not borne out by this chart and neither is it borne out by the fact that your regular charge accounts are considered as being cash or in 30 days.

Mr. DESHAZOR. May I comment on that?

We do consider anyone who handles his account as a 30-day charge account, and some of them do, as 30-day customers. Now we also, the moment they execute a transaction with us, consider it a credit transaction. The truth is, that if every one of those 30-day customers paid every 30 days, we might be able to consider it differently, but a very high percentage of them don't.

Mr. WILLIAMS. What I am saying is, you actually have a normal charge account and you have a revolving charge account and the reason for this revolving charge account coming into existence, which is just exactly what Mrs. Sullivan implied, is because people could not pay their bills on the 1st of the month and they needed to have additional credit.

Mr. DESHAZOR. There is a further reason I think if I may say so. There is another reason where the conditional time payment contract—that means that with every transaction that your customer has with you in the control of that type of legal document which is executed with each additional purchase, it means that your customer has to go to the credit department, go through all of the usual legal forms and it is not as convenient for a great many people, including many in this room, to go into the store each time, to go to the credit department and answer certain questions and have that additional contract executed.

Mr. WILLIAMS. We understand that.

Mr. DESHAZOR. This is a matter of convenience as well as credit.

Mr. WILLIAMS. I do not want to intrude further on your time. I just want to make a concluding observation, that what you are showing here today would indicate that your charge would not be 18 percent.

Dr. WOOLEY. That is the purpose of illustrating it.

Mrs. SULLIVAN. Mr. Stephens?

Mr. STEPHENS. Thank you very much for coming back today and as our chairman told you, we are sorry you had to stay over.

I would like to make one observation on the question that Mrs. Sullivan asked about how this kind of transaction began. I think partially responsible for this type of transaction is the practice that had developed where a small store owner did not have the capital to carry a lot of credit accounts. He would take to a bank a bunch of accounts that he felt reasonably certain were going to be paid off over a period of time. He had been carrying such accounts for 3 months on the basis of payment without any charges. When he took these accounts down to the bank, he was getting paid the full amount by the bank and he was paying interest himself on the amount of money that he was borrowing from the bank. He was using his credit to borrow rather than the purchaser's credit to borrow. Finally he decided that he would just put that interest charge on the purchaser because he was borrowing it for him so he could carry it for 3 or 4 months. I think that is partially the way it got started and then when a company had enough capital to carry these accounts they decided they would charge you the interest rate, themselves, so to speak, rather than go to the bank and let the bank charge it and become part of the cost.

Let me ask one question I think would throw some light on some differences in treating a revolving fund and installment credit fund.

Could you point out why they are treated differently in S. 5; that is, the revolving fund and an installment credit contract? Why?

Mr. DESHAZOR. Why are they treated differently? Where you have, and perhaps Dr. Wooley should answer this, but I will attempt to, and if I make any mistakes you correct me.

Where you have a closed-end installment contract I think all of us in this group would have to say that you can figure the annual rate, and we don't contest that. In our company we have that type of contract. In fact, we are dedicated to a policy of trying to gear our different credit plans to the needs of our customers. So therefore we have both types. Some of them prefer one—down in Texas, for example, time payment contracts are very popular. They have been all the time. In the Southeast that is true and a heavy percentage of the business done is done on that type of contract. In other areas the reverse is true. When you get into the revolving charge our position has been for 7 years that if we do state it as has been discussed, that we then are not stating the truth. That precisely is our position as this illustration bears out.

Mr. STEPHENS. You say it is a closed end. You mean there is the same payment each month on that installment contract except usually at the end where you have a small one?

Mr. DESHAZOR. It could be the same payment each month. Now, in time payment contracts some companies have time payment con-

tracts with a total maturity of 18 months, 24 months, 36, and even 5 years. When you get into a 3-year contract the payments per month obviously would be less than if you elected to take a 2-year contract.

Mr. STEPHENS. Once you elect it you can tell exactly what the rate of interest is because each payment is going to be the same.

Mr. DESHAZOR. Exactly, that is right.

Mrs. SULLIVAN. Before I call on Mrs. Dwyer, I would just like to say that we can argue for the next 7 years, as the Senate committee did for the past 7 years, whether $11\frac{1}{2}$ percent a month on the unpaid balance is an annual rate of 18 percent on that particular amount. No matter how you figure your service charge, whether on the beginning balance or the end of the month balance, there is a certain principal amount on which you charge a percentage rate for a period of 1 month.

Let us do it the way the mortgage companies do, each month you owe interest. You take the full amount owed, multiply it by the interest rate—5 percent or whatever it is—and then you divide it by 12. If you do the same thing on one of your revolving charges, multiply the unpaid balance by 18 percent, and then divide the result by 12, do you not always come out to the very same thing that you do by computing $11\frac{1}{2}$ percent of the balance?

Dr. WOOLEY. No.

Mr. DESHAZOR. No.

Dr. WOOLEY. You do not, the simple reason being that that amount which is outstanding on the mortgage contract is the same throughout the month and in the revolving credit account it is not.

Mrs. SULLIVAN. But when you take your balance—whatever it is—and apply your percent of charge to it, what percent do you apply to that balance?

Dr. WOOLEY. You are applying $11\frac{1}{2}$ percent of the end of the month balance.

Mrs. SULLIVAN. You come to the same thing if you multiply by 18 percent and divide by 12.

Dr. WOOLEY. That is not a percentage. That is $11\frac{1}{2}$ percent of a balance. It is not $11\frac{1}{2}$ percent interest on the outstanding balance throughout the month. There is a great amount of difference there.

Mrs. SULLIVAN. I think maybe we were taught the wrong method of figuring interest.

Mr. HANNA. Would the Chairman yield?

Mrs. SULLIVAN. I yield.

Mr. HANNA. I have been listening with interest to the discussions of both sides on this question, Doctor. It appears to me that the point of departure is in talking about interest rate applied and effective interest. The interest applied is obviously $11\frac{1}{2}$ percent. You know what interest you are going to pay when you apply it. So if you are talking about just applied interest, there is no question that one side loses the argument because they say $11\frac{1}{2}$ percent when applied is 18 percent a year, approximately, when applied. And you come back and talk about effective interest and say yes, but when you take into consideration the time at which the article was purchased and the time at which the interest was applied, then the length of time over which it was applied, you then figure that out on an annual basis which you have done on the chart, and you do not come up with 18 percent at all.

So, Madam Chairman, as long as one side is going to talk about effective interest and the other side is going to talk about applied interest you are going to have two battles going and they are going to be on different fields. Am I incorrect?

Dr. WOOLEY. I would agree with that.

Mrs. SULLIVAN. I think we had better go on to other subjects—we are not convincing each other on this one. With that I turn it over to Mrs. Dwyer.

Mrs. DWYER. I have just one more question. I may not phrase it very well.

Is it true that most department stores make their greatest profits on credit accounts rather than on cash or 30-day accounts?

Mr. DESHAZOR. Our studies of that certainly don't indicate that. As a matter of fact, we do not have an up-to-date audit of a cross section of all of the retailers in the country, but we did have one several years ago and that indicated that the stores did not make money in credit.

Now, it varies considerably by store. If it is all 30-day charge business they have to lose a substantial amount of money on that operation. If a portion of it does carry a service charge, and I prefer to call it a service charge, because with this average balance even in this account, and this is not an untypical account—it is a typical account—I don't believe any operation could come out with a profit on that account. So what I am saying in effect is that the average retailer, depending on the type of mix of the different types of credit balance in 30-day business, will cover varying portions of his cost of credit, but I would doubt very seriously if they would ever recover at all.

Mrs. DWYER. Why is there so much competition for credit these days?

Mr. DESHAZOR. The basic reason for that, and I think this is a fact, and you will correct me if I am wrong, Mr. Garcia, we know that the average credit customer of a department store, any store that—customers are more loyal to a store of this type than they would be to a store in which he casually shops once in a while. That is why it is important to us to build on an adequate base credit customers and you will see considerable promotion by department stores and others to build their base of credit customers because they hope—and our experience has been that these people do come in more frequently to our stores and that they do in fact shop more with us if they are on our books. That is our basic purpose. And we think it is sound.

Mrs. DWYER. Then you are saying that the industry, the retail industry, makes their profit on the merchandise rather than on their credit extensions?

Mr. DESHAZOR. Well, our whole policy, and it is similar to other companies, is exactly that, that the credit operation is a supporting function of the basic purpose of the business which is merchandising or the sale of goods.

Mrs. DWYER. You would say this applies to most of the largest retail stores of the country?

Mr. DESHAZOR. I would guess that it would apply to all of them.

Mrs. DWYER. You would guess?

Mr. DESHAZOR. I would have to say guess because I haven't read their policies, but I have read several large companies' policies, in-

cluding the largest company we have, and there is in—theirs is identical to that.

Mrs. DWYER. Thank you.

Mrs. SULLIVAN. Mr. Gonzalez?

Mr. GONZALEZ. Mr. DeShazor, on page 5, at the bottom of the page, you state:

With respect to garnishment of wages, the same point applies. The possibility of restriction of credit extension by reputable credit grantors is very real with the resultant rush to the loan sharks by those least capable of paying the exorbitant and already illegal rates.

You do have outlets in Texas?

Mr. DESHAZOR. Yes, sir.

Mr. GONZALEZ. And in those States which, either through constitutional or statutory prohibition, prevent garnishment of wages?

What is your experience there?

Mr. DESHAZOR. Well, I would like to say at the outset—I was seated here yesterday when comments were made on garnishments and I think therefore there have been abuses on garnishments. I think most of us would say that there hasn't.

On the other hand, we feel that where a customer has the capacity to pay and where he does not do so, that there have to be remedies available.

Now, as you review the individual States you will find that the creditor remedies vary considerably by State. The National Conference of Commissioners has done quite a bit of work lately on consumer-protection features of what they intend to recommend versus creditor remedies.

In one State there is only one remaining creditor remedy available to the creditor. Now we, through many agencies, attempt very hard to avoid overpressing and using garnishments where it is a real hardship on that family. As a matter of fact, just 5 weeks ago in Detroit, Akron, and a number of areas where they are having problems, we issued a corporate policy to the effect that these people were not to be pressed for these payments, that they were to be asked to come in and work out whatever arrangements they reasonably could, and this would apply in Texas or anywhere else, so that I think most reputable businesses would not use these remedies such as garnishments and all of these things except where they have to, because obviously when you do you have lost a customer. It is far better to educate that customer in the wise use of this credit. We all participate in that, too.

Mr. GONZALEZ. The only point there, though, is that in enacting laws we cannot consider that they are going to be carried out by angels. We have to assume that they will be carried out by the worst depraved men. Your statement is pretty fixed and determined against any possibility of a national enactment with respect to garnishment of wages and statistically these States having these prohibitions show the least amount of consumer bankruptcy as far as statistics are concerned. As far as the corporate practice, it is fine, and I am sure Montgomery Ward is considerate and humane. But that is not the point. In enacting a law we cannot take it from the standpoint that only angels and well-intended corporations are going to be involved.

Mr. DESHAZOR. I agree with you and I think my associates would agree that first, and one good source of this I think that probably

should be pulled into this committee is the review of everything that we do have out in the States in terms of creditor remedies, No. 1. Because to eliminate one segment without consideration of all of them I think could be wrong. Now, that was mentioned in testimony yesterday. I think we should look at the various creditor remedies. I think we feel more strongly about some than others.

But finally, I don't think any of us would object to there being features of the control of garnishments which would eliminate the kind of thing that you are talking about, and I am not sure we should eliminate the kind of thing that you are talking about, and I am not sure we should eliminate garnishments entirely without considering all creditor remedies.

Mr. GONZALEZ. Thank you very much. My time has expired.

Mrs. SULLIVAN. Mr. Fino?

Mr. FINO. Thank you, Mrs. Sullivan.

Gentlemen, for my own edification, let us take a balance of \$25 and also let us take a month of 31 days.

Do I understand you gentlemen correctly that the 1½ percent service charge is made on the balance of \$25 on the first of the month—the 1½ percent service charge is made on the first of the month on that balance of \$25, even though the customer during that month has bought on credit another \$50 worth of merchandise, is that correct?

Dr. WOOLEY. His balance now stands at \$75?

Mr. FINO. Right, but the interest charge at this point still is 1½ percent on the \$25 which was at the beginning of the month.

Dr. WOOLEY. Yes, sir.

Mr. FINO. During that month the customer has purchased \$50 worth of merchandise. Now, if the customer pays off \$60 on the 31st of that same month, will be the 1½ percent charge be based on the \$15 balance the next day, which is the first of the new month?

Dr. WOOLEY. No. It will be based on the \$25.

Mr. FINO. The same original \$25?

Mr. WOOLEY. Yes.

Mr. FINO. You say that the service charge is based on the balance at the beginning of the month. Is it the previous month that you are talking about?

Dr. WOOLEY. Yes, sir. If that purchase were to have been made prior to the first of the month in order to be a balance—I should say that purchase would have had to be made prior to the first of the month in order to be on that balance.

Mr. FINO. Let us take July 1.

On July 1 I have a balance due to Sears, Roebuck & Co., your competitor—\$25 the 1st of July 1967. During that month I go to the Sears, Roebuck & Co. and buy \$60 worth of merchandise or \$50 more worth of merchandise. But before August 1 I pay off \$60 toward my balance which was \$75. So that on August 1 my balance is \$15.

Now, are you telling this committee that the charge of 1½ percent is not on the \$15 but on the original \$25 bill?

Dr. WOOLEY. Yes, sir.

Mr. FINO. Why?

Dr. WOOLEY. Because that amount was the amount that was outstanding in a previous month. The individual had to make that purchase prior to the 1st of July.

Mr. FINO. Well, purchases were made prior to July and were carried over into July 1, that balance. During that month I made purchases and I made payments so that in the next month, August 1, I have a balance now of \$15.

Why should I pay a service charge on the original \$25 when I have paid off \$60?

Dr. WOOLEY. The basis is that the service charge is charged on a month—a beginning-of-the-month balance. We are not trying to associate it with an interest rate, we are just charging that service charge based on a point in time. The very first case up there is a perfect example. That particular customer's balance on February 1 is \$42.26—\$41.26. The service charge is 48 cents on February 28. This example does not show that on January 31, the person made a purchase of \$15. The 48 cents is $1\frac{1}{2}$ percent of \$32.26, which was the balance in the account when the service charge was computed. In other words, they made a purchase as of that balance. So yes, the individual can have a smaller balance at the end of the month when the statement is rendered and still be charged a service charge on the larger balance from the beginning of the month.

But conversely, an individual can have a large balance at the beginning of the month paid off and have no balance and receive no service charge.

Mr. FINO. It is common knowledge and indisputable that in order to have charge accounts and service charges and in order to keep books and records you have to have additional employees—an accounting department, so to speak—many employees. Now, taking this account, is this basic—what account is this here, the actual customer's account?

Dr. WOOLEY. From a small store in Virginia.

(The following letter was subsequently received for inclusion in the record:)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., August 18, 1967.

HON. LEONOR K. SULLIVAN,
House of Representatives,
Washington, D.C.

DEAR MRS. SULLIVAN: Enclosed herewith you will find a copy of a letter I have recently received regarding the authenticity of Dr. James Wooley's testimony before the Subcommittee on Consumer Affairs.

I would very much appreciate it if you would have this statement be made a part of the record of the Subcommittee.

Kindest personal regards.

Sincerely,

LAWRENCE G. WILLIAMS,
Member of Congress.

SOUTHERN DEPARTMENT STORES, INC.
Petersburg, Va., August 11, 1967.

HON. LAWRENCE G. WILLIAMS,
Consumer Affairs Subcommittee,
House Banking and Currency Committee,
Washington, D.C.

DEAR Mr. WILLIAMS: I am advised that some question was raised regarding the authenticity of the revolving credit account introduced during the recent hearings of the Consumer Affairs Subcommittee of the House Banking and Currency Committee, by the American Retail Federation witness, Dr. James Wooley. This account is an actual one selected from the credit files of a store owned and op-

erated by our company. In my opinion this record represents normal activity in a typical revolving budget account in a retail department store. I respectfully request that this statement be made a part of the record of the Subcommittee.

Very truly yours,

EUGENE B. SYDNOR, Jr.,
President.

Mr. FINO. Based on all of the charges made and payments made during the course of that year you figure that the service charge was 11.49 percent. Does that figure represent what it costs to maintain this service?

Dr. WOOLEY. In no way does it attempt to represent cost. All we are trying to do is to illustrate the impossibility of stating in advance an annual effective interest rate on an account. We are not trying to equate this with the cost of maintaining that account.

Mr. FINO. I am sure that the department store, whether it is small or large, is not going to run this business of customer accounts and service charges and what have you with additional employees unless they could pay for that through the customer. You are not giving them any extra benefit—you are not giving any extra benefit to the customer, are you?

Dr. WOOLEY. I think you are. You are allowing the customers to buy something without having to have the cash in his pocket to do this. This is a service.

Mr. FINO. But you are charging a service charge for that.

What I am trying to find out is, does the service charge of 11.49 percent cover the cost of that service?

Dr. WOOLEY. I know of no department store where the service charges cover the cost of running their credit operation and I recently completed a survey for a large store in the New York area which was contemplating going into the credit market and they in no way could expect to cover their costs of maintaining that credit operation by service charges. The only way they could do it is by increasing sales.

Mrs. SULLIVAN. Members of the committee, we are going to have to cut off this questioning. Before some of you came in we explained to the witnesses that because of the fact that we could not meet yesterday afternoon we set up this special hearing for them for 1 hour, from 9 a.m. to 10 a.m., at which time other witnesses were to be heard.

Mr. WILLIAMS. Madam Chairman, may I make a comment?

It seems to me that one of the most troublesome points of this bill are the provisions relative to the revolving charge accounts. It seems to me these gentlemen have an extensive background in this field and I would like to suggest that we ask them for any closing comments that they may have which would be helpful to us in our deliberations.

Mrs. SULLIVAN. I wanted you to know that there are other witnesses scheduled at 10 a.m.

Mr. WILLIAMS. I understand that. The other groups coming in I do not think have had the exact or had the actual experience with this particular troublesome question that these witnesses have. I would like to ask for a concluding statement from them of anything they might care to conclude with that may be helpful to us in our deliberations.

Mrs. SULLIVAN. I will ask them to do that, but again I want to explain to the committee members who were not here when we started

at 9 a.m. that these gentlemen have agreed to answer in writing questions that we would like to ask them now, and, they can answer in the record when they receive their transcripts in the next few days. If they will reply by the first part of the week to any question that we put to them, we can have time to go over it and study it.

Mr. DESHAZOR. Madam Chairman, may I make one comment? There is one closing comment here which I would like to read to you because I think it is terribly important in another area of your consideration and I will omit everything else and I would like to make that.

Mrs. SULLIVAN. All right, just one moment before you do.

Mr. FINO. One question for a yes or no answer. That is all.

What in your opinion is more important to the customer, annual rates or the annual charge as a percentage of the amounts purchased?

Dr. WOOLEY. Run that through once more.

Mr. FINO. What is more important to the customer, the annual rate or the annual charges of the percentage of the amounts purchased?

Dr. WOOLEY. The dollar charge has to be the most important.

Mr. FINO. Thank you.

Mr. HANNA. Madam Chairman?

Mrs. SULLIVAN. If you could read in your question that would be all right. Would you do that?

Mr. HANNA. I would like to have the gentleman prepare a comment on the applied rate versus the effective rate. I think the committee needs to get very clear the position on this.

Mr. DESHAZOR. I think you are absolutely right and I have a note here that one of my examples did touch on that when I referred to closed end versus open end. You see the real problem here that any one of us has is that in figuring, as Madam Chairman referred to this, what the rate is going to be; there are several factors you have to know. One of those, obviously, is the rate itself. In a mortgage, for example, you know what the rate is, you know what the amount of the transaction is and you know what the time is. I think they are the three significant elements of any figuring of interest—or carrying charge, or whatever you want to call it.

Now, you don't have that in revolving charges and that is basic, that is the basic thing we are still stumbling over here this morning in this question.

Mr. HANNA. If you will just make that clear and avoid any kind of technical language about open end or closed end or anything like that, but just the three things we are talking about and figure out this both as applied and effective.

Then the other thing that I would like to ask you, if you would please answer these two questions for me in regard to the exemptions of the \$10 charge.

Mr. DESHAZOR. That is the point that I would like to read to the committee, if I may.

Mr. HANNA. Let me ask you a question and you can say to the committee what you will.

My question is, Is there any reason why that should not be \$5, No. 1, and No. 2, would you object to any language which would be added into this section to make it clear that it would be illegal to split sales for the purpose of evading disclosure?

Mr. DESHAZOR. That is a two-part question. I think the \$10 figure is reasonable, to answer that part of it.

The second part of it, we would have absolutely no objection to the kind of prohibition you are referring to. In fact, we think it would be unconscionable to do the sort of thing you refer to.

Mr. HANNA. I wanted to address myself to both of those. I think those are the two main questions. The other questions I have for other witnesses.

Mr. STEPHENS. I have one question, Madam Chairman; and you need not answer this now, but I would like to have an answer be prepared.

I agree with the statement and the position that you cannot tell at the beginning of the year what rate of interest is going to be charged on this chart. What would be the objection to figuring what you have done here and tell the person who has had an annual account like this how much, percentage-wise, he did pay the prior year? I think you can put a percentage on it that way.

Mr. DESHAZOR. Just one objection.

We carry in our own company some six and a half million in credit accounts. Now, clearly, we could do what you are suggesting. It would be just an enormous expense to do so.

Mr. STEPHENS. I would like for you to give me some of the reasons why that cannot be done.

(The material referred to follows:)

To determine the annual rate in terms of interest at the end of each year for 6½ million individual accounts would require a complete recapitulation of every single transaction for a period of 12 months. This would require the most enormous expenditure of time, effort, and money imaginable.

What is more, we would question the value to the customer of the information derived from this suggestion, since the transactions would all have been made in the past and could not be changed.

We fail to see the value in informing customers, on a blanket basis, that they could have incurred, over a 12 month period, rates from 0% to 540% on their revolving accounts.

Mrs. SULLIVAN. Mr. Halpern?

Mr. HALPERN. Thank you, Madam Chairman.

Very briefly.

Mr. DeShazor, what would be your response to the following suggestion as a solution to the revolving credit bottleneck—instead of being required to state that the annual rate by which revolving account charges are calculated is 18 percent per annum, disclosure would involve a statement of a range of rates which are actually paid, with 18 percent per annum specified as the outer limit or maximum rate which might be imposed on the account if payment is delayed a full 12 months beyond the initial imposition of credit charges?

Mrs. SULLIVAN. We have to get on. They can answer that for the record.

(The material referred to follows:)

We would agree that Mr. Halpern's suggestion is one which deserves careful attention and one which we consider a constructive approach to this difficult question on revolving credit. We also agree that 1½% each month cannot be calculated as 18% per annum.

We would not object to considering appropriate language in the bill so worded to authorize the Federal Reserve Board authority to delineate procedures which would require disclosure in a range of rates which are actually paid. Eighteen

percent per annum should not be specified as the maximum rate which could be imposed.

We hasten to remind the Subcommittee that a similar procedure was considered at some length in the Senate deliberations and was eventually rejected.

The position of the American Retail Federation, however, must remain the same and we cannot endorse any annualization on revolving credit accounts without all of the information necessary to determine an effective rate. As has been stated before, this can only come about after the transactions have all been completed, and not in advance.

Mr. HALPERN. How would you resolve the issue of discrimination against installment credit sources if revolving credit is to be exempted from the disclosure provisions of this legislation?

Mr. DESHAZOR. We will answer that, too, sir.

(The material referred to follows:)

Revolving credit is not exempt from the bill. The provisions covering revolving credit are carefully spelled out, and the only "exemption" for revolving credit applies to the statement of an annual rate on relatively short term purchases. Inasmuch as almost all installment credit is offered for longer terms—over 18 months to pay—there is no "exemption" under S. 5 for revolving plans which offer comparable terms.

Installment sellers who sell small items likely to compete with those offered on short term revolving plans have an "exemption" of their own under the terms of S. 5, if the finance charge of the contract is less than \$10. Thus, the provisions of the bill balance themselves out and work no particular hardship on anyone. There is, therefore, no real discrimination.

The reasonable distinction made by the Senate outlines the justification and reasons for the new category. The Senate Report reads:

"Section 4 (d) (2) (C)—Disclosure method of determining the finance charge.— This paragraph requires disclosure of the complete method for determining the finance charge including the imposition of any fixed or minimum fees. Many department stores have minimum fees while bank check credit plans often have a 25-cents-per-check charge. By requiring separate disclosure of these charges, the new version also recognizes such charges cannot be included in the rate.

"The section also requires disclosure of the periodic rate. In addition, installment open-end credit plans, as defined by section 3 (h), would disclose the annual percentage rate which would be 12 times the monthly rate.

"This provision reflects a major recommendation of the committee to exempt open-end credit plans from the annual rate, but to include installment open-end credit plans.

"Such plans are ordinarily used to finance large purchases and are distinguished from ordinary revolving credit by the extended length of time permitted for repayment and the maintenance of a security interest in the merchandise. Such plans would be covered if less than 60 percent of any amount of credit was payable in 1 year, or if the seller maintained a security interest, or if accelerated payments are applied to future payments.

"The purpose of this distinction is to eliminate any incentive to convert closed-end installment credit to revolving credit merely to escape annual rate disclosure. The amendment also provides greater comparability between installment open-end credit plans and installment closed-end credit plans. Smaller merchants who extend credit through installment contracts can compete on a comparable basis with the larger stores who use extended payment revolving credit." pps. 16 and 17, Report No. 392, Calendar No. 378.

The American Retail Federation thinks this reasoning is logical, and generally acceptable.

Mrs. SULLIVAN. Mr. Wylie?

Mr. WYLIE. I have just one question which Mr. DeShazor may have answered before I came in. I am sorry I was a little late.

You were here yesterday and heard us pursue several questions regarding revolving credit with Senator Douglas trying to point out that disclosure of an exact amount of interest was not possible carried

to its logical extreme. You can't have a disclosure of interest rates on every item of soft goods at the time of purchase for instance.

If we went to the optimum in a truth-in-lending bill there would be a full disclosure of all elements of cost prior to sale. That is the point that I was trying to make. You are saying that it is not possible to fix an annual interest rate in the case of a revolving charge account, as I understand it.

Mr. DESHAZOR. That is correct.

Mr. WYLIE. My question is this: Do you, when you talk to a customer about setting up a revolving charge account, and I assume he signs some kind of contract at the beginning, do you disclose to him the various possibilities as to the charges which might be incurred by him if a certain balance is in the account at the beginning of each month? Do you understand the question?

Mr. DESHAZOR. Yes, I do understand it and I think our statement is very clear and most of us do show examples of what it could be.

Mr. WYLIE. The next question is, do you think it is feasible, and should we write that into this bill, a requirement that an indication of the range of interest that might be charged?

Mr. DESHAZOR. I would like to study that and give you a written reply.

(The material referred to follows:)

The answer to Mr. Wylie's question is the same as our reply to Mr. Halpern's question on providing true rates in a series of ranges with 18% as the maximum annual rate. Such a requirement would tend to regiment credit systems to the detriment of many methods now in use by credit grantors.

Mrs. SULLIVAN. Mr. Williams?

Mr. WILLIAMS. Yes, I have three quick questions.

First of all, does the monthly statement that you send to your revolving charge account customers include in it as a dollar value the monthly service charge?

Do you have to pledge your accounts receivable in order for you to obtain credit to continue in your operation and, three, is it true that any revolving charge account customer who has a balance, using your illustration, say on July 31 of \$27.56, but who pays that balance off any time during the following month after August in effect receives a bonus in the way of the monthly charge—no monthly charge for the balance that was outstanding on July 31?

Is it true that he receives a bonus in the way of no monthly charge for the balance that was outstanding on July 31?

Those are my questions.

(The material referred to follows:)

Yes! The monthly statement sent to revolving charge account customers includes the dollar value of the monthly service charge.

Yes! Accounts receivable are pledged in order to obtain credit to continue operations.

Yes! Customers using revolving charge accounts do not incur a service charge when the balance at the end of the preceding month is paid in full.

The Subcommittee has been made aware that service charges are computed not only on the *beginning balance* method, but also on an *ending balance* method and also on an *adjusted balance* method, depending upon the policy of the particular retail establishment.

Mrs. SULLIVAN. I have several questions that I am going to submit to the reporter to include at this point for your written answers. They are as follows:

1. Mr. DeShazor in connection with this \$10 exemption, you talk in your prepared statement about "the vexing administrative problems which are particularly burdensome to small business." Now, certainly, we appreciate your acting as a spokesman for small business; but, in fact, you are a representative of very big business, are you not, and the fact of the matter is that Montgomery Ward, with its electronic computers, would have very little difficulty in complying with the provisions of this act. Is that not so?

As far as small business is concerned, small businessmen do not seem to have too much difficulty in computing the sales tax they must charge customers and I frankly do not think that when regulations have been issued and rate books have been devised, that they will have any more difficulty in complying with the requirements of this legislation.

2. Next, Mr. DeShazor, you criticize the advertisement disclosure provisions of this bill, suggesting that it would discourage advertisement of credit terms because of fear that the ad would not make proper disclosure of such information. However, isn't it a fact that the Food and Drug Administration and the Federal Trade Commission have been dealing with problems of misleading labels or advertisements for years and we certainly don't seem to have suffered from any diminution of advertising as a result of their efforts. If truth in such advertising has not produced the dire results you fear, why do you suggest that truth-in-credit advertising would produce such dire results?

Now, Mr. DeShazor, I believe you have a concluding statement.

MR. DESHAZOR. If I can rush through this I would like to.

It has been talked about a good bit in the testimony before and we do have a point which we wish to make. This is on installment credit.

With regard to the requirements prescribed for closed-end or installment credit, we urge this committee to retain the exemption for annual rate disclosure in the case of installment transactions in which the total finance charges do not exceed \$10.

I want to make sure that the reasons for not requiring annual rate disclosure in small transactions where the finance charge is \$10 or less are fully understood.

First, this feature is applicable only to installment accounts. It has no application to revolving charge accounts.

I was not sure some of the witnesses yesterday understood that point.

Second, let me make clear that S. 5 requires all of the other elements of disclosure—the cash price, the amount of the financing charge, the amount of each monthly payment, the date of each monthly payment, and the number of monthly payments. The only thing that S. 5 does, is to exempt the small transactions from the one requirement of annual rate disclosure—all of the other requirements of disclosure must be made.

The primary reason for the \$10 exclusion is to preserve the extension of small amounts of credit to consumers. In addition, it would relieve some of the vexing administrative problems which are particularly burdensome to small business.

The exclusion is included in H.R. 11602 but was not incorporated in H.R. 11601. It has been endorsed and supported by the Federal

Reserve Board, the National Small Business Association, and retailers in general. In fact, the \$10 exemption was first proposed by the Federal Reserve Board.

Perhaps I don't have to read all of this statement of Governor Robertson, but I thought it was very succinct and it is included here in this written statement, but in deference to your requirements of time I will omit rereading Governor Robertson's statement; but I would appreciate it if you would go through that.

Mrs. SULLIVAN. It is already in the record and most of us, I believe, heard Mr. Robertson make the statement.

Mr. DESHAZOR. These observations by Governor Robertson are not based on speculation. The consequences outlined in his testimony were in fact realized in States whose law required disclosure of annual rate without allowing for a small transaction exemption. This is borne out by the experience of another witness who appeared before the Senate subcommittee, Charles H. Gushie, president of Financial Publishing House. He testified, based on his experience in Massachusetts and Nova Scotia, that without exemption from annual rate for small amounts of credit, a small area of consumer finance, which is unprofitable to lenders, but which is socially desirable, will be withdrawn from the marketplace.

Mrs. SULLIVAN. Those points are in the record and most of us have seen or heard them previous to this moment.

Mr. DESHAZOR. Madam Chairman, I appreciate your hearing us out and I know that the pressures of time are on you and I hope that if you do have any further questions you will let us know and we shall answer them.

Mrs. SULLIVAN. We shall, and I want to say to you gentlemen that I think your statement was right to the point—and the point, I believe, is that if you had your choice in the matter, you would prefer that we drop the whole thing.

Mr. DESHAZOR. We are in favor of truth in lending.

Mrs. SULLIVAN. Is that not a fair summary?

Mr. DESHAZOR. No, Madam Chairman; as a matter of fact, in my conclusion which I did not read I make the statement that given the simple choice that we do favor H.R. 11602. We feel that H.R. 11602 poses certain problems for us. It poses problems for my company in terms of costs of certain things that we will have to do. But we also feel that based upon the last year of everything we have seen in the States and in Washington, that the people across the country do want a truth-in-lending national law.

Now, we would hope that there would be something which in fact would give the truth, but at the same time not impose upon literally thousands of businesses, a lot of burdensome and administrative expense which, frankly, we can't afford.

Mrs. SULLIVAN. Well, as Senator Douglas said yesterday, the truth should not hurt; furthermore, we want the truth to have some real meaning.

I want to say to you gentlemen in conclusion that you are fortunate to have had the attention of this many members of the committee at this early hour of the morning. I appreciate the very good turnout

of all the members and I also appreciate the willingness of you gentlemen in waiting over from yesterday.

Thank you.

Mr. FINO. Madam Chairman, may I ask a question?

Mrs. SULLIVAN. Yes.

Mr. FINO. Does the committee intend to allot more time to the industry representatives?

Mrs. SULLIVAN. Yes, there are more coming.

Mr. FINO. Because so far we have heard from the administration and not from the industry. The only ones who can teach us anything on this legislation are these very people who handle these problems every day.

Mrs. SULLIVAN. I think we have been as fair as we could be and I think the gentlemen will realize that.

Thank you very much.

Mr. WIDNALL. Madam Chairman?

Mrs. SULLIVAN. Mr. Widnall?

Mr. WIDNALL. May I have time to ask a couple of questions?

Mrs. SULLIVAN. If you could read them into the record as did the others, Mr. Widnall, it would be appreciated, because we have had to delay our other witnesses this morning for more than a half hour after having had them come a half hour later than originally scheduled.

Mr. WIDNALL. May I read these now?

Mrs. SULLIVAN. Yes.

Mr. WIDNALL. First, I would like to know what the average credit charge of the first purchase is in the account. Second, of that number of people, how many or what percent pays off in 30 days.

Third, what percentage of their accounts—what percentage owe balances in their accounts without ever paying off the full balance?

Thank you.

(The material referred to follows:)

Based on a survey of 50,000 individual transactions, the average beginning purchase is between \$20 and \$26. The average purchase in the spring of the year is approximately \$20, while the average purchase in the fall of the year is approximately \$26.

Based on these same 50,000 transactions selected at random, less than 18% incur no service charge because their accounts are paid in full but not necessarily within 30 days. Many credit systems allow considerably more than 30 days free credit.

Full maturity on credit accounts is reached in 82.3% of the 50,000 transactions sampled.

Mrs. SULLIVAN. Thank you.

(The complete statement of Mr. DeShazor follows:)

STATEMENT OF THE AMERICAN RETAIL FEDERATION, PRESENTED BY ASHLEY
DESHAZOR, VICE PRESIDENT FOR CREDIT, MONTGOMERY WARD & Co.

Madame Chairman and members of the Subcommittee, I am Ashley DeShazor, Vice President of Credit for Montgomery Ward and Company, Chicago, Illinois. I appear here on behalf of the American Retail Federation, and I am grateful for the opportunity to present the views of the Federation on H.R. 11601 and H.R. 11602.

The American Retail Federation is a federation of 26 national retail associations and 47 state-wide associations of retailers. There is agreement within the Federation on the majority of the points we are making.

The policy of the Federation on consumer credit and economic controls is as follows:

"The American Retail Federation is committed to the principle of honest, reasonable, and meaningful disclosure by all parties to consumer transactions, and to the vital freedom of choice among credit methods.

"The American Retail Federation is opposed to federal regulation of credit which would limit the consumer's choice or add significantly to the cost of providing credit or decrease competition by standardizing the methods of doing a retail credit business.

"The American Retail Federation is opposed to legislation creating standby authority to impose price, wage, and other direct economic controls."

These policies were reaffirmed at the Annual Meeting of the Federation on May 15, 1967.

With respect to H.R. 11601, the association members of the Federation are opposed to some of its disclosure provisions and most of its regulatory provisions.

The Committee also has before it H.R. 11602 which is identical with S. 5 as passed by the Senate. On this bill the membership of the Federation is not in complete agreement. While most believe that the bill represents a real step toward a workable disclosure bill, some feel that their own particular lines of business, or their own credit methods will suffer a competitive disadvantage.

DISCLOSURE

H.R. 11601 provides for a single yardstick of rate disclosure, an annual percentage rate. Insistence on an annual percentage rate for all credit was the stumbling block which delayed passage for so long in the Senate because it is simply impossible to state a truthful and meaningful annual rate on revolving credit.

Efforts to devise a formula which would produce such a rate for revolving credit have been made for seven years by government and industry alike, but the impossibility of doing so was acknowledged in the final draft of S. 5. Thus, H.R. 11601 represents a backward step. It moves toward the Massachusetts example which as you know is currently being challenged in the courts.

Because of what was said Monday, with respect to revolving credit, I feel that I should make some explanations in addition to my prepared statement, which I hope will shed some light on the matters discussed by both Mr. Barr and Governor Robertson.

First, I hope that everyone on the Committee understands very clearly that the "exemption" spoken of for revolving credit contracts is by no means an exemption from the requirements of the bill. There will be disclosed, under S. 5, a full and complete statement of dollar cost of credit for every retail transaction. No one will be ignorant of what he is paying. From the questions asked, as well as some of the answers given, it appeared that some members of the Committee were under the impression that anyone offering revolving credit need make no disclosure statement at all. That, of course, is not the fact.

What S. 5 does not require, however, is disclosure in terms of an annual rate. The reason is simple—it cannot be truthfully done on revolving charges. The only real yardstick in this area is the dollar cost. This must be disclosed under S. 5—and we do not object to such disclosure.

Now let me turn to another statement of Mr. Barr's, which was reiterated in substance by Governor Robertson. This was the comment which he made, under questioning, that we retailers are right about our $1\frac{1}{2}\%$ monthly revolving charges not being 18% a year if you assume that the credit is extended at the time of the sale.

Let us look at the assumption itself. This is precisely the situation based not on artificial assumptions but on plain common sense.

When a customer walks from the store, any one of our stores, with a purchase, under her arm for which she has not paid, this is either a credit sale or shoplifting. Without money in hand, it is not a cash sale. If it is not a cash sale, it is a credit sale. If it is a credit sale, credit has been extended as of that moment.

From this simple reasoning, I think it is clear that credit is extended to the customer at the time of the transaction. The Barr assumption to the contrary is a fallacy and the conclusion is, therefore, erroneous.

I should now like to introduce Dr. James Wooley of the international accounting firm of Touche, Ross, Bailey, and Smart who will explain to the Committee why is it impossible to annualize a monthly charge in revolving credit.

INSTALLMENT CREDIT

With regard to the requirements prescribed for closed-end or installment credit, we urge this Committee to retain the exemption for annual rate disclosure in the case of installment transactions in which the total finance charges do not exceed ten dollars.

I want to make sure that the reasons for not requiring annual rate disclosure in small transactions where the finance charge is \$10 or less are fully understood.

First, this feature is applicable only to installment accounts. It has not application to revolving charge accounts.

Second, let me make clear that S. 5 requires all of the other elements of disclosure—the cash price, the amount of the finance charge, the amount of each monthly payment, the date of each monthly payment, and the number of monthly payments. The only thing that S. 5 does, is to exempt the small transactions from the one requirement of annual rate disclosure—all of the other requirements of disclosure must be made.

The primary reason for the \$10 exclusion is to preserve the extension of small amounts of credit to consumers. In addition, it would relieve some of the vexing administrative problems which are particularly burdensome to small business.

The exclusion is included in H.R. 11602 but was not incorporated in H.R. 11601. It has been endorsed and supported by the Federal Reserve Board, the National Small Business Association, and retailers in general. In fact, the \$10 exemption was first proposed by the Federal Reserve Board.

These observations by Governor Robertson are not based on speculation. The consequences outlined in his testimony were in fact realized in states whose law required disclosure of annual rate without allowing for a small transaction exemption. This is borne out by the experience of another witness who appeared before the Senate Subcommittee, Charles H. Gushie, President of Financial Publishing House. He testified, based on his experience in Massachusetts and Nova Scotia, that without exemption from annual rate for small amounts of credit, a small area of consumer finance, which is unprofitable to lenders, but which is socially desirable, will be withdrawn from the marketplace.

When opening a small installment account, merchants ordinarily require a minimum amount of finance charge, which is simply enough to allow the merchant to cover the expense of opening and administering the account.

For example, on a sale of \$21.00, payable \$4 monthly, a finance charge of \$3 is added. The contract will call for six monthly payments of \$4 each. In such a transaction, the merchant would incur the expense of a credit investigation and recording, opening an account and recording six monthly payments. Collecting \$3 from the buyer will not cover the expense.

Yet, if the finance charge has to be stated as an annual rate, the rate quoted would have to be stated as about 49% per year.

This would make for a disproportionate and misleading statement. The charge is not a charge that is made for the use of the money. It is unrelated to the \$21 or the six months.

It is simply a minimum charge like the one that the telephone company might make for installing and furnishing a telephone for one day—on which the telephone user only makes one call. The single telephone call might cost \$9, which would seem exorbitant. But it is not excessive in any sense, for it is merely a reimbursement of expense.

There are many people who need to buy small items and pay for them in installments. But, if a merchant is obliged to quote 49% interest, rather than expose himself to a charge of exploiting his customers, he would simply discontinue these transactions and deprive these people of needed credit.

ADVERTISING CREDIT TERMS

H.R. 11601 would require that any advertisement of a credit sale which is made in interstate commerce must contain all of the disclosure items required in an installment contract or in a revolving credit agreement. To all intents and purposes, all newspaper advertising is in interstate commerce, since almost every newspaper has some interstate circulation. Thus, this restriction would apply to practically all retail advertising of merchandise.

The net result would be discouragement of any advertisement of credit terms either out of fear that the ad did not disclose enough information or disclosed so much that it obscured the basic produce it was trying to sell. Also, item 2 on page 16 would eliminate the advertising of special sales or promotions featuring delayed payment or special credit terms since they would not be "usually and cus-

tomarily" offered to the public. The advertisement of special credit terms applied to a one-time purchase and sale of "buy in February, pay in June" sales of air conditioners, for example, would be outlawed. We fail to see how consumer information is increased when advertising is curtailed.

A CEILING ON RATES

H.R. 11601 provides that no finance charge shall exceed the maximum rate permitted under an applicable state law or 18 per cent per annum, whichever is the lesser of the two.

We do not believe that a provision of this sort belongs in a federal law. The regulation of maximum rates is and has always been a state matter having in some cases been made part of the state constitution itself. We strongly urge that the states be permitted to use their own judgments as to the maximum rate permissible.

There is another consideration which should be kept in mind. Such a limit will tend to restrict the granting of credit in marginal cases where risks of collection loss are high. Some may say that the poorer credit risks should not be given credit anyway; but as a matter of fact, the poorer risks need credit and make sincere efforts to pay their bills in most cases. If denied credit by reputable sources, many will go elsewhere and suffer accordingly, thus thwarting the "protection" proposed by the bill.

With respect to garnishment of wages, the same point applies. The possibility of restriction of credit extension by reputable credit grantors is very real with the resultant rush to the "loan sharks" by those least capable of paying the exorbitant and already illegal rates.

CONFESSION OF JUDGMENT

We would oppose the provision prohibiting confession of judgment because we think that it also is more properly a state matter. The proposed nation-wide prohibition of confession of judgment does not take into account the status of the laws of those states where confession of judgment is the only security provision available to the creditor. We know of no study of state laws to determine whether the impact of 11601 would be beneficial. Without such information, a sweeping federal "brushing aside" of these laws could well be disastrous.

Parenthetically, without making a special point of it, our feelings about garnishment of wages are the same.

STANDBY CONTROLS

As stated at the beginning, the policy of the Federation is in opposition to standby controls. In the past, the Congress has always acted with speed in national emergencies. We do not believe, therefore, that it is wise to issue a "blank check" in advance, especially since it has not been requested by either the President or the Federal Reserve Board.

Under the provisions of the bill, the Board, acting under an Executive Order, could prohibit granting certain forms of credit, or prohibit credit for special purposes. It could also regulate the amount or rate of credit charges, and the forms and contents of credit contracts or almost anything else.

A brief review of history explains why Congress, rather than the President or the Board, should determine the scope of emergency credit controls. In the Defense Production Act of 1950 (September 8, 1950), the Congress restored to the Board the power to control consumer credit under the authority of the same Executive Order (E.O. 8893, August 9, 1941), which empowered the Board to issue Regulation W in World War II. (This authority had been rescinded by the Congress in an act approved August 8, 1947.) However, a few months later, the Congress (Act of July 31, 1951), found it necessary to place limitations and restrictions on the Board's authority. The Board was prohibited from requiring down payment in excess of specified percentages of the selling price in installment sales. It was also prevented from requiring that payment be completed in a specified period of time varying with the type of merchandise involved in the transaction. We submit that if such regulation should be needed, it should be done by the Congress so that members of the business community will have a forum in which to state their case on any proposed requirements.

ENFORCEMENT

H.R. 11601 would give the Federal Reserve Board new and wide-ranging regulatory and enforcement power over retailers. For example, it would direct the Board to issue complaints, hold hearings, issue cease and desist orders, and require records and reports. We note that the Board has said many times that it does not want this authority for a number of reasons.

We much prefer H.R. 11602 which leaves the major part of enforcement to civil suits, making the Board responsible only for regulations with respect to methods of disclosure and establishing reasonable tolerances of accuracy.

We believe that a self-enforcing law is preferable whenever possible. Certainly self-enforcement should be given a chance to prove itself.

NATIONAL COMMISSION ON CONSUMER FINANCE

H.R. 11601 would set up a Presidential Commission to study the entire field of consumer credit. The group would make a full report on its findings with respect to prevailing credit practices and the various regulatory agencies dealing with those practices. At the same time, it contains the language of S. 5 under which an advisory committee is to be set up to do much the same thing, reporting its findings to the Federal Reserve Board. We feel that this is unnecessary duplication, and that one such Board will certainly be enough.

Of the two groups mentioned in the bill, we would prefer the advisory committee assigned to work with the Federal Reserve Board. They would be a continuous group, and not under the pressures of a deadline for a specific single report.

OTHER FACTORS

There are other factors of which the Committee should be aware. Some segments of the industry who offer revolving credit while retaining title to the merchandise are concerned with the revolving credit provisions of H.R. 11602 (S. 5). Under these provisions, if there is title retention, the finance charge must be expressed as an annual percentage rate in open-end credit. If title is not retained, the seller discloses the monthly percentage charge. In those states which permit title retention on revolving credit accounts, stores which retain title feel that they may be hurt competitively by stores with identical payment terms which relinquish title.

However, it is thought essential to develop a means to discourage transactions normally made on an installment basis from being converted to revolving credit for the sole purpose of evading disclosure of an annual rate. This was the means chosen after thorough consideration. As was said many times on the Senate floor, the final compromise worked out on revolving credit by the Senate committee has not satisfied everyone.

As you consider these points, we wish to make it clear that the one thing about which all retailers do agree is that an annual statement of revolving charge is misleading and would be improper, as Doctor Wooley has pointed out.

CONCLUSION

We are opposed to H.R. 11601.

It is impossible to state truthfully an annual percentage rate for revolving credit transactions as the bill requires.

Requiring a statement of annual rate in the case of installment credit where the finance charge does not exceed \$10.00 will eliminate a socially desirable segment of consumer credit to the detriment of the less affluent consumer.

H.R. 11601 would discourage the advertising of needed credit information.

By placing a ceiling on finance charges and undertaking a piecemeal excursion into the area of creditor remedies, the bill invades areas where the states are for more competent to provide meaningful consumer protection than is the federal government.

The imposition of standby controls would be contrary to Congress' own experience in this field.

The placing of far-ranging enforcement powers in the Federal Reserve Board is unwarranted and is contrary to the Board's own wishes.

H.R. 11602 (S. 5) creates some problems for retailers. We would hope that changes in it would be made before the House agreed to the Senate version. However, if faced with a simple choice between H.R. 11601 and H.R. 11602, the vast majority of the members of the American Retail Federation would prefer H.R. 11602.

APP. A.—AN ACTUAL CUSTOMER ACCOUNT FROM A DEPARTMENT STORE DEMONSTRATING CALCULATION OF ANNUAL SERVICE CHARGE RATE

Date	Purchase (payment)	Monthly service charge	Balance	× Number of days	Dollar days
Jan. 29	¹ \$9.00		\$41.26		
Feb. 1			41.26	18	\$742.68
Feb. 18	² (15.00)		26.26	10	262.60
Feb. 28		\$0.48 (32.26)	26.74	31	828.94
Mar. 31		.40 (26.74)	27.14	21	569.94
Apr. 21	(15.00)		12.14	9	109.26
Apr. 30		.18 (12.14)	12.32	3	36.96
May 3	13.00		25.32	10	253.20
May 13	(12.32)		13.00	26	338.00
June 8	11.00		24.00	22	528.00
June 30	¹ 3.00	.20 (13.00)	27.20	31	843.20
July 31		.36 (24.20)	27.56	20	551.20
Aug. 20	(27.56)				
Sept. 6	3.08		3.08	3	9.24
Sept. 9	3.08		6.16	7	43.12
Sept. 16	4.12		10.28	35	359.80
Oct. 21	1.55		11.83	10	118.30
Oct. 31		.15 (10.28)	11.98	22	263.56
Nov. 22	(11.98)				
Dec. 21	10.82		10.82	6	64.92
Dec. 27	14.01		24.83	35	869.05
Jan. 31		.37 (24.83)	25.20		
Total		2.14		319	6,791.97

¹ Finance charges are $1\frac{1}{2}$ percent each month, calculated on an adjusted balance. The 27th is the closing date for purposes of billing, which means transactions in the last few days of each month are not included in the chargeable balance of the succeeding billing period.

² It is the policy of the store from which this actual account was taken to immediately credit payments in excess of 50 percent of the outstanding unpaid balance in any billing period before computing the service charge. Whenever less than 50 percent of the unpaid balance is paid, the service charge is computed on the full balance at the beginning of the billing period.

Note: Average daily balance = $\$21.29 \frac{(6791.97)}{(319)}$; average daily service charge = $\$0.0067 \frac{(2.14)}{(319)}$; annual service charge rate = $11.49 \text{ percent } \frac{(0.0067 \times 365)}{(21.29)}$.

APPENDIX B

LEGISLATIVE ANALYSIS RE PENDING CREDIT BILLS H.R. 11601, H.R. 11602, S. 5, AND H.R. 12100

QUESTIONS AND ANSWERS ON THE \$10 EXEMPTION PROVIDED IN S. 5, H.R. 11602, AND H.R. 12100

Question: Does the \$10 exemption apply to all credit transactions?

Answer: No. The \$10 exemption applies only to closed-end (installment) credit transactions when the finance charge does not exceed \$10. It has absolutely no application to open-end (revolving) credit transactions.

Question: Does the exemption extend to all of the prescribed disclosure requirements?

Answer: No. The exemption applies only to the disclosure of an annual rate. All other items of disclosure required by the bills must be made. These other items include: the cash price, the amount of each monthly payment, the date of each monthly payment, and the number of monthly payments.

Question: Who supports the \$10 exemption?

Answer: The \$10 exemption was first proposed by the *Federal Reserve Board*. Subsequently, it was endorsed by the following: National Small Business Association; United States Chamber of Commerce; American Retail Federation; American Bankers Association; Independent Bankers Association; National Retail Merchants Association; National Retail Jewelers Association; National Appliance Radio & TV Dealers Association; National Association of House to House Installment Companies; National Association of Music Merchants, Inc.; National Retail Furniture Association; National Retail Hardware Association; and National Sporting Goods Association.

Question: Why would legitimate creditors stop making small loans (up to \$100) if the \$10 exemption is not enacted?

Answer: This is explained in the testimony of Governor Robertson, Vice-Chairman of the Federal Reserve Board. He explained that, "In a closed-end credit transaction involving a small amount, a high effective rate may be jus-

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 analysis 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.

One of the first problems that came to my attention during those first hearings involved the application of a minimum dollar charge, which while reasonable in terms of dollars, became ridiculous when translated into an annual rate.

To illustrate the problem, let me tell the story of a man who went into a gas station one morning. His car battery was dead. He was the driver in a carpool that week. He could not wait. He had no money in his pocket, so he could not make a downpayment.

The service station operator said, "The battery costs \$20. I will make a credit charge of \$2. You pay me \$5 every payday until you pay off the amount."

Those figures are small enough so that everybody can understand them. When I tried to figure out the annual rate of interest on that simple transaction, I became involved in a process that eventually ended in some of the largest universities in the West. Every man who figured that annual rate reached a different answer. All I could finally determine was that the annual rate was somewhere between 115 and 130 percent.

The rate statement on such purchases may appear unreasonably high yet when one talks about paying \$2 for the privilege of having credit, under those circumstances, it does not seem to be too bad.

Fortunately, the bill takes care of such a case, because it exempts all installment transactions in which the charge for credit is no more than \$10. In practice, this provision would exempt purchases which could be as high as \$110, if paid off in 1 year, even at an annual rate of 18 percent, and the value of the purchase could go higher at lower percentage rates or a more rapid payoff. The committee agreed that this exemption was necessary to protect the poor because rather than to state an extremely high rate like that in the battery case, sellers would simply dry up the credit on small loans or purchases.

* * *

Mr. HOLLAND. I thank the distinguished Senator for yielding.

Mr. President, of course I presume all Senators received, as I did, many complaints as to the original bill that was pending in the Senate for several sessions prior to this one. I have had very few complaints on the pending bill. I am sure the committee must have made many changes that are helpful, and that have tended to clear up the difficulties in the old bill.

I have received only one recent complaint, and it is that about which I wish to question the distinguished Senator. It has come from small merchants who do business by way of installment sales, and then have to be financed by selling that paper to small finance companies—local finance companies, I think I should say, though they are not large concerns—and from some of the small finance companies.

They say the pending bill would make it increasingly difficult for small merchants who do that type of business, and small finance companies which finance that type of business, to stay in operation, because of the fact that the large concerns which have their own finance companies are able to distribute their profits between the selling operation and the financing operation in a way which will be hurtful to the small merchant and the small finance company.

* * *

Mr. SPARKMAN. Mr. President, I merely wanted to add that there is another provision in the bill which is helpful to the small businessman, and that is the \$10 exemption.

Mr. BENNETT. Yes. I covered that before the Senator came in.

Mr. SPARKMAN. I was hoping the Senator would cover it in connection with the question raised by the Senator from Florida.

Mr. BENNETT. I thank the Senator. I shall do so.

The bill provides an exemption for every sale on credit where the total credit charge is less than \$10—which translates into a sale as high as \$110, to be paid for over a year. So the little man has that protection at the low end of his business.

* * *

Mr. HOLLAND. Is it true that this particular point, the application of the law to small businesses and small financing companies, was of concern to the committee?

Mr. PROXMIRE. Yes. It gave us the deepest concern.

The Senator from Alabama is the Senate's outstanding man in the small business field. For years he has been chairman of the Select Committee on Small Business. I have been chairman of the Subcommittee on Small Business of the Committee on Banking and Currency. We have both been deeply concerned, and other Senators have been very concerned, that we do all we could to protect and safeguard small business.

That is the reason that the \$10 provision was written in. We scrutinized every part of the bill explicitly with reference to the particular point which the Senator from Florida is so right in raising.

If the bill were badly drafted and written, it could make it difficult for small business. But we are convinced that the pending bill will not make it difficult for small business.

* * *

Mr. SPARKMAN. As explained in the colloquy on the floor of the Senate, initiated by the senior Senator from Florida [Mr. HOLLAND], we have tried to take care of small business and the different viewpoints as between disclosing dollars and cents and annual percentage rates; and we tried to take care of differing views of revolving credit. I believe we have worked out the best bill that can be worked out and, as I have said, a finely balanced bill.

Mr. President, I hope the bill will be accepted without amendment because I believe it is just that finely balanced.

(Congresswoman Sullivan subsequently submitted the following:)

CONSUMER AFFAIRS SUBCOMMITTEE STAFF ANALYSIS OF AN ACTUAL CUSTOMER ACCOUNT SUBMITTED BY THE AMERICAN RETAIL FEDERATION

The American Retail Federation (ARF) submitted to the Subcommittee, as a part of its testimony, "A Copy Of An Actual Customer Account From A Department Store Demonstrating Calculation of Annual Service Charge Rate." (Appendix "A", p. 233.) The form in which the submission of the account was made shows "dollar days" for various periods of time during which credit was extended to the customer. However, such "dollar days," as shown on Appendix A, are merely a device used by the American Retail Federation to illustrate a coincidental but erroneous conclusion.

The contract terms which govern the computation of service charges in the ARF example follow:

The service charge is determined by multiplying an adjusted balance on the 27th of each month by $1\frac{1}{2}$ percent. The adjusted balance is the balance in the account on the 27th of the preceding month, plus the service charge levied on the 27th of the preceding month, less the amount of any payments or returns, if such payments or returns are greater than half of the adjusted balance at the immediately preceding billing date. If the payments or returns are less than 50 percent of said balance, they do not affect the amount used to compute the service charge.

The assessment of service charges has nothing to do with "dollar days" or average daily balances or daily average service charges. Customers are charged $1\frac{1}{2}$ percent, and only $1\frac{1}{2}$ percent monthly on what is called an adjusted balance. The "dollar-day" concept, employed by the ARF, is developed only to demonstrate that the yield to the department store of the account as a whole is less than the 18 percent annual rate applied monthly to the adjusted balance in the account. However, despite this mathematical prestidigitation, the fact remains that a monthly rate of $1\frac{1}{2}$ percent is an annual rate of 18 percent.

The service charge *yield* from the account is different from the service charge *rate* applied to the account because the rate is applied to selected balances in accordance with certain stated contractual rules. The yield on the other hand will vary from account to account depending upon the billing policies of the retailers and decisions entirely within the power of their customers. A customer of *this* store can have considerable credit without paying any service charges so long as he pays, by the 27th of the month, the amount of the unpaid balance in his account at the beginning of the billing period.

In effect, the department store says in its exhibit, "We have granted \$6,791.97 'dollar-days' of credit." It does not say, what is in fact the case, "We have billed some of these 'dollar-days' and some we have not billed." To clarify the matter, the following is an analysis of the department store's account, as submitted by the ARF, precisely in accordance with the contractual rules set forth by the department store, showing both the "dollar-days" billed and the "dollar-days" not billed. In other words, the ARF computation of the annual rate includes days for which no credit charge was imposed. The staff analysis eliminates these "dollar days" not billed from its computations on the assumption that this so-called "free ride" period is the same for both cash and credit customers since payment during the "free ride" period is still considered as a cash transaction for billing purposes.

Thus, the staff analysis demonstrates that the applied rate is 18 percent per annum.

The following narrative illustrates what has taken place on *Schedule A* which follows below. Amounts in the Purchase-(Payments) column on *Schedule A* have been keyed to related amounts in the credit column. For example, \$(a) 32.26 in the Purchase-(Payments) column is the basis for the \$(a) 32.26 in the credit column.

The balance in the account on January 27 was \$32.26. Because 50 percent of this balance was not paid before February 27, a service charge of $1\frac{1}{2}$ percent for one month, amounting to \$.48, was made for 31 days ($\$32.26 \times .015$) and added to the account.

A purchase was made on January 29 amounting to \$9.00. Since this was not a part of the January 27 balance, no service charge was made for 29 days.

No transactions took place during March and, on March 27, a service charge of \$.40 was made against the balance on February 27 which covered one month of 28 days ($\$26.74 \times .015$).

The customer paid \$15.00 on his account on April 21. Since this payment was more than 50 percent of the account balance on March 27, it eliminated \$15.00 from any service charge computation. Therefore, \$15.00 of credit for 25 days was not billed.

On April 27 the account balance was \$12.14, which was part of the balance at March 27. The applicable service charge of \$.18 for the month of 31 days was applied ($\$12.14 \times .015$).

A purchase amounting to \$13.00 was made on May 3. On May 13, the customer paid off the balance in the account of \$12.32 at April 27, thereby stopping the computation of a service charge on that balance. Credit advanced of \$12.32 was not billed for 16 days. Since the purchase on May 3 was not in the balance at April 27, no service charge was made on May 27, i.e. \$13.00 credit for 24 days was not billed.

On June 27 the account was reviewed. The opening balance of \$13.00 had not been reduced during the month, so a service charge of \$.20 for one month of 31 days was applied ($\$13.00 \times .015$). No charge was made on the \$11.00 purchase of June 8, because it was not part of the opening balance; hence, \$11.00 credit for 19 days was not billed.

The review of the account at July 27 found a balance of \$27.20, of which \$24.20 was the balance at June 27 and \$3.00 reflected a purchase made on June 30. Pursuant to the rules, credit for a month of 30 days was charged on \$24.20 ($\$24.20 \times .015 = \3.63) but no charge was levied on \$3.00 for 27 days credit.

On August 27 there was no balance in the account; hence no service charge was made. However, the account balance of \$27.56 at July 27 was not paid until August 20; hence credit of \$27.56 for 24 days was not billed.

Since there was no balance in the account on August 27, there was no service charge on September 27. Purchases charged during the month were given a "free ride" in accordance with the store's policy. These were dollar-days not billed.

The October 27 billing date found a balance of \$10.28 that was in the account at September 27. The service charge of \$.15 for the 30-day month was applied ($\$10.28 \times .015 = \1.54). The "free ride" on the purchase for \$1.55 made on October 21 was not billed.

The balance in the account of \$11.98 on October 27 was paid off on November 22; hence the customer was not charged for the credit allowed for 26 days.

No credit charge was made for December because there was no balance in the account on November 27. Purchases during the month were in the "free-ride" category and not billed.

Because the balance in the account on December 27 had not been paid prior to January 27, a service charge of \$.37 was made for the 31-day month ($\$24.83 \times .015 = \3.72).

The conversion of "Credit-Days" and "Credit-Amounts" into "dollar days" is done by multiplying these two factors, providing us with a common denominator called "dollar days." Thus, total "dollar days" on Appendix A are computed by multiplying each cumulative balance in the account by the number of days such balance prevailed. The total "dollar days" for the year shown, both billed and not billed, amounts to \$6,979.95 as listed on *Schedule A*. In effect, all of the credit granted during the year has been converted to the equivalent amount of credit advanced for one day. To convert this amount into an equivalent amount of credit for one year, we divide by 365 and obtain the amount of \$19.12.

The effective annual return or yield on the account can now be determined by dividing \$2.14 total service charges by \$19.12, the average annual credit allowed.

The result is 11.2 percent. By following a slightly different method of determining dollar days, the ARF arrives at an annual service charge return or yield of 11.49 percent. If the customer had cleared his account by the 27th of each month, the yield or return to the store for credit would have been nothing. However, the contract between the store and the customer has nothing to do with yield to the store and is completely silent on that point. The contract deals with a rate of 1½ percent applied to certain defined balances that have been outstanding for one month. One cannot escape the logic that 1½ percent per month for 12 months is 18 percent per year.

When the "dollar days" not billed are deducted from the total "dollar days," we find that the effective annual rate is 18 percent, as compared with a yield or return of 11.2 percent. As may be seen on Schedule A, "dollar days" billed amounted to \$4,332.25. This amount divided by 365 days equals \$11.87, which is the equivalent amount of credit for one year. This amount divided into the total service charges of \$2.14 gives us the result of 18 percent, which is the rate charged.

SCHEDULE A.—ANALYSIS OF AN ACTUAL CUSTOMER ACCOUNT FROM A DEPARTMENT STORE DEMONSTRATING CALCULATION OF ANNUAL SERVICE CHARGE RATE SHOWING DOLLAR-DAYS BILLED AND NOT BILLED

Transaction dates	Purchase (payment) amounts	Service charge	Credit		Dollar-days	
			Amount	Days	Billed	Not billed
Prior to January 27	(a)\$32.26					
January 29	19.00		\$9.00	29		\$261.00
February 18	¹ (15.00)					
February 27		\$0.48	(a)\$32.26	31	\$1,000.06	
March 1 Balance	(b)26.74					
March 27		.40	(b)26.74	28	748.72	
April 1 Balance	(c)27.14		(c)15.00	25		375.00
April 21	(15.00)					
April 27		.18	(c)12.14	31	376.34	
May 1 Balance	(d)12.32		12.32	16		197.12
May 3	13.00		13.00	24		312.00
May 13	(d)(12.32)					
May 27		0				
June 1 Balance	(e)13.00					
June 8	11.00		11.00	19		209.00
June 27		.20	(e)13.00	31	403.00	
June 30	3.00					
July 1 Balance	(f)27.20		(f)3.00	27		81.00
July 27		.36	(f)24.20	30	726.00	
August 1 Balance	27.56					
August 20	(27.56)		27.56	24		661.44
August 27		0				
September 1 Balance	0					
September 6	(g)3.08		(g)3.08	21		64.68
September 9	(g)3.08		(g)3.08	18		55.44
September 16	(g)4.12		(g)4.12	11		45.32
September 27		0				
October 1 Balance	(h)10.28					
October 21	1.55		1.55	6		9.30
October 27		.15	(h)10.28	30	308.40	
November 1 Balance	11.98					
November 22	(11.98)		11.98	26		311.48
November 27		0				
December 1 Balance	0					
December 21	10.82		10.82	6		64.92
December 27	14.01		14.01	0		
December 27		0				
January 1 Balance	24.83					
January 27		.37	24.83	31	769.73	
February 1 Balance	25.20					
Totals		2.14			4,332.25	2,647.70
Total, dollar-days					6,979.95	
Less free ride (dollar-days not billed)					2,647.70	
Net dollar-days (dollar-days billed)					4,332.25	
Yearly equivalent (dollar-years billed)					+365	
					11.87	

$$\text{Annual percentage rate} = \frac{\text{total service charges}}{\text{yearly equivalent}} = \frac{2.14}{11.87} = 18 \text{ percent per year}$$

¹ Finance charges are 1½ percent each month, calculated on an adjusted balance. The 27th is the closing date for purposes of billing, which means transactions in the last few days of each month are not included in the chargeable balance of the succeeding billing period.

² It is the policy of the store from which this actual account was taken to immediately credit payments in excess of 50 percent of the outstanding unpaid balance in any billing period before computing the service charge. Whenever less than 50 percent of the unpaid balance is paid, the service charge is computed on the full balance at the beginning of the billing period.

Mrs. SULLIVAN. The committee will recess for 2 minutes.
(Short recess.)

Mrs. SULLIVAN. The committee will come to order.

It is my privilege this morning to welcome to the Subcommittee on Consumer Affairs two of the foremost officials of the Government of the United States, the Honorable Alexander B. Trowbridge, Secretary of Commerce, and the Honorable Sargent Shriver, Director of the Office of Economic Opportunity.

Secretary Trowbridge has as his constituency—if a Cabinet member can be said to have a constituency—the business community of this Nation, while Mr. Shriver speaks for what President Franklin D. Roosevelt referred to as one-third of a Nation ill housed, ill clothed, ill fed. The percentage is undoubtedly much smaller than in the 1930's, but the number of our poor remains distressingly high. We are not planning to have you gentlemen engage in a debate, but since Secretary Trowbridge deals with the business community in so many ways and since Mr. Shriver deals with the people who suffer the most from the kind of credit practices we are trying to eliminate, I think it is fortunate for us, and extremely useful in developing information, that we could have you both here at one time.

Secretary Trowbridge once served in the House as a staff assistant to Congressman Franklin D. Roosevelt, Jr., before joining the Marine Corps and going to Korea, and then going on to a distinguished career in business. So it is good to see a former congressional staff employee back here as a Cabinet officer.

Mr. Shriver may never have served in any capacity on Capitol Hill that I know of, but for the past 6 years he has probably been up here more often than a lot of the people who work here, for he is always in great demand as a witness before congressional committees. I know of no greater tribute to anyone's ability to talk well and make sense than to be a favorite witness of congressional committees. Welcome to both of you.

I want to say in the beginning that Mr. Shriver is not able to stay here after 10:30. I am terribly sorry that we could not reach him by 10 o'clock, as I had hoped. I tried to hurry. Would it be all right with you, Mr. Secretary, if we can have Mr. Shriver talk about the problems of consumer credit for the next few minutes until he has to go?

Secretary TROWBRIDGE. It certainly is.

Mrs. SULLIVAN. If you will, Mr. Shriver, we will be happy to have you proceed as you wish.

STATEMENT OF HON. R. SARGENT SHRIVER, DIRECTOR, OFFICE OF ECONOMIC OPPORTUNITY; ACCOMPANIED BY BERTRAND M. HARDING, DEPUTY DIRECTOR, OFFICE OF ECONOMIC OPPORTUNITY

Mr. SHRIVER. Thank you very much, Madam Chairman, and members of the committee, and Secretary Trowbridge.

I would like to express my regrets that I cannot stay here as long as I would like to, but I am very happy to have this opportunity to express our position on the pending legislation and in doing so to express my own personal point of view; namely, that there is no—or

there should be no conflict between businessmen represented by the Secretary of Commerce and the poor for whom we try to speak. In fact, it isn't the businessman whom the Secretary of Commerce is trying to protect who is threatened by the legislation before your committee; it is the unscrupulous businessman or the unscrupulous and gouging merchant that your legislation is trying to protect the poor against and the Secretary of Commerce is not trying to defend that kind of merchant, I am sure of that.

So from my own point of view there is no genuine conflict or there should be no genuine, honest conflict between his presentation or his attitude and mine and I don't think there will be.

The magnitude of this problem with the poor has been summarized in a short saying that the poor pay more and get less with their dollar than the rich do. There seems to be really no doubt about that fact. There are many reasons for it. Among the reasons would be mere ignorance on the part of the poor. Another reason is that they don't have the freedom of choice to go to a great variety of stores, for example, and to shop around, to use a phrase.

Third, they are restricted to stores in their neighborhoods which better people, economically speaking, are not restricted to. In other words, they have no automobile to go around town looking for bargains.

Fourth, many of the poorest people, especially in the northern cities are people who have never participated actively in a cash economy.

These are just some of the reasons why the poor are very much interested in the passage of this legislation.

One statistic might be interesting. In the last 9 months the Neighborhood Legal Service Systems, financed by OEO, have handled more than 9,000 cases involving consumer problems stemming from sales contracts and repossession, all the way over to garnishment cases.

The American Bar Association has estimated that there are over 1 million cases per annum of injustice to the poor where the poor today have no legal representation at all. Out of these more than a million cases of injustice a substantial portion of them involve consumer protection.

In other words, the poor are getting gouged for many reasons and they do not have as a class the kind of help or protection which most of the rest of us enjoy.

We support, therefore, the general purposes of this bill which is pending before your committee. We support the disclosure requirement of the annual percentage rate by all creditors without exception. We support the provisions which would extend the disclosure of credit costs to advertising. I appreciate that this is different from the bill that the Senate has passed. But we support the version pending here.

We do not believe that subjects not related to disclosure should be allowed to postpone the enactment of this legislation.

On the subject of garnishment, for example, we believe a great interest has been expressed here and we have a great interest in this on behalf of the poor. The President has directed the Attorney General in consultation with the Secretary of Labor and OEO to make a comprehensive study of the wage garnishment situation and that study we hope will be completed very shortly.

It is my thought that that kind of an issue should not delay the passage of the bill which you have.

Other controls ordered by this bill such as those regulating the amount of credit that may be extended or maintained on commodity futures contracts are also under study by Government agencies directly concerned, and once again it is our position that those studies or those problems should not postpone this legislation.

Finally, I might say we do not object to a comprehensive study of the consumer finance industry. It seems to us that that study might be conducted best by existing Government agencies or by the Congress rather than through the establishment of the proposed bipartisan Commission on Consumer Finance.

I brought with me today on my right the Deputy Director of OEO, Bertrand Harding who will be able, along with other associates of his and mine, to answer specific questions we hope about what we are doing and what we think. Let me just say that Bert Harding before coming to us was the Deputy Director of the Internal Revenue Service and he has been a Government servant for a number of years and has received many of the highest awards in the civil service system and the Arthur Fleming Award and Rockefeller awards and so on. I consider him to be one of our distinguished civil servants here in Washington. I am happy he is here with me today and will be able to stay as long as the committee would like.

Let me just conclude by saying that OEO, our agency, has not done as much as we would have liked to have done in the area of consumer education, but we have done some things. We have financed a number of consumer education programs which involve the creation of credit unions among the poor, education of poor people of how to purchase, how to use the foods they buy, what kinds of contracts to avoid, and we think that these programs that we have started—I might say just barely started—will in the long run prove very helpful to them. But no matter what we do our efforts must be supported by legislation of the type that is before this committee today and we therefore support the bill pending here with great enthusiasm.

Thank you, Madam Chairman.

(The complete statement of Mr. Shriver follows:)

STATEMENT OF HON. SARGENT SHRIVER, DIRECTOR, OFFICE OF ECONOMIC OPPORTUNITY

Chairman Sullivan and members of the Subcommittee on Consumer Affairs, the Office of Economic Opportunity supports this bill. Indeed, adequate protection, through legislation, of the low-income consumer in his credit transactions is vital to the lasting success of many of our own programs. Honest disclosure, in clear and simple terms, of all the elements of the lending or credit transaction, including the expression of the finance charge as an annual percentage rate, is the keystone to this protection. For the middle class consumer with a "line of credit" it is probably enough; for he can shop for credit from the bargaining position that comes with being a good risk and a good customer. But our agency's concern is with the disadvantaged, low-income consumer, who has too little money to be either a good risk or a good customer. Consequently he has no choice, but must take the only credit he can find, which too often is that offered by an unscrupulous merchant or small loan office in the ghetto.

Of course I am not saying that all merchants or lenders are unscrupulous; nor that all merchants and lenders in the ghetto are dishonest. As a matter of fact we recently funded a demonstration consumer project in the Bedford Stuyvesant area of Brooklyn in which local neighborhood merchants and residents will work

together to solve their common problems. Many of these merchants have much the same credit problems as the consumers; and it is clear that an effective disclosure law will be as valuable to them as a protection from the public distrust created by unscrupulous competitors as it will be to the consumers themselves. But the fact is that it is the low-income consumer who is most likely to fall prey to the unscrupulous merchant or lender, because it is the low-income consumer who is under-educated, who needs the credit, and who must hunt for the bargain with the low down payment. And so the records of committee hearings of this House and of the Senate are already full of examples of the injustices suffered by those who, because of their circumstances, have no effective choice, but must either accept credit on the terms offered by unscrupulous merchants and lenders or do without the necessities of life.

And the problems to which this bill addresses itself will increase as the War on Poverty succeeds in creating new buying power among our country's low-income citizens. It is a sad fact that as those with limited education, those who come to the cities from depressed rural communities, manage after much effort and fortitude to reach that point where they are able to buy life's necessities—and maybe if they are fortunate enough, even a few of those amenities that go to make up the "American Way of Life"—they find themselves facing a system based on a common law built to meet the needs of the Industrial Revolution and adapted since to serve the interests of the Affluent Society. In short, a system of credit with very little relevance to the ghetto resident or the sharecropper. A system whose rules all were designed to increase the flow of commerce, and whose roots were in the doctrine of Caveat Emptor—Let the Buyer Beware.

All this is a very important part of what is meant when we hear it said that the poor are "outside the mainstream of American Life"; it is central to that system of entrenched values and favored relationships known to the poor as The Establishment; and it is a key factor in the often referred-to difficulty in "breaking the cycle of poverty", a cycle which is often characterized by a spiral of increasing debt weighed down by penalties and interest charges from which there is little hope of ever extricating oneself. I would suggest to you that this system of consumer credit to which this bill addresses itself has been a major contributor to the frustrations and the despair which finally led to the tragic upheavals which have recently rocked Newark, Detroit and so many other cities.

Disclosure alone will not solve all the credit problems of the poor; but without a good disclosure law these problems are not likely to be solved. Disclosure presupposes the ability to choose, which is just what the poor do not have; disclosure does not protect the consumer from abuses connected with acceleration, repossession, and quality of merchandise to which the poor are particularly susceptible. We at OEO look upon our task as that of helping the low-income consumer to develop sources of low cost credit that will offer him a choice; and to work with neighborhood residents and local law makers to build protection from possible abuses. We have been active in this field. In addition to the grants made this past year under Section 206(b) for the Farbstein Emergency Loan Program, we funded five Consumer Action Demonstration Programs, all of which involve the setting up or strengthening of low-income Credit Unions, around which are built a host of consumer and legal services designed to improve the choices open to low-income consumers. We also are providing technical assistance through contracts with CUNA International and the Bureau of Federal Credit Unions to a large number of low-income Credit Unions around the country, with the precise aim of providing low-income consumers with sources of low cost credit. Our Neighborhood Legal Service programs across the country are actively involved in representation of consumers and in the development of case law as well as local legislation which will protect consumers from abuse. We hope that our programs can do much to solve the credit problems of the poor; but they cannot do so without legislation requiring honest and clear disclosure of all the elements of the credit transaction.

We therefore urge you to enact the basic disclosure provision of H.R. 11601. I particularly support the language of Section 203(d)(3)(E) requiring that the finance charge in open end credit plans be expressed as an *annual* percentage rate. This differs from—and is preferable to—the provision of S. 5 as finally passed by the Senate. If disclosure is to be of any help to the low-income consumer, then it must be clear and consistent. To permit statement of the finance charge in open end credit plans as a monthly percentage rate, as does the Senate bill, while requiring annual rates in other types of transactions, would only

serve to confuse an already unsure consumer. The hope of the disclosure acts is that clear and full disclosure of price and finance and other charges will enable the consumer to buy wisely and not be taken advantage of. Fulfillment of this hope will be difficult enough without the confusion of inconsistency. Similarly I support your decision not to exempt small loans of under \$10 and first mortgages.

I might call to your attention a minor point that should perhaps be clarified. Section 203(d) (3) (B) calls for periodic statements including "a brief identification (unless previously furnished) of the goods or services purchased." For clarification, and in order to insure that this requirement not be interpreted as being satisfied by the giving of a sales slip at the time of purchase, I would suggest that the parenthetical phrase be changed to "unless furnished in a previous statement pursuant to this subparagraph".

We urge you to adopt these much needed disclosure provisions; and we do not believe that subjects not related to disclosure should be allowed to delay enactment of this legislation. On the subject of garnishment, for example, the President has directed the Attorney General, in consultation with the Secretary of Labor and the Director of OEO, to make a comprehensive study of the problems of wage garnishment (President's Message on Urban and Rural Poverty of March 15, 1967). Other controls added by this bill such as those regulating the amount of credit that may be extended or maintained on commodity futures contracts are also under study by the Government agencies directly concerned. We do not believe that legislation dealing with these subjects should be enacted until these studies are completed.

Finally, we question the wisdom at this time of a legislative limitation of the finance rate, as proposed in Section 203(1). Not only would inclusion of such a provision be likely to delay passage of the bill, but if adopted there is a strong possibility that the rate, adopted as a ceiling, would become a floor. Let us first see if effective disclosure will, as hoped, permit the forces of competition to operate in limiting interest rates.

Madam Chairman, I thank you for the opportunity of appearing before you today and of offering my comments on this important bill. You may rest assured that the Office of Economic Opportunity is vitally interested in the whole field of consumer protection legislation, and that if there is any way that I or my staff can be of assistance to you in helping the low-income consumer, we will be more than happy to do so. Adoption of effective disclosure legislation is a vital and urgently needed step. Thank you.

Mrs. SULLIVAN. Thank you, Mr. Shriver. We will defer our questions to Mr. Harding until after Secretary Trowbridge makes his statement.

I would just like to ask you one thing before you leave, Mr. Shriver.

Is it your opinion that while an annual interest rate might mean little to an uneducated person needing credit, yet if everyone had to show him an annual interest rate on anything he went out to buy on credit, wouldn't he know whether or not the credit cost would be greater in one case than another, and certainly, wouldn't he know more than if it was not shown at all? Perhaps many of them would not know what the rate meant or how to figure it. But if they could compare 18 percent with 40 percent or 30 percent, they would know the difference between these figures and this is one of the reasons I am so strong for an annual interest rate to be shown. Have you any opinion on that?

Mr. SHRIVER. We agree with you, that it is desirable, No. 1. No. 2, as we are able to educate the poor more through the kind of educational programs I have referred to just briefly, they, too, will be able to understand what that annual interest rate charge means.

Second, our legal services programs are not restricted to merely handling cases which are about to go into a court. One of the most important parts of the legal services program is education of people

about their legal rights and their legal responsibilities. It is helping to avoid them getting into trouble rather than merely taking care of them after they are in trouble.

Now, all of these legal programs contain education about the very subject you are talking about—information about what is meant by an annual interest rate. So we do have the potential here over the next few years of doing a large-scale educational job on such a point as you have just brought up. Therefore, we agree with you that it is desirable to have it shown—not because everybody will understand it right away—even some of the richer people are not too good at working on interest rates. But the poor will certainly be able to learn and will be helped by it.

Mrs. SULLIVAN. Thank you.

While I would like to permit all of the members to ask questions of Mr. Shriver, we will have to defer the questions and have Mr. Harding answer them later.

Mr. SHRIVER. May I say, Mrs. Sullivan, if your hearing is to go on for an extended period of time I will do my best to come back and be available as soon as I can. As soon as I get through with my conflicting engagement I will come back.

Mrs. SULLIVAN. We are not certain we can sit this afternoon. In the meantime, we appreciate your offer to come back if you can. We would love to have you for a longer period.

Mr. FINO. I just want to ask Mr. Shriver a question.

Mr. Shriver, as you well know, this legislation concerns itself with disclosure of consumer credit charges. Is it not a fact that the more acute problem with the poor is the actual sale of commodities rather than the credit purchases?

Mr. SHRIVER. Not necessarily. The poor unfortunately not only have to pay more on a direct sale but they are also getting cheated—a strong word—maybe too strong—they are getting overcharged through high interest charges which they don't understand frequently.

Mr. FINO. You are getting back to the credit part. I am getting to the actual purchase. Have you checked with the attorney general of the State of New York where they have a consumer fraud bureau? If you check with him you will find that there are hundreds and hundreds of cases that come in every day of the poor, minority, coming in complaining of having bought TV sets or a radio sold to them allegedly as a 1967 product and actually being a 1964 or 1965 model. So I think our concern, your concern—you are interested so much in the poor—is to recommend legislation to tighten the reins upon these cheaters—that is what they are, cheaters—that are selling merchandise as a 1967 product when in fact it is a 1964 product and 1965 product. We have seen that with automobiles as well. The poor buy automobiles, too, and they have been cheated in the purchase of these cars.

So I was wondering whether you have made any such recommendations to the administration.

Mr. SHRIVER. Let me respond to that that we agree with you that that is an important problem and the poor do get cheated in that way.

Second, I didn't understand that to be a detriment to the enactment of this legislation. We are here to testify in support of this legislation which is related to a different issue, and, therefore, we support what is here.

Third, in terms of recommendations within the executive branch about legislation we have discussed, legislation of the type you describe is under consideration within the executive department, but no such legislation has yet been proposed over here. The Attorney General and the Secretary of Labor are going over the whole area and we will have some recommendations to submit to Congress soon. We have been in the process of doing that, I think since last January when the Special Committee got going on that. Not just the Government Committee, but with the help of outside advisers and consultants.

Mr. FINO. You indicated that you were for this legislation. Do you mean Mrs. Sullivan's bill or the Senate bill?

Mr. SHRIVER. The bill here. The Senate bill, with some modifications which I alluded to—in other words, I like the bill here more than the one there.

Mrs. SULLIVAN. If the gentleman will yield, H.R. 11601 calls for administrative enforcement of the disclosure provisions. S. 5, the Senate bill, or H.R. 11602 does not. Now, as it concerns the people you represent, would they be likely to bring their own lawsuits to obtain truth-in-lending or do they need public enforcement of those provisions to make it work? This is one of the things in H.R. 11601 that is not provided for in the Senate bill or H.R. 11602. So there are many things in here that are quite controversial; the two bills are quite different.

Mr. SHRIVER. As I tried to testify a moment ago we are in favor of H.R. 11601 and those differences you just mentioned are only a few of the differences which make H.R. 11601 to us more desirable than S. 5.

Mr. FINO. If the chairlady will yield, H.R. 11601 has a section, title II, prohibition of garnishment of wages. You in your statement would like to defer that because a study is being made?

Mr. SHRIVER. Yes, I tried to indicate those areas where I felt H.R. 11601 was better than S. 5 and the one area where I felt perhaps it would be desirable to wait until this Commission finished its special study was this. In other words, I tried to cover the points where I think H.R. 11601 is better, and the one place where I think it might be well to postpone a decision as far as this Commission is concerned. But basically if I have to choose on the basis of what is there, we are for H.R. 11601.

Mr. FINO. I have not had an opportunity to read your statement, but do you mention anything in your statement about the standby controls?

Mr. SHRIVER. Standby controls? I don't think we have that in there.

Mrs. SULLIVAN. Mr. Fino, we will have to excuse Mr. Shriver now and have him answer any further questions later.

Mr. SHRIVER. I will come back if you are still in session.

Mr. HALPERN. I do not have a question but I would like to commend you for your superb testimony which I am sure will be most helpful

in helping this committee to shape up a good bill. Thank you and compliments to you.

Mr. SHRIVER. Thank you.

Mrs. SULLIVAN. Mr. Secretary, would you like to read your statement now?

Secretary TROWBRIDGE. Yes, if I may.

STATEMENT OF HON. ALEXANDER B. TROWBRIDGE, SECRETARY OF COMMERCE; ACCOMPANIED BY JAMES L. PARRIS, ACTING GENERAL COUNSEL, DEPARTMENT OF COMMERCE

Secretary TROWBRIDGE. Thank you, Madam Chairman.

I am accompanied by the Acting General Counsel of the Department of Commerce, Mr. James Parris, to my left. I have a short statement which I would like to read, and afterward I will be happy to answer any questions that you or the members of the committee may have.

Chairman Sullivan and members of the Subcommittee on Consumer Affairs, I am glad to have this opportunity to express my Department's strong support of full-disclosure-in-lending legislation, as reflected in title I of H.R. 11601, cited as the "Consumer Credit Protection Act."

We firmly favor legislation requiring disclosure of finance charges in lending and credit transactions. Such disclosure, we believe, should benefit consumers, enhance efficiency in distribution, encourage competition in the credit market, and put the credit grantor and the consumer on a more equal bargaining basis. Disclosure to the purchaser of the annual percentage rate for consumer credit charges, as required by the bill, would provide a common denominator by which a consumer may know what he is paying for credit, and how it compares with credit terms of other merchants or lenders. Thus, we agree with Chairman Sullivan's statement that:

Required disclosure of finance costs in credit transactions is vitally important to the intelligent use of credit.

Today consumer credit—not including long-term credit such as real estate mortgages—totals about \$95 billion. Interest payments alone on this sum exceed \$12 billion. Installment credit rose from about \$29 billion in 1955 to \$43 billion in 1960, and to \$75 billion in 1966. The sheer size of this consumer debt—its rapid rate of growth—its potential impact on the economy, make it clearly desirable to provide maximum disclosure of information about credit terms.

We know that the large majority of American businessmen, who extend credit to consumers, are as principled as they are practical in their daily business transactions. Full disclosure will, in practice, free the majority of businessmen from unfair competition of that minority who engage in deceptive practices. It will tend to clear away the bewildering variety of practices and terminology that have arisen in different parts of the credit industry.

In our report dated April 13, 1967, to the Senate Banking and Currency Committee on the original S. 5, the Department favored enactment of that bill, with a few suggested modifications. One of these was to insert the word "approximate" before the term "annual percentage rates," wherever that term appeared in the bill. In both S. 5, as passed

by the Senate, and H.R. 11601, two provisions, taken together, will accommodate our recommendation. The first, which appears in section 202(f) of the House bill, defines the term "annual percentage rate" as "the nominal annual rate determined by the actuarial method (U.S. rule)." The second appears in sections 204 (a) and (b) of the bill, directing the Federal Reserve Board to prescribe "regulations with respect to reasonable tolerances of accuracy." These two provisions taken together should greatly simplify computation of annual percentage rates by the creditor.

We are happy to note that two of our suggested amendments are contained both in S. 5 and H.R. 11601. One, which appears in section 204—"Regulations"—of the House bill, concerned the use of standardized charts and tables in the satisfaction of the disclosure requirement. Use of these, we believe, could greatly lessen the computation burden upon businessmen. The other, appearing in section 205 (a) of the House bill—"Effect on State Laws"—makes clear that the provisions of this law for disclosure of finance charges are not intended to affect State usury statutes dealing with interest rates—as compared to finance charges covering servicing.

The above changes, together with the provisions of the bill giving broad authority to the Federal Reserve Board to prescribe regulations to carry out the purposes of the act, to set forth guidelines for the use of simple rate charts and to permit adjustments and exceptions, will provide assurance to businessmen that a full disclosure law will not impose needless administrative burdens upon their daily business operations.

In my view the disclosure-in-lending provisions of H.R. 11601 would carry out President Johnson's recommendation in his message to the Congress on February 16, 1967, on consumer protection, when he said:

I recommend legislation to assure full and accurate information to the borrower; and simple and routine calculations for the lender.

While the bill contains a number of other provisions not directly related to disclosure in lending, I have directed my remarks to those proposals in the bill which have been subjected to thorough debate over the last several years. While some of these other proposals which do not relate to disclosure in lending deserve study, it is our opinion that action should not be delayed on legislation requiring the full disclosure of charges in credit transactions, to make it possible for borrowers and charge account customers to compare credit costs and shop wisely for the best terms. We respectfully suggest, therefore, that these additional proposals be deferred for further study by Congress and the executive branch.

Some opponents of credit disclosure legislation have suggested that its enactment would result in a substantial decrease in consumer credit, with adverse effects on business. I am sympathetic with their concern but do not believe such apprehensions are justified. On the contrary, a full disclosure in lending law will be beneficial to the economy and encourage the sound use of consumer credit. I am confident that with a full-disclosure law, business will be better off—that the benefits to business will more than offset whatever initial compliance problems may be encountered. These benefits would include:

(1) Better educated customers who will understand the mechanics and use of credit, the costs to business in extending credit, the meaning

of finance charges—for example, investigation fees, collection costs, clerical and recordkeeping expenses.

(2) Generating of customer respect and confidence in the credit grantor.

(3) Greater use of credit by consumers who have been fearful of using much credit because of its complexities.

(4) Providing an incentive for the development of maximum efficiency in the extension of credit.

We feel that the great progress made by the Congress in developing truth-in-lending legislation that is practicable and workable for creditors and consumers should be promptly brought to fruition.

Madam Chairman, that is the end of my prepared statement. I know that there may be some questions and I will be glad to try to answer whatever ones I can and I know that my colleagues here will help me out on any that I cannot.

Mrs. SULLIVAN. Thank you. I have probably taken more than my share of the time this morning so I am going to start the questioning with Mrs. Dwyer.

Mrs. DWYER. No questions.

Mrs. SULLIVAN. Mr. Stephens?

Mr. STEPHENS. I want to thank you for coming, also to see if I fully understand the effects of your statement—it is that you want the full disclosure provisions and would like to have them now. But the questions of garnishment, of the Consumer Finance Commission and of regulation of the commodity exchange to be deferred—that we delete it from the House bill and more or less what S. 5 proposes you favor?

Secretary TROWBRIDGE. Mr. Stephens, it seems to me that the disclosure provisions in this bill and in the bill that passed the Senate, having had some 7 years of scrutiny, public debate, and study, surely are ripe for enactment and deserve it on the basis of all of the tremendous effort that has been put forward in the Congress so far. I think that the other portions of H.R. 11601 not dealing with disclosure deserve a good deal more scrutiny because we just haven't had time to really focus on the problems that they may create.

The questions of garnishment are multiple in their impact, both on business and the consumer.

The question of ceilings on interest rates of 18 percent I think has many ramifications we ought to know more about. So my own feeling would be, yes, sir, we ought to move ahead on those areas that we have looked at very carefully; that the balance of the provisions in H.R. 11601 would be best left for further scrutiny.

Mr. STEPHENS. I appreciate that position that you have taken. As I have said, that is more or less my position, but I think I would agree with your position.

Thank you.

Mrs. SULLIVAN. Mr. Fino?

Mr. FINO. Thank you, Madam Chairman.

Mrs. Sullivan's bill provides for standby credit controls. Now, yesterday the representative of the AFL-CIO appeared before this committee and expressed opposition to the standby credit controls unless it included wages, prices, profits as well as the consumer credit. How does your Department feel about that?

Secretary TROWBRIDGE. Mr. Fino, since this is one of the provisions in H.R. 11601 which is well beyond the disclosure aspect of the bill, I think we ought to wait on that. It just seems to me in all candor that the declaration of an emergency situation by the President with his eye only on the credit side of the economy would be, I think, meeting only part of the problem and I would guess frankly that if things got to the point where the President had to declare an emergency the proposal would probably include provisions on wages, prices, credit and other aspects of the economy.

I think therefore, my own personal opinion would be that to provide this standby authority at this point would be premature.

Mr. FINO. You also agree that the provisions for garnishment of salary should be held up also, is that right?

Secretary TROWBRIDGE. I personally would agree to that.

Mr. FINO. So when you take those two provisions out, are we not going back to S. 5?

Secretary TROWBRIDGE. As I understand there is quite a significant difference in some of the exemptions that S. 5 provided in the disclosure area which H.R. 11601 closes as exemptions. I think H.R. 11601 is a stronger bill, I think that it sets up some benchmarks which are good benchmarks in our competitive economy and I think that it is a preferable bill.

Mr. FINO. That is all.

Mrs. SULLIVAN. Mr. Gonzalez?

Mr. GONZALEZ. Mr. Secretary, have you had a chance to look over the provisions in this bill with respect to garnishment of wages, salaries?

Secretary TROWBRIDGE. I am a recent expert on some of the questions of this bill, Congressman Gonzalez. I don't really mean to underline the word "expert," either.

The question of garnishments is one which again I would favor deferring for more concentrated study. I realize that there is a very large amount of salary garnishment in the private and public sectors of the economy. It seems to me that we have to know what the impact of such a prohibition would be.

Mr. GONZALEZ. I come from a State that has a constitutional prohibition. It goes back to the days when Texas was really a populist State. It still is substantially, but some people think it is not. My contention is that it is pretty much in the Constitution and in the Constitution you have the real consumer protection of that day. The Texas constitution, which is the 1875 constitution, for instance, has homestead provisions, a homesteader is exempted from foreclosure except taxes and one or two other exemptions. A man's tools of trade—the utensils, all of those are by constitutional definition exempt, and along with that is garnishment.

Now, do you find there is any difference in availability of credit in those States that have this type of prohibition such as Texas and the few others—Florida has a similar provision, not the same but similar—do you find there is any difference in the availability of consumer credit in Texas and these other States as compared to the States of the type that have some type of garnishment?

Secretary TROWBRIDGE. If I could I would answer your question. I just don't know what the comparison between the States is in consumer credit availability.

Mr. GONZALEZ. Would it be possible to get some kind of statistical evaluation, if feasible?

Secretary TROWBRIDGE. I would be more than happy to try to find it, but I will have to start from scratch as far as I know. I don't think we have it in the Department of Commerce at this point. We may be able to find it from the various sources in State governments, but if you will allow me, I will take a look.

Mr. GONZALEZ. I would be most grateful to you.

(The information requested follows:)

Unfortunately, a valid and meaningful statistical evaluation of the availability of consumer credit, overall, State-by-State, is not attainable at this time. The Department does not have consumer credit data tabulated State-by-State. Although the Federal Reserve Board, in its monthly *Bulletin*, publishes data on short- and intermediate-term consumer credit, these data are reported only for the nation as a whole. The Federal Deposit Insurance Corporation, however, publishes data on bank loans, by State, for all insured banks.

Consumer credit data, reported officially by some States, are not comparable because the types of credit on which data are reported vary from State to State. Most States, we are informed, do not have composites on financing of autos and durable goods. Although no data are published by the states on retail installment credit, some do report partial data on installment credit contracts issued by finance companies.

We are informed, however, that the Associated Credit Bureaus of California a few years ago issued a report, based on its own unofficial estimates, showing that the extension of consumer credit is unrelated to garnishment laws. Their data reveal that in 1963 about \$6.6 billion of installment credit was extended in California, which has a stringent garnishment law, and about \$6.1 billion in New York, which has a moderate garnishment law. This, according to their report, amounts to 24.6 percent of total retail sales in California during 1963 and 25.5 percent of retail sales in New York. Estimates by the same source on the ratio of installment credit to retail sales in a number of other States show little variation among those States. Assuming the accuracy of these estimates, it would appear that the correlation of installment credit to retail sales does not vary in accordance with garnishment laws.

Mounting evidence in recent years clearly shows a correlation of wage garnishment to the rise in personal bankruptcies. Yet, in any analysis of the comparative availability of credit, factors in addition to the existence or non-existence of wage garnishment laws would demand consideration. Such factors as differences in local and regional economic conditions (e.g., depressed areas, pockets of unemployment, etc.), in the relative stability of employee-income, in the prospects of future employee-income, in variations of screening policies of credit extenders—all of these are variables difficult to measure. I suggest, therefore, that it would be extremely difficult, if not virtually impossible, to establish a clear correlation between the availability of credit and the existence or non-existence of a State garnishment law.

Mr. GONZALEZ. By way of a parenthesis, the Department of Commerce has tremendous reservoirs of information.

Secretary TROWBRIDGE. Sometimes we have more than we know about.

Mr. GONZALEZ. When I came here, the first big difference I found between local, State, and Federal Government was exemplified by your Department. I had a request from a constituent who wanted to know exactly how much in quantity—how many Jalapeño peppers were being imported into the United States and within 3 hours I had the exact numbers, down to the last thousand. It is a tremendous number that are being imported. So that I could pick up the phone here at this level, call somebody like the Department of Commerce and we have a ready answer which is not available at the local and State levels of government.

Secretary TROWBRIDGE. I am delighted to give you such good service and we will in this case, but I will need a little time.

Mrs. SULLIVAN. Mr. Halpern?

Mr. HALPERN. Mr. Secretary, you suggest that better credit disclosure, that better disclosure of credit terms might generate an expansion in the use of credit as consumers gain confidence and understanding of its mechanisms. Do you feel that people who until this point have been able to get by without using credit are likely to switch from cash to credit when they see the real costs involved?

Secretary TROWBRIDGE. I am not sure that—

Mr. HALPERN. Or from credit to cash?

Secretary TROWBRIDGE. It seems to me we have a parallel in history where, although conditions were obviously different, there was a need for greater disclosure on the makeup of stocks. Many people were buying stocks without really knowing what the commodity was that they were buying and whether it was worth it and what it might do and what the backup of the company was. When we had the disclosure provisions of the Securities and Exchange Commission, there was a good deal, I think, of concern, if my memory of history is correct, as to what impact this disclosure provision would have on the stock market and I think history is certainly proving that confidence resulted from disclosure, that greater purchase of stocks resulted, that the economy was benefited from it. I would hope that there is a parallel in this case.

It seems to me that the American consumer, once he understands more about what he is buying, and has more confidence in it, would react more positively. I think that is the general philosophy of this proposal and I think it makes sense.

Mr. HALPERN. There is general agreement that revolving credit has not only been in the recent past—but will continue to be—the fastest growing type of credit arrangement. Do you foresee any increased economic instability inherent in the expanding use of such credit, where people feel they can continue to buy and still forestall payment?

Secretary TROWBRIDGE. No, I don't see any inherent instability in this situation. It seems to me we have a growing national product, we have a growing retail sales level every year. A very important part of this is the extension of credit. The use of that credit by the American customer is the spur and impetus for much of our economic well-being. I don't see any adverse impact from this.

Mr. HALPERN. Thank you.

Mrs. SULLIVAN. Mr. Minish?

Mr. MINISH. Mr. Harding, one of your OEO programs has as an objective the establishment of credit unions in the poverty areas. Can you tell us how this program and these objectives might relate to the current bill under discussion?

Mr. HARDING. Mr. Shriver talked briefly on this before he had to leave and the general import of what he was trying to communicate to the committee was the fact that among the poor there is a very real educational problem involved in consumer purchasing and in consumer credit and one of the main purposes of these credit union operations is an educational purpose, to acquaint the poor with buying, credit, other factors in the economy, and this is one of the purposes.

The other purpose, of course, is to encourage thrift, to encourage capital accumulation.

Mr. MINISH. The Senate-passed bill contains an exemption for credit transactions where the finance charge is less than \$10. That is where the purchase price is roughly \$100 per item. Such purchases are related to us as—represented to us as a transaction for the people you are trying to help. Is a purchase of \$100 a small transaction?

Mr. HARDING. No, sir; it is not a small transaction at all for our clientele.

Mr. MINISH. Thank you.

Mr. HARDING. And in our testimony we propose that that restriction which appears in the Senate bill not appear in the House bill.

Mr. MINISH. Does OEO favor the House bill over the Senate bill?

Mr. HARDING. Over the Senate bill with modifications to the House bill.

Mr. MINISH. How do you feel about the same question, Mr. Secretary?

Secretary TROWBRIDGE. I favor H.R. 11601 over the Senate bill, S. 5, when comparing the disclosure provisions of the two bills. My own personal opinion is that the balance of the provisions in H.R. 11601 which deal with other areas of this problem would better be left for further scrutiny, frankly, for two reasons. One, I think they deserve a little bit more and secondly, I think if we get bogged down in debate over many of these additional features, the time will run out on the chance to pass the disclosure bill which the Congress has the opportunity to do.

Mr. MINISH. Thank you, Mr. Secretary.

Mrs. SULLIVAN. Mr. Wylie?

Mr. WYLIE. Thank you, Madam Chairman.

The other day I asked Mr. Barr about the Internal Revenue Service's regulation which states that an interest amount equal to 6 percent of the average unpaid balance of the installment contract during the year or the portion of the total carrying charge allocable to the year, whichever is lesser, can be deducted as an expense on the Federal income tax return. Would you favor a change in that regulation if a disclosure bill such as this is passed, so that we know what the interest rate might be so the full amount could be deducted as an expense.

Mr. HARDING. Are you speaking to me, Mr. Wylie, in my former capacity with the Internal Revenue Service or my present capacity with the poor, or does it make any difference?

Mr. WYLIE. I am trying not to make such a distinction. It seems to me we are talking about legislation here to assist the poor and this regulation mitigates against the poor, limiting the deduction to 6 percent. As I understood it from Secretary Trowbridge and from Mr. Shriver, the persons who are hit the hardest by these service charges, interest rates and so forth, are the poor and very poor. They can't figure out these charges. Could we not help them if that is who we are trying to help by saying, "you can deduct whatever the actual amount is on your income-tax return"?

Mr. HARDING. I think it would certainly be a gesture in that direction, Mr. Wylie. I think that the people we are talking about here are not people who are probably—they are probably not taxpayers to

begin with, and secondly, if they are taxpayers they are taking the standard deduction and are not itemizing their deductible items and therefore I think frankly it would be more apparent than real in the effect on our clientele, which, as you know, are people generally under the \$3,000-a-year limit.

Mr. WYLIE. Would you favor an amendment or disclosure provision which would require an indication of the actual cash amount paid out in interest and service charges during the year?

Mr. HARDING. Disclosure by whom?

Mr. WYLIE. By the merchant or by the seller?

Mr. HARDING. You mean in some form he would supply the purchaser with a statement as to the amount that had been paid?

Mr. WYLIE. Like a form 1099 which requires disclosure of interest or dividends received, a form which would show the amount which has been paid out during the year in interest or service charges.

Mr. HARDING. I think that could be very valuable for many taxpayers, Mr. Wylie. Again, I say probably it will not be of any great value to the taxpayers in the poverty population.

Mr. WYLIE. What do you think about that, Mr. Secretary?

Secretary TROWBRIDGE. That last proposal sounds like it might place quite an administrative burden, Mr. Wylie, on a given merchant. I don't know what kind of load this might put on him as far as individual advice. I gather you are describing an advice at the end of the year as to the total amount of the interest charges which a given account or purchase involved as far as the individual customers are concerned. The customer would use that information for credit on his income tax.

Mr. WYLIE. In other words, what I am suggesting is, that we consider a change in the regulations and at the same time consider a change in this bill so that a full disclosure of the amount, the exact amount, of money paid out by buyer in interest charges and that a deduction could be made on the income tax return in that amount.

Secretary TROWBRIDGE. If there were revolving credit on installment plan accounts with these disclosure provisions, though, I would think that a customer could take a series of monthly statements or quarterly, or whatever the statements are and isolate out the interest charges from it. I am not sure whether it would be necessary to reconcile at the end of the year to the total amount collected. I don't know.

Mr. WYLIE. If a monthly statement lists charges it would be a simple proposition to add them up at the end of the year.

Secretary TROWBRIDGE. To annualize.

Mr. WYLIE. Disclosure of a 1½-percent interest rate as you pointed out, still does not relieve the difficulty of the average person to convert to cash as to how much he has actually paid out.

Mr. HARDING. The annual rate is contemplated in the bill as I understand it.

Mr. WYLIE. That is right.

Mr. HARDING. I would like to add to what Secretary Trowbridge said. I happened to be involved in the problems incident to the expansion of the 1099 regulations in connection with Revenue's computer system. Even for banks and large financial institutions this did represent a tremendous problem for them to accommodate to the law. To place this

burden upon a large number of relatively small merchants throughout the country without the advantage of computerized accounting equipment would, as the Secretary indicates, probably represent something of a rather horrendous nature.

Secretary TROWBRIDGE. It would probably involve that—perhaps you can check me if I am right—but I think it would involve also the establishment of some identification number like the social security number which is used in the tax forms on the part of the small businessman.

Mr. WYLIE. We had testimony here this morning in which the word “approximate” is used—you used the word “approximate” in your statement—would you require an “approximate” annual interest rate? Even though the revolving charge is $1\frac{1}{2}$ percent a month, the interest may come out on annualized rate, to anyplace between 10, 15, or even 24 percent.

Secretary TROWBRIDGE. Are we not talking about two different things, Mr. Wylie—of disclosure by the seller to the customer and of the annual rate that is involved in the given transaction? I understand your proposal to be one in which the seller would then, in addition to disclosure, have to provide some sort of formal notice at the end of the year or at some tax period of the amount of interest for tax purposes. One is a good deal more complicated than the other.

Mr. WYLIE. Would it not be better to show the actual cash amount paid out rather than requiring an annual interest rate? Because that amount could be used in the buyer's tax return and also it is more meaningful to him to show what the interest rate was.

Mrs. SULLIVAN. Would the gentleman yield?

Mr. WYLIE. Glad to yield, Madam Chairman.

Mrs. SULLIVAN. Is it not to the taxpayer's advantage to keep all these interest charges that he pays so he can deduct the amounts at the end of the year? It is a little different from showing the income on his income tax. He may be reluctant to show all the income but he is very anxious to show what he has paid out which is deductible.

Mr. WYLIE. It is to the taxpayer's advantage. But how many of them do it? With the multitude of forms and receipts you have to keep during the year I find it very hard myself to figure any deductions. This form 1099 which I like makes it very easy for me to include interest and dividends.

Mrs. SULLIVAN. People who itemize are always seeking things to deduct. They are not always as conscientious in seeking things to show as income. So this idea of putting the burden on the poor store, the department store, or the person who gives the credit—

Mr. WYLIE. I think it would be less burdensome on the stores to show at the end of the year how much has been paid out in dollars and cents than it would to show an annual interest rate.

Mrs. SULLIVAN. The store shows each month what it charges. It is shown each month.

Mr. WYLIE. That is what I am saying. At the end of the year why do they not add up the monthly amounts and say, “This amount has been paid out” and send it in this form to the buyer rather than requiring a computation of the interest rate?

Mrs. SULLIVAN. As I said this morning, we could argue it 7 years; $1\frac{1}{2}$ percent is 18 percent a year and if they are going to charge $1\frac{1}{2}$

percent a month and that is exactly what they do, regardless of what they showed us in this table this morning, they are still basing it on $1\frac{1}{2}$ percent a month.

Mr. WYLIE. But it does not add to 18 percent.

Mrs. SULLIVAN. Nobody is going to multiply the number of days that that balance stayed on the books in order to arrive at dollar days as shown in that elaborate chart he showed us this morning. I have done enough detail work in offices to know that this never would be done.

Mr. WYLIE. That is true.

Mrs. SULLIVAN. They do not use any other rate except the $1\frac{1}{2}$ percent.

Mr. WYLIE. But if we had a true full disclosure this is what they would have to do.

Mr. STEPHENS. Would the gentleman yield?

Mr. WYLIE. Happy to yield.

Mr. STEPHENS. Remember I asked Mr. DeShazor to answer this question: What would be the objections to giving the interest on a revolving credit program at the end of the year and let people know what they had paid? I asked him to give us some detail. In addition to that, as to giving the amount of money at the same time—

Mr. WYLIE. I do not believe that the average person is interested in interest rates and I do not think it is meaningful to them. I think they want to know how much they have paid out in dollars and cents for their purchase. It seems to me if we are going to do this at all, that this is real truth in lending or truth in spending. This is my thinking right now.

Mrs. SULLIVAN. Thank you.

Mr. Hanna?

Mr. HANNA. Thank you, Madam Chairman.

May I say to the chairlady and for the benefit of the witnesses previously before us, I still maintain that you have fought a very hard battle in your ring in your own way in terms of the abstract principle of the applied interest rate and they never laid a glove on you.

On the other hand, they fought an equally good battle in another arena of the effective rate and when you get all through nobody laid a glove on them. So I expect these battles will still continue in their separate rings.

I would like to ask Mr. Harding, regarding this section about garnishment, and I commend the lady from Missouri for putting this in the bill. I think the attention of the people ought to be brought to this socioeconomic problem.

In your experience, garnishment and other credit remedies, as far as they have been applied were originally contemplated to be a shield for the honest merchant, to encourage him to extend credit; is that not true?

Mr. HARDING. Yes, sir.

Mr. HANNA. Is it your experience, as it has been my experience as an attorney, that garnishment has turned out to be in most instances a poor shield for the honest merchant and really a sword in the hands of those who would pursue these remedies as a crutch against proceeding in proper credit screening? Is not this one of the problems that we have in this whole area of credit remedies?

MR. HARDING. I think there is a great deal of truth in what you say, that in fact these are not effective remedies at times. But I would add that the reason we suggest that the subject of garnishment not be tackled at this time in this bill is because it is a tremendously complex problem. Harkening back to the Revenue Service, for example, this is an extremely effective remedy among defaulting taxpayers, and I would despair of our ability to operate the tax system at the rate at which we operate and with the problems we have without the authority of the Internal Revenue Service to levy on wages. So that, and the matrimonial problems, where the garnishment is in connection with a court order in a divorce case, I think these are two matters that must be dealt with and which the committee, composed of Justice, Labor, and OEO are considering at this point.

MR. HANNA. I would agree with you 100 percent. The reason that I think it is important here—I was looking at the first point that the Secretary made on page 5 in which he indicated that we ought to be better educated about the cost of credit—and when you set out the investigation fees and collection costs, I find a tradeoff here, but to those stores that do not do very much in terms of investigating credit and screening credit, they turn up loading collection costs, so my experience is that they put a tremendous burden on the people who are paying their bills because they do not protect them against the deadbeats until the end of the line. So then they become an added collection cost. So in that degree I think your fourth point ties in here, Mr. Secretary, that what we hope this bill will do is to get everybody to maximize the efficiencies of the credit system and until we can get better screening of credit risks we are not going to have an efficient credit system.

I would ask the Secretary of Commerce if he does not think that perhaps his Department could actually help us in reporting better facts on our credit economy. It occurs to me that the committee ought to be aware, as I am aware, and I think that you gentlemen are fully aware, that 50 percent of the American population do not use credit and the people who do use credit, 98 percent is used by people between the ages of 21 and 35 and by the poor. So the credit use, when reported on average statistics is always distorted. We really do not know what the story is in our credit economy because we do not have credit reporting on the basis of age and income.

So I think, Mr. Secretary, you and your Department could begin to develop figures for the use of Congress and for your own use in the administration of the real dynamics in credit where it has happened and we would be in better shape than we are at the present time.

Do you agree that this is so?

SECRETARY TROWBRIDGE. Yes; I think so, Congressman Hanna. And I would think, too, that passage of this bill, which would put some rather standard measurements into the credit field which don't exist now where we have quite a vast variety of different forms, would help, to the extent that there would be a bit more uniformity, in the use of the compilation. I would be more than happy to provide you with information as to what we do have at the present time and what we contemplate adding to our statistical capability in this field.

I think we all have to recognize that the requirements for more information from all parts of the economy are just getting very, very

large and we have to allocate our own resources in this field. We will do the best job we can.

Mr. HANNA. Madam Chairman, I will ask unanimous consent at this point in the record that the Secretary be allowed to make available to the committee exactly what he just described so we will have it available.

Mrs. SULLIVAN. Without objection, if you will supply that, we will make it part of the record.

(The material referred to follows:)

The Department, through its Census Bureau, presently collects sample statistical information on consumer credit outstanding generated at retail outlets throughout the economy. Our interest in collecting and publishing information of this nature stems from our concern over quantifying the important factors that impinge on economic progress in the retail marketing sectors of the economy. In addition to the published monthly series on total credit outstanding, the Census Bureau has been collecting on an experimental basis data on consumer repayments of installment credit to retail outlets.

We contemplate that our statistical capability in quantifying consumer installment credit will increase over the coming years. One of the measurement problems in our total installment credit outstanding series has been the difficulty in differentiating between consumer installment accounts and charge accounts at retail outlets. The development of the repayment series last year has provided considerable insight into this question. That is, by studying the repayment schedule by consumers to retail outlets we are better able to understand the composition of total installment credit generated in the retail stores. We expect to obtain more sophisticated information on this repayment series as our numerical samplings increase, and it is believed that within the foreseeable future we will be in a position to publish these statistical series monthly.

Noteworthy is the fact that the Federal Reserve Board has traditionally been the prime collection unit for consumer installment credit statistics. The Federal Reserve has long-established relationships with commercial banks, sales finance companies, and consumer finance companies. It is logical for the Federal Reserve to continue this role in the future. Moreover, the Federal Reserve has established the technical experience in specialized sampling in conjunction with the University of Michigan and on occasion with assistance of the Census Bureau in order to obtain detailed installment credit information by the income distribution and other key economic variables. The Department of Commerce will continue to improve its sampling techniques to measure more precisely the consumer's installment credit profile at retail outlets. For broader consumer installment credit questions I believe that the Federal Reserve is the logical reporting source.

As an allusion to possible future Departmental statistical programs, I stated at the hearing that the Department is devoting attention, more and more, to the marketing and distribution aspects of the economy. Last November, for example, the Department sponsored a National Marketing Conference here in Washington. In a subsequent *Report To The Secretary*, the Conference recommended the following:

"With full recognition that social responsibilities are inseparable from economic activities, the Conference believes that the interests of the U.S. Department of Commerce, the business community, and the consumer are a trinity of common purpose and advantage. It sees an increasingly important role for the Department in bridging the chasm that frequently develops between business and consumer spokesmen."

Supplementing this recommendation, the Conference suggested that "the Department should be the source, the Government authority, on marketing. The Department would require fresh and superior information, as well as informed insight for the interpretation of facts and figures".

A result of the Conference was the creation by the Secretary of Commerce of a National Marketing Advisory Committee, composed of 53 marketing specialists from business and academic fields. An Executive Committee, which advises the Department on directing the work of the main advisory body, may recommend the establishment of task force groups to focus on specific issue areas of importance to marketing. One of these groups, for example, could examine and recommend ways by which the Department could report more extensively information on the cost, use, and impact of consumer credit in our economy.

Mr. WYLIE. Will you yield for one other bit of information?

Mr. HANNA. My time has expired.

Mr. WYLIE. I wonder if you might supply information as to how many garnishments the Internal Revenue Service—how many were instituted by the Internal Revenue Service.

Secretary TROWBRIDGE. Mr. Harding used to be with the IRS.

Mr. HANNA. I do not think he can supply it now.

Mr. WYLIE. I do not mean to have him search.

Mr. HARDING. I could obtain the figure for you and insert it in the record. I don't recall offhand the number of those actions.

Mrs. SULLIVAN. Please do that if you can.

(The information referred to follows:)

	Fiscal year 1965	Fiscal year 1966	Fiscal year 1967
Liens.....	222,000	214,000	229,000
Levies.....	770,000	773,000	863,000
Seizures.....	17,000	15,000	16,000

Mrs. SULLIVAN. Mr. Annunzio?

Mr. ANNUNZIO. Thank you, Mrs. Sullivan.

I want to join my colleagues on this panel in paying tribute to you. I joined you as one of the sponsors of H.R. 11601. Now with reference to the section on garnishment of wages; I would like to set the record straight.

We had Miss Furness here representing the administration and she is against this section, pending further study.

Mr. Barr, Governor Robertson, and now we have the Secretary of Commerce, and the distinguished representative of the AFL-CIO who said that at this time his national organization has no policy on a national Federal law to abolish garnishment. But there are three States in the country, Texas, Pennsylvania, and Florida who abolished garnishment of wages. I wrote to one of the largest steel companies in my area and I was very happy that Joseph Block, chairman of the Inland Steel Co., joined us in supporting the garnishment section of the bill. If we have done nothing else we at least have made the administration aware of the garnishment problem faced by both the employers and the employees. I have been disappointed that the study of garnishments is not completed. We are looking for answers. This is a very serious problem confronting the country.

I have stated that there are millions of dollars being spent in large court systems like Los Angeles and Cook County in garnishment litigation. There are thousands of people in the courts who are waiting for adjudication of other problems such as workmen's compensation, personal injury cases, unemployment compensation cases and that this is a problem that is causing tremendous upheaval in many sections of our large cities. There have been cases recorded where people have committed suicide because of the garnishment law, so that I do hope, Mr. Secretary and Mr. Harding, that you will use the prestige of your office to expedite the study that is being made so that this subcommittee can have the thinking of and the results of the study as soon as possible.

Now, Mr. Harding, recent figures from the Department of Commerce indicate that 27 percent of the repayment on debts are for interest. Do you have any figures to indicate what would be a comparable figure as far as the poor are concerned. Would repayment for interest constitute more or less of the 27 percent to the payments made in the United States by those classified in the poverty? In other words, do you have any figures which indicate what percentage of the income of the poverty group is spent for the repayment of interest? Do you feel that your OEO poverty workers could make good use of provisions of H.R. 11601 to reeducate the poverty groups and protect them from sharp practices—to protect them from practices as indicated in this bill such as disclosure of interest and honest advertising?

In other words, do you feel that consumer credit protection, that the act, the Consumer Credit Protection Act of 1967 could be of assistance in helping those people get out of the vicious poverty cycle that they are now in?

Mrs. SULLIVAN. May I suggest—because you have a lot of questions in that question, and I think that he may have some figures—that he may furnish these figures for the record later and answer a little more fully, if that is all right with you.

Mr. ANNUNZIO. Fine.

Mrs. SULLIVAN. You can defer your answer, Mr. Harding, until you get a copy of the transcript.

Mr. HARDING. I will be happy to see what we have and put whatever we have in the record. I seriously doubt if our statistical background is quite that fine in terms of the payment by these people. But we will see what we have and supply it for the record.

(The material referred to follows:)

The Office of Economic Opportunity does not have such specific figures at this time. There is a need for research in this area. However, we expect to have some of this data as a result of five demonstration programs this agency funded toward the latter part of the fiscal year 1967.

Our experience however would indicate that the poor do pay more for credit in general since they are limited in almost all cases to the small loan company, the corner "mom and pop" store, the "loan shark," or other "informal" credit sources. Such interest rates are of course much higher than banks, credit unions, or savings and loan associations.

The disclosure aspects of this bill together with strong educational programs and legal services which actually reach the poor, will be of definite assistance to the low-income consumer.

Mr. HARDING. On the second question I would say to you, sir, that we definitely feel that the enactment of this bill would assist our operation, particularly our legal services operations in protecting the interests of the poor against gouging by unscrupulous merchants.

Mrs. SULLIVAN. Mr. Bingham?

Mr. BINGHAM. Thank you, Madam Chairman.

First of all, I would like to take this opportunity to express my great personal pleasure in our being able to welcome here Secretary Trowbridge. I believe this is his first appearance before this committee as Secretary of Commerce, although he has appeared before in the past as Acting Secretary.

In the space of less than 10 years Secretary Trowbridge has risen from a lowly position on a congressional staff through the ranks in business and government to a Cabinet post in our Government. He has done this on his own, through hard work and ability and without

any special advantages, political or otherwise. It seems to me that this is a remarkable record and one that should provide inspiration to young people throughout the country. It shows that this is still a land of opportunity.

Now, I would like to ask both of you gentlemen a question with regard to the \$10 exemption in the Senate bill. This committee had testimony this morning from representatives of the American Retail Federation in which the argument was made that the \$10 exemption is needed to preserve the extension of credit in small amounts to consumers, presumably many of those in the poverty category. The argument seems to be that because of the interest rates being so high on these small transactions, that they should not be disclosed because that will either discourage the buyers from making the purchases or maybe the sellers will be ashamed to reveal the percentage rates involved.

All I would like to know is whether you feel that there will be an adverse effect, either on businessmen who sell these small amounts or on the purchasers, and I am not particularly interested on that side of it, on whether the purchasers will be deprived of making purchases that they should be allowed to make.

Secretary TROWBRIDGE. If I could start by thanking you very sincerely for your very kind remarks and say how much I appreciate the pleasure I have had in working with you and all of your colleagues here in the last 2 years in public service.

In answer to your direct question, it seems to me that one of the arguments against the \$10 exemption is one of additional burden on the businessman. I find it a little bit hard to give too much credence to that, because basically the tables for calculation of the annual rate of financial charge cover anything above the \$10 credit cost level in any event. I would think that the addition to those tables of another column covering everything down to \$10 and below would not be that much of an administrative burden.

Secondly, I feel that the average American businessman is a very reputable guy and I don't see why he should be embarrassed by the explanation to his customer of the financial charges involved in the sale of an item of say \$100 value that might have financial charges in the \$10 range or below.

It is, I would think, to the advantage of the businessman extending such credit to know that the customer is looking at his offer in relation to a competitive offer and both offers are being made under the same ground rules.

Thirdly, I would think there is a real advantage to the customer in a better knowledge of just what he is buying. So the one possible detriment in my mind is that of an additional administrative burden, which I think can be handled by the expansion of the interest-rate tables, financial charge tables; and surely by the time this bill would be entering into effect—I gather the dates are either mid-1968 or mid-1969—I am not sure which will come out as the final one, but there is obviously time ahead for adjustment to this requirement—these tables will be available. Those various factors seem to me persuasive in arguing against the \$10 exemption.

Mr. HARDING. Of course, I think we perhaps feel even more strongly than would most agencies about the need for protection in this lower end of the spectrum.

Therefore, from a social, from a moral viewpoint I would say that our agency very much favors the elimination of that restriction in the Senate bill.

On the question of whether this would have an adverse effect on purchasing, I am inclined to think that it would not. For one thing, as we have testified earlier, one of the main programs that we have underway in this particular—in the consumer credit field are credit unions, and one of the major purposes they serve is to afford the poor people a choice in their purchasing procedures, so that if a hundred-dollar purchase is advertised at 20 or 25 percent, or whatever the merchant feels is necessary to put on that purchase, we hope to provide through these credit unions a viable choice where money can be procured at considerably lower interest rates and therefore hopefully purchased on a cash basis and eliminate what I consider to be a usurious charge.

Mrs. SULLIVAN. Would the gentleman yield?

Would it not perhaps be better in some cases if the knowledge of the actual full cost of credit that has to be paid on an item did discourage some buying—that is, by some of those who overbuy, and buy when they really cannot afford the object that they are buying?

Mr. HARDING. I think a good consumer education program would lead in that direction and should lead in that direction.

Mr. BINGHAM. Thank you. That is all.

Mrs. SULLIVAN. I have not had a chance to ask any questions, and I have a few for both of you.

This will not take very long.

Mr. Secretary, I believe your business career was spent largely in the petroleum industry?

Secretary TROWBRIDGE. That is correct.

Mrs. SULLIVAN. Did you read about Congressman Widnall's comments here Monday morning to Miss Betty Furness and Under Secretary Barr of the Treasury on the mailing out of unsolicited credit cards by gasoline companies?

Secretary TROWBRIDGE. Yes.

Mrs. SULLIVAN. These seem to be sent out almost at random, with no effort to check on people's credit ratings or even whether they want a credit card. One of our staff received such a card and noted the warning that he would be held responsible for any purchases made with it and, when he found he could not tear it or burn it, he sent it back to the company by registered mail. He will never buy that company's gasoline, I am sure.

What is happening to the cost of doing business as a result of credit cards going to unreliable credit risks, and are the rest of us having to pay those costs in the form of higher prices?

Secretary TROWBRIDGE. Madam Chairman, I have been the recipient and expeditor of petroleum credit cards. I used to authorize the issuance of credit cards and since leaving the petroleum business I have received some of these cards from companies that I used to compete against, and I never was terribly impressed by the fact that somebody put me on a mailing list and sent me a credit card, frankly. Because the way I preferred to handle it, I would like to know more about the potential customer.

I think what has happened in the credit card business is that, like many things, volume makes a whale of a difference. The actual losses, at least in the petroleum credit card field, if my memory serves me correctly, are very, very small, somewhere in the range of a tenth of 1 percent.

In other words, this would indicate to me that the petroleum industry in their credit card issuance has done a reasonably good job of selecting good mailing lists and I think this is where the midpoint between a full credit investigation and a random issuance of cards probably comes, that mailing lists become available and they are made up of people identified in selected brackets, with certain responsibilities in the community and generally regarded as having a good credit rating. Therefore, in answer to your question, I doubt because of the relatively small losses in the petroleum credit card field, and because of what I think is a fairly good chance of credit stability in the people to whom these cards are directed, that there is a substantial amount of excess cost in the petroleum credit card business which is then passed on to the customer.

I think it is a good means of guaranteeing repeat business. I think that the question is not asked often enough by the companies, "Do you really want a card?" I think that sometimes the companies get a little too eager in this random mailing, but that the selection of the mailing list is probably pretty well done.

Mrs. SULLIVAN. With the card that I have been using—and I have had this over 35 years, and I got it at my own request—you must pay your bill at the end of each month, and if something happens such as did happen once—I was on vacation at the end of the month and did not get my mail and I was notified that I was overdue. There is no credit charge.

Secretary TROWBRIDGE. No interest charge.

Mrs. SULLIVAN. This is on a monthly basis and you must pay promptly to retain the privilege of charging.

Secretary TROWBRIDGE. It provides a service to the customer.

Mrs. SULLIVAN. Mr. Brown?

Mr. BROWN. Thank you, Madam Chairman.

Although I am not a member of the subcommittee, I think there are a couple of statements that should be corrected.

First of all, speaking as a lawyer, if someone received one of these cards that was unsolicited and he did not "accept" it by use or in any other way, there would be no responsibility on his part for its unauthorized use in case of theft and so forth. I think the company would have a difficult time collecting from the original recipient for its use.

Secretary TROWBRIDGE. Probably the vast majority of credit cards are issued at the request of the customer.

Mr. BROWN. When a request is made there is an implied contract, and therefore you would be responsible to a certain extent for its use, whether authorized by you or not.

The second statement I would like to correct is that gasoline credit card purchases today are subject to a charge, a carrying charge, or an interest charge if the account is past due.

Mrs. SULLIVAN. I have not been charged ever, and I have had one for over 35 years. On the rare occasion when I was late in paying, all I received was a reminder.

Mr. Secretary, is your Department involved in any way in helping the credit industry to organize better channels of information about individual applicants for credit? I have been amazed by some of the cases I have heard about, where a career deadbeat will go from store to store, from city to city, and never seem to have any difficulty buying on credit. And then, on the other hand, you have cases of decent people being hounded by a false or inaccurate credit rating which never seems to get corrected.

Does your Department work with business on any of these problems?

Secretary TROWBRIDGE. Madam Chairman, we do work with business closely on this type of problem and we are trying to expand our services to business in the whole marketing-services field in the Department of Commerce. We frankly have been very much oriented I think toward the manufacturing side of business and within the limits of our resources we are trying to expand our marketing services to distribution services and to get a better fix on the cost of marketing distribution, so that we can give some benchmarks to that part of the business just as productivity in the manufacturing phase gives some indicators as to how your cost picture is.

In my personal view, the American economy, with its 200 million people and its tremendous amount of consumer credit, is really quite an amazing bit of economic organization, considering it has grown from within. We are surely going to have some instances I know, as you suggested, of the deadbeat who can go from town to town. It seems to me that pretty soon he gets caught on some of the credit-rating lists that people do have in the credit field. To the extent that such persons are discovered in such schemes, I would imagine that prosecutions are fairly extensive, although I don't know what the number of prosecutions are.

In brief, our Department is working with businessmen on this problem. We are trying to find ways in which we can be of better service to the business community. There is a great deal of self-generated effort by the businessmen in this so that they don't have to rely on the Federal Government itself, and I hope it continues that way.

Mrs. SULLIVAN. We ran across some interesting situations when we were making searches through the bankruptcy cases. One young man came from the State of New York with some thousands of dollars being owed, came to Washington and the first thing he bought was a Cadillac on credit—a Cadillac convertible, 2 years old.

The second thing he bought was a rifle—he did not pay for it, but he got it on credit. Then he went into one of the well-known stores and bought a hi-fi. After he bought the hi-fi on credit he started buying other things in that same store. When we caught up with his cases he was over \$3,000 to \$5,000 in debt—all on credit purchases—not having paid 5 cents on any of the accounts.

We took this up with a representative of one of the stores—in fact, he had just come in to see me because I had introduced one of the Douglas bills, back in the early 1960's, and I said:

You are just the man I want to see because I wonder if you will tell me how much you look up a person's credit when he applies to you for credit on some piece of merchandise that he wants to buy.

He said:

Oh, we go into very detailed background search before we open up new credit.

Well, when we showed him what had happened—how this man who had gone into bankruptcy and left big debts in New York as well as here, the store checked further and then reported back to me, with some embarrassment, that after they learned that the man was married and came in to buy furniture and they assumed he was setting up a household in a new place, he would need furniture, and he had a job, so they didn't go as far as they should in finding out about his credit. All they checked was his account with the same store in a New York State town.

Well, this man was smart enough to know that he could go from State to State and we have 50 States to go through before he is caught up with. All he needed was one good credit reference—just one—to give whenever he applied for credit and apparently everyone he applied to just checked that one reference. It goes back to the original idea I had 15 years ago that I think we ought to have a central spot in the United States where all credit risks can be cleared. If we can have a central roster on social security and all our income that comes in is recorded on a social security form, we ought to have some place—and I do not say the Government necessarily should do it, some good credit firm could do it—where we would have a nationwide credit agency and when anyone has so much credit outstanding that it reaches a certain amount of his income he could not get credit until he reduced what he owed. That would put a credit limit on some of these "credit addicts." I know it sounds a little unorthodox. But I think all we have to do today is look at the experience of the bankruptcy courts and see the tremendous number of personal bankruptcies today and how they are increasing year after year. Frankly, this is one of the reasons prohibition of garnishment of wages is in the bill. We must emphasize this in some way—and I am sorry now that the press table is almost cleared—but we must have some way to emphasize what this easy credit is doing to people who have great desires but not the ability to pay for the fulfillment of their desires from their income. We keep on making credit so easy for them to get, knowing they can never pay it back. But a law of this kind on garnishment might have some effect with those who give too freely of this easy credit, and make it possible for those of us who do pay our bills to pay lower prices and not to have to continue to pay prices which make up the debts of those who are just buying and using and never paying.

I have some very short questions I would like to ask you, Mr. Harding.

If you cannot answer them now you can answer them in writing when you get your transcript.

One, do you have any facts to indicate, or do you feel, that the people at the poverty level suffer more from unscrupulous lenders, garnishments, and so forth, than do those above the poverty level?

Mr. HARDING. The only facts that I think we have, Madam Chairman, are really indirect facts and may relate to the figure which Sargent Shriver quoted to the committee during his opening statement.

The number of cases that are being brought into our legal services offices involving this type of situation indicate to us an outpouring of these problems just recently afforded an opportunity to be exposed.

Up until this point in time these people really suffered pretty much in silence. They had no local way of expressing the difficulties that they were in. The legal service program is providing them not only with an opportunity to be heard, but actually an opportunity to have many of the injustices rectified.

I think that that about comes as near as we can to a factual basis for our belief that we do have, within the poverty area, an extremely serious problem involved in the matter of gouging, excessive interest rates, unfair garnishments, sales that should not have been made, and problems of this sort in the consumer credit area.

Mrs. SULLIVAN. Have you found that the very poor, in order to get some of these things that they would like to have in household articles—and many of them do need them—would go to some of these unscrupulous dealers in household furniture or appliances, rather than to a legitimate firm which would give them a more reasonable credit transaction?

Mr. HARDING. I don't think there is any doubt that this is really the sort of merchant that in many cases they are forced to deal with. The merchant who is willing to accept an admittedly poor credit risk on the theory that there will be repossession of the article. Many of these articles will turn over time after time—these people are by their circumstances forced into this environment. Then you add to that the fact that many of them, because of their educational level, really have no concept of what it is they are getting into in these sales contracts. So you've a double motivation working that puts these people in a tremendously disadvantaged position, vis-a-vis the rest of us.

Mrs. SULLIVAN. The repossession of many of these articles and then reselling them could account for some of the things Mr. Fino mentioned, too, where a firm will sell a television or something as a new article when it may be 1 or more years old and it may have been in two or three households.

Mr. HARDING. In many cases the obligation remains on the person, even though the article has been repossessed.

Mrs. SULLIVAN. Yes. Some of our witnesses have had the impression that the Consumer Credit Protection Act of 1967, H.R. 11601, or S. 5, the truth-in-lending bill, passed by the Senate is primarily for the urban population. Can you indicate to us the number of families living in the rural areas that you feel this legislation will help?

Mr. HARDING. We do have facts relative to the proportion of the poor that are in nonurban centers and the figures represent a very considerable percentage of the total 30 million poor people in this country. We will be happy to supply that for the record and we feel that directly or indirectly this bill will benefit all of these people.

(The material referred to follows:)

Of the total rural population (55 million), 15 million, or 26.9 percent, are poor; all of whom would benefit directly or indirectly.

Mrs. SULLIVAN. Do you provide legal service to the rural poor as well as the urban poor?

Mr. HARDING. Yes, Madam Chairman, we have the legal services—it is not as extensive in the rural areas. There is a consumer action demonstration that is just beginning in rural Ohio which should be able to give us more of this information.

Mr. STEPHENS. At this point, would the merchant that these people in rural communities deal with have service charges on any accounts?

Would they not be small stores where they would just carry it until they could pay it? They would not have any credit arrangement in a small store, would they?

Mr. HARDING. I think my experience would be, Mr. Stephens, that there are perhaps some not involved, but they have credit arrangements in the rural areas. This is in hardware stores.

Mr. STEPHENS. I am talking about the country grocery and general store or something of that nature. They would not be extending credit on which they would charge interest.

Mr. HARDING. Perhaps in the grocery situation you are correct, but in the hardware situation there would be a credit charge, even in the rural areas.

Mr. STEPHENS. In hardware.

Mr. HARDING. Yes.

Mrs. SULLIVAN. What standard does your office use in terms of income to determine the extent of poverty in the United States? How many families or individuals, according to this definition, have you classified as living below the minimum levels of health and decency? You could supply that for the record.

Mr. HARDING. We would be happy to supply you the detailed standards we use and they are based upon standards developed by the Social Security Administration.

Roughly they come out to about \$3,000 for a family of four and our current figure is about 29.7 million people in this country that are at or below that poverty level.

Mrs. SULLIVAN. Let me go back to the wage garnishment issue.

On March 15 of this year the President asked that a study of wage garnishment be carried on by the Departments of Justice and Labor and the Office of Economic Opportunity. The President, in his message, stated that hundreds of workers among the poor lost their jobs and most of their wages as a result of garnishment proceedings. In many cases wages are garnished by unscrupulous merchants and lenders whose practices trap the unwitting workers.

We see a note of urgency in respect to this study and I am sure you do, too.

Mr. HARDING. It is my understanding that the report of the joint group with whom we are working on this issue will probably be rendered some time this month.

Mrs. SULLIVAN. I hope so. One other question I want to ask the Secretary.

Mr. Secretary, you appeared to have said that we must wait until we are in a national emergency before Congress should start thinking about any standby credit controls. Some of us do not think we should wait for the near panic of a war situation but should try to prepare now for any danger to our economic system. Is not now the time to think about the kinds of controls which would be needed then? That is all we are trying to do here, to provide standby authority—to organize such a system to be used only if absolutely necessary. We now have the authority in law to ration all critical materials and take other extreme steps to assure defense production. Can we not trust the Federal Reserve Board to use some sense in using standby credit controls?

Secretary TROWBRIDGE. I am sure, Madam Chairman, that if such controls were authorized on a standby basis you could certainly trust the Federal Reserve Board to administer them justly.

My thought goes back to the fact that in the Defense Production Act, if I am not mistaken, the authority to have controls of prices and wages—I am not sure whether credit was part of that—which were made available to the President in the Korean war situation was specifically taken out of that act by the Congress in 1953 or 1954.

Mrs. SULLIVAN. I was against that step at the time, I can tell you.

Secretary TROWBRIDGE. It would seem to me the reinstitution of such capability on the part of the President almost has to be the whole package; again, that you have to say that an emergency of that scope and nature would probably require action in the wage, price, and credit field; and therefore it seems to me that the provision here which deals with only one part of the equation would be, let us say, either premature or really not the total answer to the contemplated emergency situation.

Mrs. SULLIVAN. I agree with you, except that we are dealing in this bill with consumer credit and that is why we are proposing credit controls in this bill. We took a beating in the Congress last year when we tried to get this provision into the bill extending the Defense Production Act. At that time the opponents said, No. 1, we did not have hearings on it and No. 2, the President had not asked for it. But if the President has to ask for such powers it is usually in a time of urgent need and you know Congress well enough to know that we do not get things passed overnight. So our thought was—and this was the argument some of us used back in 1953 when it was deleted from the Defense Production Act—we do not want to use it if we do not have to have it. But it is so much better to have it there—to have the tools ready just in case of need—so it can be put on immediately when the need arises. We are now in a calm atmosphere when consideration of such controls could not be misconstrued as representing a present emergency. We could do a better job on this now before it becomes a necessity. I hope it never becomes a necessity.

Mr. WYLIE. Will the gentlelady yield?

Mrs. SULLIVAN. Yes.

Mr. WYLIE. Would the Secretary comment as to the possibility of having the Federal Trade Commission administer the provisions of this truth-in-lending bill rather than the Federal Reserve Board and also comment on having FTC handle just the advertising aspects of H.R. 11601?

Secretary TROWBRIDGE. You mean the administration of the provisions of this bill, H.R. 11601?

Mr. WYLIE. I was thinking of both bills on administration and then the other question, how about FTC administering the advertising provisions of H.R. 11601? I am not sure I know the scope of the authority of each of the two agencies.

Mrs. SULLIVAN. If the gentleman would yield, is it not true, Mr. Secretary, that if we would give the authority for the administration of the advertising to the Federal Reserve, they in turn could assign this responsibility to the Federal Trade Commission?

Secretary TROWBRIDGE. I think if such delegation were allowed for in this statute that could happen.

Mr. WYLIE. Does not the Federal Trade Commission handle the matter of advertising as far as fair trade practices? They have experience in this field. That is the point that I am making and they are better equipped to handle it as far as this H.R. 11601 is concerned.

Secretary TROWBRIDGE. Yes. I frankly find it a little hard to come to a conclusion on that question right off the bat. I know that the logical place, or certainly the depository of the greatest amount of intelligence on the whole financial credit field, is probably in the Federal Reserve Board as well as in the Treasury. In terms of the administration of the advertising provisions as called for in this law I would have to think about that question. I would rather not give an off-the-cuff answer because I think it is an important question. I would be happy to give some thought to it.

Mr. WYLIE. I would appreciate it if you would supply it for the record.

(The material referred to follows:)

THE SECRETARY OF COMMERCE,
Washington, D.C., August 22, 1967.

HON. LEONOR K. SULLIVAN,
Chairman, Subcommittee on Consumer Affairs, Committee on Banking and Currency, House of Representatives, Washington, D.C.

DEAR CHAIRMAN SULLIVAN: During my testimony before your Subcommittee August 9, 1967, on H.R. 11601, the Consumer Credit Protection Act, Congressman Wylie asked me to consider whether it would be more appropriate for the Federal Trade Commission rather than the Federal Reserve Board to administer the advertising provisions of H.R. 11601. (Pages 378-379 of transcript.)

I concur generally in the views expressed on this subject by Vice-Chairman Robertson of the Federal Reserve Board in his statement before your Committee. In my opinion, the civil remedies, supplemented by criminal sanctions, provided for in section 206 of H.R. 11601, should prove adequate to enforce the provisions relating to credit disclosure in closing individual transactions. Portions of the bill's requirements concerning disclosure in the advertising of credit may also be enforceable in many instances in the same manner; however, other portions, (such as the provision prohibiting creditors from advertising "that a specified periodic credit amount or installment amount can be arranged, unless the creditor usually and customarily arranges credit payments or installments for that period and in that amount") present difficult problems of proof which might discourage individual debtors from employing the civil remedy.

Moreover, as I view it, a major purpose of the advertising provisions is the prevention of unfair competition with ethical creditors. For the reasons indicated, I do not feel that this purpose can be fully accomplished in the case of credit advertising without the use of cease and desist orders.

The Federal Reserve Board does not have the long experience of the FTC in regulating advertising. Further, the Federal Trade Commission's regulation of advertising has included the use of cease and desist orders. As Vice-Chairman Robertson noted, the FTC "has the benefit of years of experience in regulating advertising, and has an investigative staff and established administrative procedures for effective enforcement."

Under these circumstances it seems to me that the administrative enforcement provisions contained in Section 209 of H.R. 11601 should be limited to violations of the advertising provisions contained in Sections 203 (j) and (k) and that all powers with respect to advertising vested by H.R. 11601 in the Federal Reserve Board should be vested in the FTC instead.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of our letter to the Congress and that the Bureau of the Budget concurs in the recommendations herein.

Sincerely yours,

A. B. TROWBRIDGE,
Secretary of Commerce.

Mrs. SULLIVAN. Mr. Fino?

Mr. FINO. Mr. Secretary, as I understood your testimony here this morning, you are also opposed to an 18-percent national usury limit as proposed in Mrs. Sullivan's bill?

Secretary TROWBRIDGE. I think that along with the other portions of the nondisclosure part of the bill, those things ought to be looked at more thoroughly, Mr. Fino.

Mr. FINO. The reason is, since most of the revolving charge accounts are using 11½ percent per month at this time which could not reach the 18-percent limit, there is a fear that requiring annualizing it to 18 percent might encourage businessmen to use that 18-percent figure.

Secretary TROWBRIDGE. Either that or it would build in—again I am talking from a personal point of view—it would build in a certain amount of inflexibility in the credit field that I think would put some limitations in certain areas. I can visualize the need for more options on the part of businessmen to engage in various types of business deals than this might imply. I just have a feeling that if you put a ceiling on something then you are limiting the amount of free choice in an area which has a hundred different aspects to it.

Mr. HALPERN. Will the gentleman yield?

Mr. FINO. I yield.

Mr. HALPERN. Would you object if this disclosure involved a statement of the range of rate which actually was paid with the 18 percent specified as the outer or maximum rate—I will ask this again.

Would you object if the disclosure would involve a statement of a range of rates which are actually paid, with 18 percent per year specified as the outer limit or maximum rate which might be imposed on the account if payment is delayed the full 12 months?

Secretary TROWBRIDGE. Even under that condition the 18 percent would be the ceiling, so it would be effectively the same thing. It would be the maximum but there would be a ceiling under that provision.

Mr. FINO. It would encourage the businessman to use that ceiling of 18 percent.

Secretary TROWBRIDGE. Maybe; it might.

Mr. HALPERN. But the customer would be warned in advance that if he delays payments to a full 12 months that is what it could amount to. But it would be made quite clear there would be a range of rates and it would be that much less if he paid it that much sooner.

Mrs. SULLIVAN. Are you talking about the annualization of revolving credit charges of 11½ percent or are you talking about a maximum rate of interest in credit transactions?

Mr. HALPERN. I am talking about the top.

Mr. FINO. Madam Chairman, one observation. I hate to disagree with my distinguished chairman of this very important committee, but just a while ago you cited a number of personal bankruptcies in the United States and from what you said you created an erroneous impression that the credit system in the United States is pretty bad. I do not think that is true. The number of credit losses that have been sustained in the United States I think are infinitesimal in comparison to the credit repayments.

Secretary TROWBRIDGE. We have an economy that lives very strongly on the principle of credit and obviously a lot of our progress has

been because we have learned how to handle it. When you go into the economies of developing countries as I have worked in, this question of credit is totally unknown as a concept. The assumption underlying all of credit is the responsibility of the individual. Happily, by and large, we have that in our country and many countries need to come a long way before they will match our record.

Mrs. SULLIVAN. May I make an observation?

We emphasized—almost every one of us has emphasized—that we think credit is a good thing that has made our economy grow. But it is the misuse of credit we are concerned about. When you realize that in this past year approximately \$1½ billion was lost in personal bankruptcies, and that the bankruptcy rate went from 19,033 people in 1950 to 203,000 this year—

Mr. FINO. We have had an increase in population and an expansion in business, also.

Mrs. SULLIVAN. Of course we have. But it is the overselling, and overuse of credit, and the misuse of credit that have caused the majority of bankruptcies, not sickness and misfortune. Many times it is just things like this—the attractive advertising of easy credit—“Come and get it.” “You do not need any money down.” “Sign your name and you can walk away with your purchase”—that causes much of the difficulty.

Mr. WYLIE. Will the chairman yield?

Mrs. SULLIVAN. Yes, Mr. Wylie.

Mr. WYLIE. Just one other thought.

We are talking about full disclosure, as much disclosure as we can get in truth in lending. Mention has been made of the so-called free period during which time no interest is charged. Do you think a statement regarding this should be in the bill?

Mr. Secretary or Mr. Harding—should we have a requirement in which a time period allows no interest to be charged—30 days, 60 days, or no grace period?

Secretary TROWBRIDGE. It seems to me that it is very often common practice in 30, 60-day credit accounts, for companies or lenders to give such a grace period and then put their interest charges into effect at the end of that period. This is part of the way of doing business and I would support the interpretation that you calculate your rate of charges, financial charges, on the basis of the time they enter into effect, rather than the date that the purchase happens to be made.

Mr. WYLIE. Thank you.

Mr. HALPERN. I have one question, Mrs. Sullivan.

Mr. Secretary, can you contemplate a distortion of resources as the credit facet, of consumption assuming an increasing role, with prices reflecting less the value of the object purchased and more the credit terms on which it was bought?

Secretary TROWBRIDGE. In other words, credit having an inflationary effect?

Mr. HALPERN. Yes.

Secretary TROWBRIDGE. I don't think that that is potentially a major problem, because we still have so much competition. It seems to me that as we have gone through the process of building up credit as an

instrument of economic activity, we have learned how to deal with huge volumes. We have gotten the cost per credit transaction way down. We have had to, because the fellow down the street is offering some pretty good terms, too.

One thing which this bill would do, I think, would be to put some—as I mentioned before—common benchmarks by which everyone would set up their credit terms and describe them. And I would think that this would help put a little stronger base into the competitive area. Competition will still be there, and I would guess that that will continue to hold the cost of credit down to a pretty good or at least to a fair figure.

Mr. HALPERN. Thank you.

Mrs. SULLIVAN. Thank you, Mr. Secretary and Mr. Harding, for helping us this morning by answering all the questions that were put to you. I appreciate your coming.

Secretary TROWBRIDGE. Thank you.

Mr. HARDING. Thank you.

Mrs. SULLIVAN. I want to announce that our afternoon session will depend upon our obtaining the unanimous consent of the House to sit. If we meet it will be at 1:30 p.m. to hear the Chairman of the Federal Trade Commission and the Administrator of the Small Business Administration. If we cannot meet this afternoon we will begin tomorrow morning at 9:30 with Secretary Weaver and the American Bankers Association and if we can work them in, perhaps Mr. Moot of the Small Business Administration or Mr. Dixon of the Federal Trade Commission. We will just have to work that out depending upon the situation this afternoon.

At our afternoon session Thursday we are to have the National Farmers Union and the Reverend Robert J. McEwen of the Council on Consumer Information.

The committee will now recess.

(Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene at 1:45 p.m. the same day.)

AFTERNOON SESSION

Mrs. SULLIVAN. The Subcommittee on Consumer Affairs will come to order.

We did not finish our morning session until after noon. The members were in full attendance this morning and as soon as they can they will be back this afternoon. In the meantime, we are delighted to welcome Mr. Paul Rand Dixon, Chairman of the Federal Trade Commission, and his associates. We expected Mr. Robert C. Moot, the Administrator of the Small Business Administration, and I understand that he has a conflict involving the Senate Appropriations Committee at this moment so Mr. Greenberg will testify on his behalf. Would you gentlemen please come up to the table?

May I suggest that you both read your statements and then we will question the two of you. Before that time, I am sure some of the other members will be here.

Mr. Dixon, may I ask that you read yours first?

STATEMENT OF HON. PAUL RAND DIXON, CHAIRMAN, FEDERAL TRADE COMMISSION

Mr. DIXON. It is always most pleasant and gratifying to appear before your subcommittee.

I am appearing before you today to submit my personal views on H.R. 11601, 90th Congress, first session, the proposed "Consumer Credit Protection Act." Because of the short time since the date when the bill was submitted to the Commission for comment and because of its complexity and scope, the whole Commission has not had sufficient opportunity to analyze the bill so as to be in a position to express its views as a whole concerning it.

I might say as an aside, Mrs. Sullivan, my colleagues are on vacation. The poor Chairman, and along with you, are still in town. That is the principal reason that I could not take this up with the full Commission.

However, I can speak for all the members of the Commission in saying that we share your desire to safeguard the public in the field of consumer protection generally and in the area of credit transactions specifically. As I am sure you know, one of the primary objectives of the Federal Trade Commission is to protect the consumer from acts and practices in interstate commerce which fall within the realm of unfair trade practices.

As you pointed out when we spoke a moment ago, we are creatures of the commerce clause of the Constitution. So for us to have jurisdiction, the act or practice must be in commerce, as defined in the Federal Trade Commission Act.

This, of course, includes false, misleading, and deceptive practices in advertising as well as acts and practices which take place during the sales transaction.

In its report on S. 5 to the chairman of the Senate Committee on Banking and Currency on April 12, 1967, the Commission endorsed and urged the passage of that bill. I can unequivocally say that the Commission endorses the principles which are the basis for H.R. 11601; that is, to safeguard the consumer in connection with the utilization of credit by requiring full disclosure of the terms and conditions of finance charges in credit transactions and in offers to extend credit. We are fully in accord with your stated declaration of purpose that economic stabilization would be enhanced and competition among the various finance institutions and other firms engaged in the extension of consumer credit would be strengthened by the informed use of credit. We agree that significant segments of the population are misled by the manner in which the terms and conditions of credit are offered and contracted for, as well as by advertising in or affecting commerce, which fail adequately to disclose the credit terms offered to buyers in making purchases. The President made his support for the principles clear when he said in his message to Congress on February 16, 1967:

As a matter of fair play to the consumer, the cost of credit should be disclosed fully, simply and clearly.

The Federal Trade Commission continues its longstanding support for truth-in-lending legislation, which will assure that full and accurate disclosure of credit costs is given to the consumer at the time credit is extended to him.

As I interpret H.R. 11601, under title II: Credit Transactions, provision is made for such full disclosure of the terms and conditions of credit in virtually all credit transactions extended to consumers.

As I understand this particular title of the bill, it is in substance the same as S. 5 as passed by the Senate. However, there are changes upon which I will comment.

One of the most significant of these changes is that section 203(d) of H.R. 11601 would require disclosure of the finance charges expressed as an annual percentage rate in open-end credit plans or revolving credit transactions, whereas S. 5, as passed by the Senate, would require disclosure in such transactions expressed as a percentage rate per period.

It is my opinion that in this regard H.R. 11601 is preferable. The bill's requirement of such disclosure has the advantage of requiring that all creditors be treated alike. I know of no valid reason why revolving credit transactions should be excluded from the requirement of disclosing the finance charges expressed as an annual percentage rate. I believe there should be a uniform standard for credit transactions, thereby enabling those seeking credit to have a truly informed basis for comparing the offers of competing creditors.

A significant addition to truth-in-lending legislation is the requirement of disclosure that any advertisement specifying credit terms in or affecting interstate commerce must clearly and conspicuously set forth: the cash sale price; the number and amount of each installment period; the downpayment, if any; the time sale price; and the finance charge expressed as an annual percentage rate; it also would require additional information in advertisements of open-end credit plans. None of these provisions is in S. 5.

I am in favor of such disclosure requirements in advertising, in spite of the fact that, assuming jurisdiction, some of the information to be required might be required by the Federal Trade Commission under section 5 of its existing statute. Enforcing such standards of disclosure presently is receiving study by our staff, but this does not obviate the necessity for enactment of the legislation proposed. However, I believe that any legislation pertaining to the advertising of credit transactions should be contained in a separate bill in order to assure speedy passage of needed truth-in-lending legislation during this session.

Madam Chairman, as an aside, I think this legislation is so sorely needed that it would be tragic if this was the sole stumbling block. But I have faith in the ability of the two branches of the Congress to get together on the matter and if it can be so arrived at, and if it is the desire of the Congress that this facet of this legislation be vested in the Federal Trade Commission as Congressman Hanna has proposed in a bill, that he has introduced, I feel certain that we would do the best we could to do a competent job in this regard.

Mrs. SULLIVAN. Mr. Dixon, do you not think that the advertising provision is needed in a disclosure act? When we are requiring the disclosure of the amount and percentage rate, and yet allow credit advertising to go on that is definitely misleading, are we not helping to defeat the purpose of the legislation?

Mr. DIXON. I am sure you are aware there is quite a bit of a difference of a jurisdictional track. One comes out of Commerce—section 5

of the Federal Trade Commission Act—"Unfair Methods of Competition in Commerce"—"An unfair or deceptive act or practice in commerce is hereby declared unlawful"—something to that effect. Now, this means in commerce. So we could only act, strictly speaking, within the domain of "in commerce" clause here.

Mrs. SULLIVAN. You do say in your statement enactment of legislation is necessary in order to carry this out?

Mr. DIXON. This is quite right. One thing about this bill, you are riding the monetary clause and the monetary clause is much broader than the interstate commerce clause. I would say if it is the desire of this committee and the Congress to include this in the bill and leave it in the bill I think it is well that it is left in the bill, and if you assign it to the Commission it will clarify and strengthen our hand of jurisdiction. I think this would be a proper way to approach it, because were it not in the bill, we still are charged with moving against deceptive practices and the failure to put something in advertising has been established as a deceptive practice, but the failure—our problem comes somewhat as to whether or not it is in commerce. Now, clearly, here within the District of Columbia where we have complete responsibility, there is no problem, but as to whether a small vendor in Indianapolis, Ind., sitting in the center of a State, not in interstate commerce, fails to advertise and disclose everything that he should as to whether or not we have the proper tool now to move down and proceed against him is quite questionable, although I believe we do have the jurisdiction if it should be placed in a newspaper that by happenstance would go across the line, but this opens up a completely new vista for the Federal Trade Commission in responsibility, and I think it would be desirable as you have encompassed it in this bill—if you are going to go in this direction, and I have read Governor Robertson's presentation to the committee, I think he mentioned that he felt the Federal Trade Commission had more expertise and you ought to reconsider if it is going to be done perhaps assigning it there. I think that is true. I think very definitely the Federal Trade Commission has the expertise in the Government establishment in this area.

Mrs. SULLIVAN. I would like to clarify something in my own mind pertaining to this. I realize that not all of the specific terms and details are written down here. But if a bank wanted to advertise or a loan company wanted to advertise easy credit terms, this would not be misleading as long as they stop there. But if they were to advertise easy credit terms at 4 percent interest—

Mr. DIXON. That was not 4 percent interest—

Mrs. SULLIVAN. That could be anything from 4 to 40.

Mr. DIXON. In the next paragraph, we state we have proceeded against the General Motors Corp. in such a case. There wasn't any question about General Motors being in commerce, but the bank in Indianapolis or Tennessee—all those transactions take place right there. The question here is you have to have someone move down there in the Federal Establishment, to do something about that.

Mrs. SULLIVAN. And you can do something about it now only if it were in interstate commerce?

Mr. DIXON. This clearly has been the track we have proceeded on there for 50 years.

I am not saying that under a test case that if that ad was put in the Nashville paper, and the Nashville paper because it is read widely, is sent to Washington and other places, we could not say the advertising itself is in commerce and proceed against it. I am saying if we do that, then if we pursue and open that avenue of jurisdiction at the Federal Trade Commission, I have got to have a pretty good-sized barn to receive all the complaints we are going to get because then I am in business against the corner grocery store man, everybody in the United States that advertises anywhere on any condition because nearly everything goes in commerce today—the papers and even the little weeklies get across the line.

Mrs. SULLIVAN. If we are able to keep this provision in H.R. 11601 and we still left it under the jurisdiction of the Federal Reserve Board, it is not limited to interstate commerce, is it?

Mr. DIXON. No, the Federal Reserve Board is under the monetary clause. The jurisdiction there is under the monetary clause and it goes right down.

Mrs. SULLIVAN. If they do not have the proper facilities for policing this, is there any way under the bill that they could designate the Federal Trade Commission to handle this for them?

Mr. DIXON. I don't know of any ready way that can be done because they could not transfer their responsibility. We would still—we would still be the Federal Trade Commission and have all the authority of our basic statute. We are a statutory creature and we must live directly and strictly within it.

Mrs. SULLIVAN. In order to let this authority be used anyplace in the United States, would this bill need some sort of amendment?

Mr. DIXON. Congressman Hanna has a section in here that has the language that will do it. On page 16 of H.R. 12100 he has a section (m) under section 4(m) way over, right at the end, he would add this language, "authority for prescribing regulations and enforcement of regulations relative to subsection (j) and (k), and this advertising of this section shall be vested in the Federal Trade Commission."

Mrs. SULLIVAN. Would that preclude you from doing anything on advertising that is not interstate?

Mr. DIXON. This would broaden clearly the circumstances—the jurisdictional base of the Federal Trade Commission to move against this type of advertising. Now, you have here on (j)—this is the language of your bill now:

No creditor in order to aid, promote, or assist, directly or indirectly, in any consumer credit sale, extension of credit or open-end credit plan may state or otherwise represent in any advertisement in interstate commerce or affecting interstate commerce.

That is broader language, you see. What Congressman Hanna has done is to say, "That authority shall be vested in the Federal Trade Commission with the responsibility of enforcing sections (j) and (k)." That is the way it could be accomplished.

Mrs. SULLIVAN. I would like to ask you right at this point, as concerns the matter of credit advertising in H.R. 11601—we have placed the responsibility for such enforcement in the Federal Reserve Board and they have indicated, as you say——

Mr. DIXON. Enforcement you vest in them—if I read it clearly, the responsibility to promulgate regulations, not enforcement. The enforcement in this bill is vested in the private citizens through civil suits and in the Department of Justice for the criminal rights.

Now, the Federal Reserve Board is not going to enforce this bill. They are going to promulgate—under your grant—regulations and then the enforcement is going to come by the private citizen and the Department of Justice.

Mr. BINGHAM. Will you yield, Madam Chairman?

Mrs. SULLIVAN. Yes.

Mr. BINGHAM. I think the Commissioner is speaking in regard to the Senate bill and not in regard to the Sullivan bill.

Mr. DIXON. I may be mixed up.

Mr. BINGHAM. It is the Federal Reserve Board that is given the power.

Mr. DIXON. I am wrong. I thank you for correcting me.

Mrs. SULLIVAN. This is what we want to accomplish.

Mr. DIXON. I am in error. I have too many bills floating around.

Mrs. SULLIVAN. Tell me, how do you think the Federal Trade Commission would feel about this if the responsibility were given to the Federal Trade Commission?

Mr. DIXON. Well, I read Governor Robertson's statement here. I think that the Federal Reserve Board welcomes the responsibility of promulgation of the regulations as S. 5 provided. I think he recommended against the addition of this advertising section in the bill and suggested that they perhaps didn't have the background or the staff or expertise to carry it out and it more properly should be considered, and if promulgated or passed it should be assigned to the Federal Trade Commission. I think that in essence is what I got out of this statement.

Mrs. SULLIVAN. If we have the legislation worded accordingly and you have the manpower to handle it, could you handle it well?

Mr. DIXON. We would do our best. That is the best way we would say it. I think the Senate's approach is rather ingenious in some respects. Their approach is the true enforcement here shall come I think from the aggrieved citizen going into any court of competent jurisdiction—this means any State court or Federal court and to bring a suit. And then with respect to the question of intent, the Attorney General through his respective U.S. assistant attorneys in the Federal courts brings suits, criminal suits for violation of the statutes or regulations. Certainly that is one way to obtain enforcement. This is saying to the aggrieved citizen, "Here you are, if you have been aggrieved, you can get your lawyer, bring your suit and if you are successful the fees—the attorney fees—they get twice the aggrieved amount paid to them." Well, this would be quite a challenge. Everybody will be looking around and if they have been aggrieved I think they will get a lawyer and I believe they will find lawyers, too. If they are going to be paid their fee, if they win they will get lawyers. This is a new avenue.

The other avenue would have to be your avenue, leave the enforcement entirely in a governmental agency and follow a civil approach

with which most of the regulatory agencies are vested, only that power toward cease and desist, leave it here, then all complaints would come to the agency and then the agency would have to investigate and carry the burden of proof. Under our basic law if we say it is deceptive we must prove deception. You draw this statute and you say it shall be. You see, if it does do that, that is deception under this bill. So if you were to assign us the responsibility you could be sure we will say anything that doesn't fulfill what is required in sections (j) and (k) shall constitute a violation of the Federal Trade Commission Act and the Federal Trade Commission should proceed under our basic authority which, in your bill you have pretty well armed the Federal Reserve Board with.

Mrs. SULLIVAN. I am sorry that I interrupted your statement before you finished. When you both get through with your statements, I am going to turn over the legal aspects to some of the lawyers on the committee. They know more about it than I. Please continue with your statement.

Mr. DIXON. I was at the point of talking about this matter.

Further, should Congress see fit to enact legislation requiring such advertising disclosures, it may be that jurisdiction to enforce such a law should be conferred upon the Federal Trade Commission. Our agency has accumulated much expertise in the prevention of false and deceptive advertising under section 5 of the Federal Trade Commission Act. The authority of the Commission over practices in interstate commerce involving financial transactions was sustained in *General Motors Corp. v. Federal Trade Commission*, 114 F. 2d 33 (2d Cir. 1940), and *Ford Motor Co. v. Federal Trade Commission*, 120 F. 2d 175 (6th Cir. 1941).

Other changes which the subject bill would make in S. 5, as passed by the Senate, are: (a) it would eliminate the exemptions, provided in S. 5, for transactions involving less than \$10 credit charges and for first mortgages on real estate; (b) it would prohibit the demand or acceptance of any note authorizing confession of judgment—cognovit notes; and (c) it would make the effective date July 1, 1968, rather than July 1, 1969. The Senate version of truth-in-lending legislation would defer until January 1, 1972, the requirement of disclosure of rates expressed as percentage rates. Until that time such rate may be expressed either as a percentage rate per year or as a dollars per hundred per year rate. I support the provisions of H.R. 11601, which would require disclosure of finance charges expressed as an annual percentage rate almost immediately upon passage of this legislation as opposed to deferring this significant requirement for several years.

In my opinion the parts of this proposed legislation which deal with setting a maximum rate of interest, the regulation of commodity futures trading and the prohibition of the garnishment of wages, should be the subject of separate legislation since they are not directly related to the problem of disclosure of the cost of credit. I agree that these matters should receive extensive study, but, in my view their consideration by your committee at the present time, could serve to delay action on this needed truth-in-lending legislation if passed.

Mrs. SULLIVAN. Thank you.

Now, we will hear Mr. Greenberg and then we will have the questioning.

STATEMENT OF HON. ROBERT C. MOOT, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, PRESENTED BY HOWARD GREENBERG, DEPUTY ADMINISTRATOR

Mr. GREENBERG. Thank you, Madam Chairman.

As you pointed out at the beginning of the hearing, Administrator Robert C. Moot was unable to be here because of a conflict with another committee and I asked that I read the statement which he has prepared for presentation to the committee.

"Madam Chairman and members of the subcommittee, I am very pleased to have the opportunity to express my views on H.R. 11601—the Consumer Credit Protection Act. In his message to the Congress on consumer interest last February 16, President Johnson said, 'As a matter of fair play to the consumer, the cost of credit should be disclosed fully, simply, and clearly.'

"The Small Business Administration is on record in support of the original Senate bill, S. 5, and Madam Chairman, I today reiterate my support of the full disclosure provisions of H.R. 11601.

"This subcommittee and other committees of the Congress have heard and will continue to hear from many of the departments and agencies of the executive branch. Each of us has his own constituency, in the case of SBA the nearly 5 million small businesses in America today. But we all have something in common, and that is that each of our constituents, just as each of yours, is a consumer, and as a consumer he is entitled to certain basic rights. I believe that it is basically right that each consumer should know exactly how much he is to pay for an item when he buys on credit.

"Credit purchasing is becoming more and more a way of life with the American buying public. Last year interest costs alone totaled nearly \$13 billion. This is to the good. It is good for our economy and it is good for the purchaser, particularly those with moderate or low incomes. Credit makes it possible for these people to own and enjoy the increasing variety of products and services supplied by our free enterprise system, products and services designed to make life easier and more bountiful.

"The fundamental test for success under our economic system has always been based upon competition, that is, the best product at the best price. Ingenuity, inventiveness, and plain hard work have always been the hallmarks of our most successful businessmen and industrialists. And the consumer has been the beneficiary.

"However, as our competitive system has grown and flourished, so has the marketplace presented an ever more vast panoply of products and services for the consumer to choose from. The buyer has had to become more selective, more sophisticated in his buying habits. And if it is good that American productive genius continues to turn out an increasing variety of goods for the consumer to choose from, then it is also right that the buyer should be able easily and quickly to determine the total price that he is paying for a product.

"The full disclosure provisions of H.R. 11601 are, I believe, totally essential to aid the consumer in arriving at an intelligent and economical decision when he is about to make a purchase on credit. And I believe, Madam Chairman, that the time for this legislation is now.

For this reason, I would hope it would be possible that other sections of the bill might be deferred for more intensive study, and that emphasis be placed on quick passage of the full disclosure provisions.

"One of these other sections, which is already under study, is the one which would prohibit garnishment of wages in collection of debts. Garnishment is very often the only legitimate means available to a businessman for final satisfaction of debts due him. Many States already have laws which protect a specified percentage of a worker's wages or take-home pay against garnishment by creditors. We feel this is a most complex area, Madam Chairman, and would hope that further careful and thoughtful study could be given it.

"Likewise, we would hope more time could be given to looking into the areas of a national usury law, the provision outlining confession of judgment, and the setting up of a National Commission on Consumer Finance.

"Also, Madam Chairman, we believe it is most important that in implementation of any full-disclosure law the burden does not fall unfairly upon the small businessman. We think it essential that there be equal treatment and equal requirements for big and small business.

"In this regard, Madam Chairman, I was gratified by the remarks of the Honorable Joseph Barr, the Under Secretary of the Treasury in appearing before this committee August 7, when he said, and I quote, 'The practical application of the annual rate requirement has been studied at length and we have concluded that this requirement will impose no significant burden or difficulty with respect to the overwhelming majority of credit transactions in the United States.'

"I would stress that it is incumbent upon us to make it as easy as possible for the businessman, especially the small businessman, to be able to compute the annual percentage rate called for in this legislation, for we must keep in mind that in assigning additional responsibilities of this sort the burden always falls heaviest upon the smallest businessman whose resources are most limited.

"In closing, Madam Chairman, it is my belief that every hard-working and honest small businessman in this Nation stands ready to state simply and truthfully the total cost of his products and services, including the cost of credit charges. I am happy, therefore, to fully support the disclosure portions of this bill.

"Thank you."

Mrs. SULLIVAN. Thank you, Mr. Greenberg.

I have two short questions, one for you and one for Mr. Dixon and then I am going to call on the other members.

Mr. Greenberg, in your testimony you state that interest costs alone under consumer credit purchases total nearly \$13 billion and you state, "This is to the good. It is good for our economy and it is good for the purchaser, particularly those with moderate or low incomes."

How good is it for people on low income when they have to pay in many instances what are exorbitant interest charges?

Mr. GREENBERG. May I clarify that? When I said "this is good," this referred to the credit aspects of purchases rather than to the interest costs, obviously. I am sorry that the development of the statement did not make that clearer.

Mrs. SULLIVAN. Thank you.

Mr. Dixon, you suggest that the setting of margins on commodity futures be handled in a separate bill. Has the Federal Trade Commission drafted or submitted such legislation?

Mr. DIXON. No, we haven't.

Mrs. SULLIVAN. Do you remember back in 1954 in your coffee investigation you showed how excessive speculation on borrowed money led and contributed to a price spiral?

Mr. DIXON. Yes, we did, and we along with you at that time, as I remember, were worrying about just how all these prices were arrived at. I don't think at that time we were worrying so much about credit transactions that went with it.

If I read very carefully a statement—I don't know whether it was Mr. Barr or not, in this respect—but the logic of it impressed me. I think he suggested that if in this respect you wish to really do something, it should, practically speaking, be vested over in the Agriculture Department.

Mrs. SULLIVAN. That one bill on regulation of coffee futures trading that I introduced originally in 1954 on the suggestion of the Federal Trade Commission has languished in the Committee on Agriculture ever since. And the same thing happened in sugar in 1963 that happened in coffee in 1954, did it not?

Mr. DIXON. I remember the men that we detailed to work upon them. There was a strong belief by many that they were similar.

Mrs. SULLIVAN. Our concern is not just with futures trading in agricultural commodities, but in anything which affects consumer prices, including silver, copper, zinc, lead, platinum, rubber, and all these other things that are traded on the futures exchanges.

Mr. DIXON. I am not an expert in futures nor in the stock market, but I understand, with the little knowledge I have here the margins that must be provided in order to get in and out of the market, regardless of what they are trading in. Here in this legislation it seems to me there is a kind of departure if you move over into the futures market. We are now talking about addressing ourselves here to the thought of goods and services that are sold and the amount of credit that is involved if you engage in such transactions.

Mrs. SULLIVAN. This is perhaps a little farfetched as far as the rest of the bill is concerned, but after all these years and all the attempts we have made to have something done about this problem, the fact is that it has been pushed from one department or one committee to another and gets nowhere. I know you were not responsible for that FTC report on coffee back in 1954, but I am certain you are familiar with it because I believe you were on the Hill at the time. But is there no way that the Federal Trade Commission could police the futures markets? Could we give the authority to you?

Mr. DIXON. You know, the Federal Trade is a creature of the Congress and I think the Federal Trade is kind of a catch-all for the Congress because we have so many different responsibilities where the Congress doesn't specifically vest them in other agencies like in the Federal Reserve, which has banking, communications in the FCC, power in the Federal Power Commission—everything else under the commerce clause—if there is anything wrong with it or unfair it is vested in the Federal Trade Commission from the law enforcement standpoint.

Then we do have a broad responsibility to the Congress because we were the successors to the old Bureau of Corporations that had only one power, the power to investigate and report to the Congress. We still retain that responsibility. Specifically, when we get to agricultural products, the question of international trade in agricultural products, you begin to run across the responsibility of the Secretary of Agriculture and responsibilities that have been specifically vested in that Department by the Congress. Obviously anything the Congress wishes for us to do we will do.

Mrs. SULLIVAN. Have you read the report on the National Commission on Food Marketing?

Mr. DIXON. I sure have, from cover to cover.

Mrs. SULLIVAN. There is a lot of meat in there that we are hoping to turn over to your department if we ever get around to it because there is much more than can be done.

Mr. DIXON. Yes, the recommendation out of there finally said in effect—the recommendation was that we pick up—the Federal Trade Commission pick up where that National Food Commission left it and continue. I have said in answer to others who have put it to me, we can do that provided we are adequately staffed.

Mrs. SULLIVAN. Have you ever asked the Appropriations Committee for staffing for that particular job?

Mr. DIXON. The House subcommittee asked me no questions about it, but the Senate subcommittee—Senator McGee specifically came in for that purpose and we had quite a colloquy and I told him that I had no recommendation in my budget for that, and that we did not intend to do that unless we had money and that I would wish he would provide the money if it was the will of the Congress for us to do it and we left it there.

Mrs. SULLIVAN. I doubt if anyone on the House Subcommittee on Appropriations ever saw the report of the Commission.

Mr. DIXON. It was a fine report.

Mrs. SULLIVAN. Not as strong as some of us wanted it to be, but it contained a lot of meat.

Mr. DIXON. Senator Magnuson said Congress provided that committee about \$2 million and I think I could have done a pretty job, a starting job with about \$250,000.

Mrs. SULLIVAN. Next time if you ask for that, I will try to help you get it.

Mr. Stephens?

Mr. STEPHENS. I am interested in one of the conclusions that you have reached that you believe the provisions of H.R. 11601 are better than the provisions of Senate bill 5. When it comes to the reporting or the disclosure of financial charges you do not see why it should not be applied to the revolving credit transactions. We had the representative of Montgomery Ward to present a chart here demonstrating that it would be impossible for a real true picture to be given of the revolving credit transaction over a year's time and in an annual interest rate before the year is out because you do not know how much will be paid each month and you cannot tell how much that actually will be. Would you reconcile your ideas with theirs?

Mr. DIXON. I think if you care to, you could carry this criticism to other things other than revolving credit. I know of no more sensible

way to apprise the consumer for comparison purposes. I prefer to use the word "competitive" purposes because we do hold ourselves out as a competitive society, than to express it in the annual rate, and $11\frac{1}{2}$ times 12 is 18 and it is just that simple to me. No, he may come in here and say to you, "Well, we don't keep our books that way." I have got one of those things that comes to my house and I cannot tell what Sears, Roebuck is charging me. I can't tell whether he adds it at the beginning of the month before I pay him or at the other end. It may be more than 18 percent if you really looked at it real close. I examined it recently and I see that the charge is expressed in dollars so much per month, how would you determine from this what the actual percent is? But for comparison purposes I don't know why they don't want to say "18 percent." That is what it is. It is to me like what the banks always used to say, 6 percent. It was never 6 percent, it was more than that. I don't know what it was—about 11 point something, I think. It was the lawsuits against General Motors that said 6 percent there. It was not 6 percent, 12 percent, something like that. It is like borrowing money and you pay it off at one-half of 1 percent per month. Well, what is that? "What is that in annual interest rate?" you say.

Mr. STEPHENS. You have not had the advantage of seeing the chart. But if you take $11\frac{1}{2}$ percent a month it would arrive at 18 percent. His figures show that it was 11.49 percent based upon that particular customer's charge and the way he paid and what he paid. We have asked for some clarification of that as to where you start calculating the $11\frac{1}{2}$ percent, whether it is the first of the month, the last of the month, or what it is that makes the difference. I would agree, it is a comparison to see what a person is paying—if it says 12 percent, and you can equate those things more readily. But the physical difficulty they allege, the truth in lending is not truth if you say it is 18 percent when you figure out at the end of the year that it is $11\frac{1}{2}$ percent.

Mr. DIXON. I don't know a better title to give the bill than "truth in lending." Like truth in packaging, these are very good titles. I wouldn't want to lose the title for this bill because that is the purpose. But even within this definition, as you say here, you are hearing people say really, this does a little violence to the truth. It is like in States—of course I am sure you have heard this testimony, how States have laws against usurious interest rates and yet it is just quite common for States to allow 3 percent per month and then on top of that add the legal rate on top of that which is 42 percent and then they say, "Now, if you dare to require this you will be talking about 42 percent and we never have that. We ought to have 3, because if we didn't, you would never get the money." In the first place you go in there to get it and you start retiring it, the principal goes with it each month, it is going down and you are usually paying constantly—but for comparison purposes it is high time in my opinion Americans knew what they were paying for money by the fairest and the best method possible. I have followed this legislation since Senator Douglas thought of it and put it in and I have heard this argument over the years usually, the first attack on it was that no one could figure out a sensible way to state it in annual interest. Finally, with the simplified charts Joe Barr brought up here he showed you it wasn't so hard if you really wanted to do it.

Mr. STEPHENS. That is right, but you would require them to make a different capitalization each month.

Mr. DIXON. We are saying to him, if I would understand, at some sensible time in the beginning, that the man or the lady that accepts this way of purchasing goods is informed—so that if they don't want to buy it this way maybe they might want to go down to the bank and borrow money for 60 days and pay what they have to pay for the goods. I have the feeling that maybe Sears, Roebuck is making as much money out of financing as they are goods.

Mr. STEPHENS. We asked for some information along that line. Of course, when we make a real analysis of the cost of a home—if I buy a house and pay for it in 30 years and I do not pay \$30,000 for that house, I pay much more than that over the 30 years with the interest rates and everything like that.

Mr. DIXON. But it would seem nice to know in advance what it is, so if you have a choice to buy it a different way it might be helpful. I live and have lived all my life at the Federal Trade Commission, except during the time in the service, and when I was working with the Senate Antitrust Committee—I have lived my whole life within the philosophy of the greatness that has come to America out of a free, competitive enterprise system. You are not going to be free if you do not know the truth and you are not going to be competitive if you don't have a choice to compare things.

Now, we are either going to follow and pursue that philosophy or we are going to duck it. I have a hard time seeing how we are going to lose if we keep aspiring for truth—if it is open disclosure, comparative disclosure, give it whatever connotation you wish—I know, and I know the members of the committee of Congress in this committee want to know something that would cause us to get to this and we want to do something that would avoid greater confusion. There has been a lot of explanation and a lot of experts have testified on this bill, prior bills, and the question of eliminating revolving credit might very well cause people to—in great mass to move toward that method of financing simply to hide what they are doing.

Now, I would suggest that we not give them that opportunity. Put it out in the open. I don't think it is going to hurt their business. I am not one of those that thinks people will run from it a great deal. I just think that people will be better off to know and if they do know, all right. If you borrow a small amount of money or if you buy a small purchase and have a small charge, I think maybe that ought to be examined very carefully as to whether that small charge ought to be eliminated, because the fact that no one will loan anybody any money unless they can really fleece them down in that area does not set very good with me.

Mr. STEPHENS. Thank you.

Mrs. SULLIVAN. I would just like to comment here, that no one we questioned from the retailers could answer our questions satisfactorily on this matter of the 18 percent. When we would put the question to them, "How did you arrive at 1½ a month?" the answer was, "Well, we just charge 1½ percent. But 1½ percent is not 18 percent." And we argued and argued over this and I think we ought to get off the subject because we are never going to get a

meeting of the minds on it. The figures they showed us on the chart this morning are not the kind of figures they use when they figure the interest on any of these charges for these people.

Mr. DIXON. One thing is clear, Madam Chairman, the purpose of this legislation is to state it in simple interest annually and if you charge something—if you set out with a figure $1\frac{1}{2}$ percent then stated annually it comes to 18 percent. Maybe that is too simple.

Mr. STEPHENS. If that is true, provided you have the same amount that you put in, it is $1\frac{1}{2}$ percent on each month. If you have a different amount it does not amount to 18 percent.

Mrs. SULLIVAN. They still charge $1\frac{1}{2}$ percent for a given period of time—a month.

Mr. DIXON. They still charge $1\frac{1}{2}$ percent per month. You are going to pay 18 percent—maybe the amount will vary, but at the end of the year you paid 18 percent on something if you still owed them something.

Mrs. SULLIVAN. Mr. Wylie?

Mr. WYLIE. Thank you, Madam Chairman.

First of all, Mr. Dixon, I would like to clarify one point. I asked Secretary Trowbridge this morning this question, whether he thought the administrative enforcement of the Sullivan bill would be better left to the Federal Trade Commission and then I asked the alternative question, would the administration of the provisions with reference to advertising perhaps be better left with the Federal Trade Commission? As I understood from what you said, you thought maybe the administrative provisions of any truth-in-lending act could well be left to the Federal Trade Commission.

Did I interpret correctly? Is that a fair statement of what you said?

Mr. DIXON. With respect to the advertising part of it, yes.

Mr. WYLIE. Advertising only?

Mr. DIXON. Yes.

Mr. WYLIE. All right.

Mr. DIXON. If you are going to adopt the Senate version, the enforcement of the bill is going to be left to the private citizen, plus a criminal enforcement part of it, if necessary, by the Department of Justice. There, under S. 5, the function of the Federal Reserve would be to promote the regulations and what have you, and any enforcement will come by the private citizen in any competent court.

If you adopt Mrs. Sullivan's bill, then this encompasses the traditional point of enforcement entirely by Government and, as provided in her bill, which is practically a rewrite of section 5 of the Federal Trade Commission Act of how we must proceed to enforce, but this does not mean that the Federal Reserve Board could not follow those procedures.

When I was talking about this—I think I was making reference primarily to Governor Robertson's reference to the advertising, the advertising sections of your bill, Mrs. Sullivan.

Mr. WYLIE. Just to pursue that, one more question. Do you think jurisdiction should be left more properly with the Federal Trade Commission or with the Federal Reserve Board? That will require an answer as to one or the other.

Mr. DIXON. Or—I would leave it where it is, in the Federal Reserve Board, but with respect to sections (j) and (k) on advertising. I would suggest that if it is the will of the committee that you examine Congressman Hanna's bill because he seems to have resolved that difficulty that Governor Robertson shied away from that was in this bill, and suggested that we had more expertise and that perhaps under separate legislation you might wish to assign to the Federal Trade Commission this responsibility.

Mr. WYLIE. There is not any question in your mind that we could delegate to the Federal Trade Commission any authority we want to delegate, is there?

Mr. DIXON. None whatsoever, under commerce, monetary.

Mr. WYLIE. This is spelled out in the law and the Constitution, you have whatever authority Congress gives you.

Mr. DIXON. That is right. In this bill, either in commerce or affecting commerce is in. It is in (j). This broadens section 5, which is our basic law.

Mr. WYLIE. Your jurisdiction has been extended to where almost any act affects interstate commerce, directly or indirectly?

Mr. DIXON. I think that, too, I have spent my life with mighty high-priced lawyers trying to litigate that.

Mr. WYLIE. I would like to ask Mr. Greenberg a couple of questions. Since you administer the Small Business Administration Act and the Small Business Investment Corporation Act, you have more dealings with the small businessman than probably anyone else who has been before us or maybe anyone who will come before us. I have been asking some questions about the possibility of stating the amount of money which is actually paid in interest charges or service charges, rather than in an annual interest rate. I don't agree with Mr. Dixon that it is as simple as he states. They have open-end periods, load-on periods, and so forth. But under the Internal Revenue Service regulation there is a provision that allows for a deduction of 6-percent interest or the actual amount paid, whichever is lesser. In other words, the deduction cannot exceed 6 percent. If we pass a truth-in-lending bill and it provides for disclosure of any rate of up to 18 percent, would it not be better to express that in a cash amount so that the person who was making the deduction on his income tax would know exactly how much he could deduct? Do you follow me?

Mr. GREENBERG. Not exactly. But let me see if I understand your question. You are talking from the consumer standpoint or the small businessman?

Mr. WYLIE. I want to ask you what the obligation might be as far as the small businessman is concerned. One objection has been stated that it would put too much burden on small businesses.

Mr. GREENBERG. Well, we discussed this point at some length, Mr. Wylie, and our position is somewhat as follows: We are talking about the small businessman and we are talking about comparatively small costs. In the Senate bill, S. 5, which exempted a charge under \$10, we believe everybody should be treated equally. We don't believe from what we have seen that the burden on the small businessman would be so great and so burdensome that he wouldn't be able to do this. We believe, too, that exempting the \$10 charge would in effect be discrimi-

natory against the very people who are possibly less able to afford this kind of thing and would not give them the opportunity to make the kind of comparative and competitive test that Chairman Dixon so aptly described.

With respect to the consumer himself—

Mr. WYLIE. Before we leave it, you say you do not believe it would be too burdensome to disclose interest rates? Could we not state the rate in dollar amounts just as easily or more easily, for that matter, based on testimony regarding some of these complicated interest tables?

Mr. GREENBERG. The rate in dollar amounts?

Mr. WYLIE. Yes, sir.

Mr. GREENBERG. I am sorry but I am not able to understand this.

Mr. WYLIE. If 18 percent of \$100 comes out to \$18, just say at the end of the year that the interest rate is \$18. Now, the reason I am getting at that is, 18 percent on \$100 is more than 18 percent on \$90, of course. Where there is a variance in the revolving credit account from month to month, the actual rate charge on the amount of the items charged to the account, as has been pointed out here, may come to a little over 11 percent, even where the monthly rate is $1\frac{1}{2}$ percent. You have to be an expert or a CPA to determine what the rate is actually going to be.

Mr. GREENBERG. Let me speak as a comparative neophyte relative to other witnesses here. I have been in the financial business all my life and I have never seen any difficulty in terms of what a rate is, an annual rate. Obviously the rate is established based upon some calculations somebody made. Obviously $1\frac{1}{2}$ percent a month from the discussions I have heard conceivably could be said to be 18 or some figure less than 18, depending on the declining balance that exists during the period under repayment. But it also appears to me that if the initial charge is based upon a set figure that this could be converted to an annual rate.

With respect to slight differences, I understand there is a tolerance, some tolerance levels in the bill—the bill is not trying to make actuaries or statisticians out of businessmen. We are trying to get a fairly close approximation. I don't think anybody would be prosecuted to the full extent of the law if they stated 36 percent or 33 percent. But I think that rather than stating anything there should be some approximation of the amount of interest rate involved. Now, this figure $1\frac{1}{2}$ percent a month—of course, maybe with the new math is figured differently—comes to 18 percent a year. Obviously if there are any declining balances or prepayments the amount of interest might not come out to 18 percent a year. But at the time that contract was entered into, it was entered into on the basis of 18 percent a year.

Mr. WYLIE. May I have unanimous consent to ask one more question?

Mrs. SULLIVAN. Yes.

Mr. WYLIE. I am not so much interested at this point in the interest rate or interest rate on a revolving account as I am that which could be deducted on an income tax return, and some of the gentlemen who have testified here—as a matter of fact, Mr. Barr said he thought maybe the regulation should be changed if a truth-in-lending bill is adopted so that the full amount of the interest rate and service charge

could be deducted. If it is a good principle at 6 percent or less it is a good principle at another figure, if the figure is known.

I think my question was, is this an unreasonably burdensome thing to ask of small businesses? We now require the form 1099 of financial institutions to show in advance what amount has to be included in income. Why would it not be just as reasonable to require some form which would indicate the amount which could be deducted?

Mr. GREENBERG. Well, this is getting a little beyond my field, but to answer your specific question, I know that with respect to interest deductions for income tax purposes, the taxpayer is to determine that the amount that is being deducted relates only to interest and finance charges and no other costs.

To answer your specific question, again, far afield, I would say that some consideration should be given to the problem of determining what deductions the taxpayer could take under the tax laws. But I am not competent to discuss this.

Mr. WYLIE. Mrs. Sullivan, based on the statement from Mr. Dixon you might want to amend the title of your bill. It is entitled "Consumer Credit Protection Act." Don't you want it to be a "Truth-in-Lending Act"?

Mrs. SULLIVAN. I think mine covers more fully what we are trying to do in H.R. 11601.

Mr. WYLIE. That was a poor attempt to be facetious.

Mrs. SULLIVAN. Mr. Hanna?

Mr. HANNA. Thank you, Madam Chairman.

I appreciate the comments that have been made about the bill I introduced. I thought that the Federal Trade Commission is a crack agency to carry out this obligation.

Is it not true from the legal standpoint that as long as the goods are in interstate commerce and it is pretty hard to say there are very many goods that are not in interstate commerce that the sale of those goods can be considered in interstate commerce, whether it was in fact intrastate?

Mr. DIXON. Yes, sir, this would be so, but I think before you arrived here I had reached the point in my statement and in an aside I pointed out that traditionally in enforcing section 5 of our law, the Federal Trade Commission Act, we have stayed pretty much in the vein of requiring a sale of a commodity in addition to an ad that flowed across the line.

Now, when you get down to dealing with credit terms and finance charges and whatever, usually these things, as far as the transaction that is involved—it took place at a very narrow situs and although we could possibly reach it because if there was an ad it is pretty hard to advertise today in any kind of a newspaper, even a weekly, that does not get across a State line, and we could technically say that we were after a deceptive ad. Even though the sale was local. I hope I did no violence when I interpreted the purpose of your bill, but I thought the purpose was to clarify the point that had been raised that the Commission does have a great deal of expertise in this area.

Mr. HANNA. That is correct.

Mr. DIXON. If the failure to do the things set out in (j) and (k), if there is a failure, if the purpose of your bill is to make those failures

a violation of section 5 of the Federal Trade Commission Act, then this would be a traditional approach to these types of problems.

Mr. HANNA. Thank you very much. May I say in further edification that the gentleman who finds it difficult to make a distinction between stating a simple annual rate, and the testimony of the gentlemen who have been here before us this morning, I can assure you it is not difficult at all in connection between the two for it has to do with the magic of time. There is no problem in setting an annual rate. If it is $11\frac{1}{2}$ percent per month it figures out to 18 percent applied rate. But there is a little thing about time. Mr. Barr testified about this and he very casually went over it and said, "Well, it is true that there is a certain grace period before the interest is applied." There are some purchases that are made in the middle of the month—in other words, you have got a 30-day applied interest rate on something you might have purchased 48 days ago. So you have got some days of grace. The difference between those who apply it and the simple interest rate approach, and those who say it is difficult lies in the days of the month that vary between purchase and payment because payment can come on the 10th one month, the 7th, the 13th, the 2d, the purchases can be made from any spectrum of one to 30 and there will be a variety of balances that peel out and there will be a variety of days in which the interest was actually applied as against when the purchase was really made.

Now, the argument is simply, on one side if you are going to make it a simple interest rate, you simply say to the businessman, "You have got to pretend you did not extend credit on any of the days except at the time you apply it." And their argument is that that is nonsense. "We are only doing this to maintain a sensible approach to bookkeeping. The cost of making it apply from the day they pick it up are such that we are better off to arbitrarily say $11\frac{1}{2}$ percent a month and we do not understand that and we do not know what the argument is all about." If it is true that when they say they applied $11\frac{1}{2}$ percent and they allow a variety of differences of gross for any one particular account, when the effect of interest is applied against that which is the total amount at any time you are going to come out with a variety of rates of 11 percent to fully the figure 18 percent. But my fear is this, gentlemen, that if you insist upon the figure 18-percent interest charge being stated, that will be the interest charge against everybody. They will say, "Well, we did not want to charge you that much but the Government insisted that we are going to charge 18 percent from the date of purchase." I think what we will have done is have increased the interest rate for a number of purchases.

I think, Madam Chairman, I have been thinking about this thing very seriously and I think that if you really wanted to make a contribution in this area, you leave the appropriate operator alone, and get to the bad ones and you can say anybody who is applying an interest rate action and talk about the thing—whose applied interest rate exceeds 18 percent, that they must report this actual interest rate or else have them report it as applied because that is the truth of the matter. That is the applied interest rate and not necessarily the effective interest rate and you will never get me to accept the fact that there is not a distinction between the applied interest rate and the effective interest rate, because anybody who knows the simple application of

time knows that the effective interest rate will come out differently given different days of grace where you charge no interest.

What the gentleman is arguing is that we ought to get some credit for the time we are applying no rate at all.

So this comes out to what the effective interest rate is.

Honest to goodness, Madam Chairman, that is the crux of the whole matter. It is just as simple as that. If you insist on making the rate 18 percent then I think that you may be doing that—I am not sure about this—but what you might be doing is establishing that everybody is going to pay 18 percent, although there are many people who are not paying 18 percent right now.

What would you say to that?

Mr. BINGHAM. Could I ask, is the gentleman referring to the 18 percent requirement in our bill? Or is that full disclosure of the annual interest rate?

Mr. HANNA. On the usual revolving credit, the greater percentage of which—I think you will find this is true as the American Retail Federation has reported, that most of the people who are legitimate people that belong to this organization do charge and apply 1½ percent interest rate which figures out to be an annual rate of 18 percent. But they do that in a way in which they are continually giving the purchaser a difference of days of grace against which no interest is charged under that particular purchase.

Do you understand?

Mr. BINGHAM. I do. But I do not see there is any difference in their stating that they charge 1½ percent monthly credit charge and stating they charge 18 percent annual charge. Most people do not understand what 1½ percent monthly means.

Mr. HANNA. What you are saying is because they insist that you ought to give them some credit for their effective interest rate which is the fact that there are a variety of numbers of days in which the purchaser gets his purchases in there, that the effective interest rate against the total business they do with the client and the total credit they expend will affect it.

Mr. BINGHAM. They do not make that plain when they are talking about the figure 1½ percent monthly.

Mr. HANNA. They made it very clear. I did not know anything about this until I heard the testimony and that is when I heard it, from what they said. It seemed to me pretty clear and I am just saying I do not see the difference—I know what the difficulties are. I know what the differences are. I understand what you are doing. I think what you may be doing is cutting the customer out of the opportunity of getting any days of grace at all. I think they will then say, "You do not get any—we will have to involve our bookkeeping a little more instead of simplifying it."

Mr. BINGHAM. I would like to pursue this with you.

Mr. HANNA. I would like to pursue it with you. I am no expert. I just got educated recently on this thing. It is amazing that people start talking about two different things all the time.

Now, as the chairman has said, nobody has laid a glove on her.

Mrs. SULLIVAN. Mr. Williams.

Mr. WILLIAMS. Thank you, Madam Chairman.

Mr. Dixon made a point, the Senate bill was called truth-in-lending and this bill we have has a slightly different title, "Consumer Protection Act." I think Mr. Dixon does have an excellent point. Whatever we do we have to be accurate or be truthful. It seems to me that much of the confusion that is revolving around these revolving charge accounts is resulting from the fact that in some types of credit transactions the interest is set before the transaction is consummated. So there is no difficulty in figuring the interest, say, on the first mortgage or second—first mortgage or something of this nature. But in these revolving credit accounts we are talking about computing in advance an interest rate on the basis of $1\frac{1}{2}$ percent for 12 months, but then the way it is being applied, the interest has got to be computed after the fact or at the end of the year, to see how much interest the customer has actually paid.

Now, one misstatement that has been made here this morning and one misstatement that was made by Mr. Barr of the Treasury Department is that the department stores on revolving charge accounts are charging $1\frac{1}{2}$ percent on the unpaid balance each month.

This is not a correct statement. In the testimony we heard this morning, if that testimony was accurate, and I questioned the witnesses this morning carefully to determine the way they are computing this interest cost and I heard no one raise any question about whether this was the actual practice or not on the part of the American Retail Federation.

Now, they are not charging $1\frac{1}{2}$ percent per month on the unpaid balance for that month. They are charging $1\frac{1}{2}$ percent per month on the unpaid balance of the previous month. In other words, if, on the 1st of July, a customer owes \$100, and even then if he pays the \$100 off during the month of July, in the statement the customer receives the 1st of August there is no service or interest charge at all. The interest or service charge would be \$1.50 for the balance outstanding as of the 1st of July. So you cannot say, you cannot apply to actual practice if the testimony we heard this morning is correct, that they are paying $1\frac{1}{2}$ percent per month and charging that amount on the unpaid balance. So what we have here is two separate factors, one, a type of transaction, first mortgages where you compute the interest in advance and know exactly how much you are paying and the other is the type of transaction where the interest rate cannot be computed and we can only come to the conclusion at the end of the year. So to say 18 percent per annum interest charge on revolving charge accounts is an incorrect statement if the testimony we have heard here is correct.

I want to say something else to you, Mr. Dixon.

You made the statement that some department stores are probably making as much money out of financing as they are out of the sale of products. I do not believe that is a correct statement. I believe the charge accounts were developed to increase sales volumes. I think the revolving charge accounts evolve from regular charge accounts in order to further increase sales volume. I do not believe that there is a department store or merchant in this country, if they could convert to an entirely cash operation tomorrow without reducing their sales volume, they would not be happy to do so. Because the greatest in-

cidence of loss experienced by merchants today, especially the small businessmen in poorer areas occurs in these charge accounts and revolving charge accounts and these merchants have got to make up the money somehow. So I would like to know if you disagree with the statement I just made.

Mr. DIXON. I still think a great deal of money is being made on credit.

Mr. WILLIAMS. I am talking about department store credit.

Mr. DIXON. I am talking about department stores, too. I remember reading somewhere—I do not know how authentic it was as to when Sears, Roebuck instituted revolving credit—I believe they were the first, as I read it, and I believe when they came into an area like Washington, I believe their statistics showed pretty well they could afford to extend it broadly to all classes as to terms and conditions offered. Maybe they would give a different definition, but I don't know whether that is before this committee as to why. Because if they desired—they could set whatever rate they desired to set as long as they did not do any violence to the interpretation of the usury laws. Apparently $1\frac{1}{2}$ percent on the unpaid balance was enough to protect their risk and I think the average person they do business with is a pretty good risk.

Mr. WILLIAMS. It is not the average person you got to worry about.

Mr. DIXON. That fellow that you are worrying about we find from our study in the District of Columbia, he is down on 7th Street buying his goods and you can't even get this type of credit. He can't even get it extended to him.

Mr. WILLIAMS. Let me say this: We have had testimony from Mr. Barr in which he stated that he did not believe that merchants could operate on less than 18 percent annual interest charge on revolving charge accounts and break even on it.

I also remember that we did have testimony this morning that indicated that Wanamaker's started revolving credit charges. I do not know whether this is factual, but this is what we heard.

One other question. As far as commodity credit is concerned, the margin that is put down is really earnest money. I have difficulty accepting this as a credit transaction. Do you think commodity trading should be included in this bill in any way?

Mr. DIXON. No, I do not. I had that difficulty myself.

Mr. WILLIAMS. Thank you.

Mrs. SULLIVAN. Mr. Bingham?

Mr. BINGHAM. Thank you, Madam Chairman.

First of all, I would like to ask Mr. Dixon a little bit about something he said—clarify something about the possibility of this, the administration of this enforcement being given to the Federal Trade Commission as far as the advertising is concerned.

Would you expect that you could undertake that responsibility with your existing structure, existing personnel?

Mr. DIXON. You mean if you included in the final passage? Yes, we could.

But I think to do an adequate job we would have to have some increase in personnel, and I would want to have the opportunity of looking at that very carefully without shooting from the hip, without seeing how many more personnel we would need.

Mr. BINGHAM. I think it would be helpful to have an estimate on that.

Mr. DIXON. I shall submit it to the committee.
(The material referred to follows:)

May I say at the outset that, in answer to Congressman Bingham's question, I can only give an estimate as to what increases would be required in personnel and appropriations should Congress decide the responsibility of enforcing the advertising provisions of H.R. 11601 is to be placed with the Federal Trade Commission. Much will depend on the scope of a "Truth-In-Lending" bill as it is finally enacted into law. As now drawn, as I interpret H.R. 11601, it covers every form of consumer credit. Thus, in enforcing the advertising provisions of the bill, the Commission will be charged with the responsibility of observing and reviewing the advertising of many types of creditors, such as loan companies, department stores, real estate operators, etc., to determine whether their advertisements contains the disclosures required by the bill.

As I envisage the responsibility of the Commission, its first duty would be the promulgation of proper regulations to assure that the advertisements do contain the required disclosures.

To prepare such regulations and perform the duties necessary to assure their proper promulgations in accordance with the provisions of the bill as well as of the Administrative Procedure Act. I think the Commission would require as a minimum an increase of its present personnel of two additional attorneys and two clerks. After such promulgation is completed, to be certain that all creditors, subject to the provisions of the bill, are complying in their advertising with the bill's requirements and with the Commission's regulations, my estimate is that for the first year the Commission probably will require four more attorneys and four more clerks. Thus, for the first year my belief—and it is merely my belief—is that the Commission probably could adequately perform its functions, with reference to the advertising provisions of the bill, by an increase in its appropriations of approximately \$75,000 to \$100,000.

After the first year, the personnel may have to be increased or decreased, depending upon the extent to which there has been compliance with the provisions of the law and the Commission's regulations. I would not venture an estimate at this time as to what increase or possible decrease in the appropriations of the Commission should be made for the following years.

Mr. DIXON. One must keep in mind—I am quite sure each time you pass a statute such as this you would be hopeful that it would voluntarily be complied with. The Senate approach was one way. The Senate approach was to turn it over to the private citizen and criminal law enforcement. In your version here in the House is to do it differently. You will turn it over, as the bill provides, entirely to the Federal Reserve Board to enforce.

Mr. BINGHAM. But under the provisions we are talking about, if that part of the enforcement job were turned over to you, you would not be starting from scratch.

Mr. DIXON. No, we would not.

Mr. BINGHAM. As the Federal Reserve Board would.

Mr. DIXON. This is correct. It would be a better dollar buy to buy going expertise than to try to duplicate it. I think I get your point and that is quite right.

Mr. BINGHAM. Did I understand you to say as far as the other administrative enforcement is concerned, apart from advertising that you do not favor a governmental plan of administrative enforcement, that you favor leaving it to the individual?

Mr. DIXON. I think I would try that first. If this works—this has been bandied about up here on other bills and other subjects, that if would relieve a Government expenditure.

Mr. BINGHAM. Do you not feel, however, that small purchasers are the ones most likely to take advantage of this and they are not going to be the ones who will go to court to protect themselves?

Mr. DIXON. It is a fear, a legitimate fear.

On the other hand here, the small party would be afforded under S. 5 approach, would be afforded if his cause was just, would be afforded double his loss in effect, plus attorneys fees, and I would think that maybe there might be enough inducement for attorneys to get quite interested in this type of practice.

Mr. BINGHAM. I would like to address some questions to Mr. Greenberg.

In Mr. Moot's statement concerning the issue of garnishment, there was this statement:

Garnishment is very often the only legitimate means available to a businessman for final satisfaction of debts due him.

If my understanding is correct, Mr. Moot, the Administrator, comes from the State of Texas?

Mr. GREENBERG. No, sir; that is not correct.

Mr. BINGHAM. What I wanted to point out is, three States do have statutes prohibiting garnishment and we have information available to the committee, some of it summarized but there is no correlation, apparently, in the amount of installment credit which is extended in those States that have tough antigarnishment laws and those that have none.

Mr. GREENBERG. First, Mr. Moot comes from New Jersey and is living in the State of Virginia. I think what Administrator Moot was trying to say is that this is not the only means, but is an important means.

Further, because of the complexities of the situation he suggests that the subject be given further study and then all available information be before the Congress and the appropriate committees before any final action is taken.

Mr. BINGHAM. I understand that is the position not only of the SBA but the position of all of the executive agencies, the administration's position, and as I said before, I am very much disappointed that we are not being given any more useful comment from the executive agencies.

If I may, I would like to get briefly to the question of revolving credit and particularly on the matter that Mr. Dixon was discussing with Mr. Stephens. The difficulty or the alleged difficulty of calculating an annual percentage rate—I would like to call your attention to subparagraph 3 on page 7 of our bill, H.R. 11601, where the definition of "equivalent annual percentage rate" is given as the rate or rates computed by multiplying the rate or rates used to compute the finance charge for any period by the number of periods in a year.

In other words, under this bill all the retailer has to do if he has not been making the monthly charge of $11\frac{1}{2}$ percent and he called it $11\frac{1}{2}$ percent a month, all we are asking him to do is that in effect that is 18 percent per annum. Is it not true, Mr. Dixon, that this poses no burden on the businessman at all?

Mr. DIXON. I didn't think it would impose one on him; no sir. Because I thought that was what the bill was addressed to. You weren't trying to arrive at how to compare rates, you were trying to set a per annum expression so it could be compared.

Mr. BINGHAM. When we speak of interest rate per annum that does not mean we are talking about a full year's payment of a fixed amount.

Mr. DIXON. Or a varying amount that may vary from month to month.

Mr. BINGHAM. It can be that but it is still a rate per annum.

Mr. DIXON. That is what I thought.

Mr. BINGHAM. It seems to me to make a further comment on that, that every criticism that the businessman addresses to the annual-rate question they could equally well address to their now current custom of using the monthly percentage rates. Because if it is an inaccurate rate annually it is inaccurate monthly.

Do you agree with that?

Mr. DIXON. I tried to say it. You said it so much better than I did.

Mr. BINGHAM. Finally, I would like to make this comment. I am beginning to wonder, having seen some of the material that we are going to be presented with next week, whether some of these retail establishments are not really concerned about the annual interest rate, not because of the difficulty of translating a monthly rate to an annual rate, but because their annual rate in effect is a lot higher than 18 percent. We are going to have to have information presented here showing that the way they do their billing in some cases, they are not giving credit for payment made during the monthly period and the net effective annual rate in many cases is up in the sixties and seventies and I think this is going to be a shock to us.

Thank you, Madam Chairman.

Mrs. SULLIVAN. Mr. Greenberg, I think you might be interested in this letter that just came from Kansas City. This is from a small business firm and they have no revolving charge. They say:

Please be advised that we are not in favor of S. 5 as it now stands. We urge support of any credit service charge disclosure proposal that requires the universal application in either dollars or cents or in identical rates for all credit, whether it be monthly, monthly and annual or any other rate that will enable customers to compare the terms and see which is the cheapest rate available in the marketplace. We feel that the S. 5 bill as it now stands does just the opposite.

To sum up—and this is addressed to both Mr. Dixon and Mr. Greenberg—you both made a good case for full disclosure of finance charges in consumer credit. But I would like to take you back to S. 5 as it passed the Senate and see if we understand exactly what that bill would do and would not do.

First, it would leave out first mortgages, the biggest credit transaction which most families ever experience—and one which most families now do experience—and would require no disclosure of the percentage rates of finance costs or of other costs in a first mortgage, right?

Mr. DIXON. Right.

Mr. GREENBERG. Right.

Mrs. SULLIVAN. Next, it would exempt from the requirement to give an annual percentage rate any purchase or credit transaction in which the credit charge is \$10 or less, meaning usually items costing up to around \$100; is that not right?

Mr. GREENBERG. That is right.

Mr. DIXON. That is right.

Mrs. SULLIVAN. Third, it would not require an annual percentage rate disclosure on open-end credit plans such as department store revolving charges and gasoline and other credit card plans; is that not right?

Mr. GREENBERG. That's correct.

Mr. DIXON. That is right.

Mrs. SULLIVAN. Fourth, it would require an annual percentage rate disclosure only for large ticket items—installment transactions like automobiles, television sets, sizable loans, second and third mortgages, and so forth. But none of those would have to give an annual percentage rate until July of 1972, which is 5 years away. All right, so no one would be covered and nothing would be covered that would mean anything to anyone in terms of an annual percentage rate for 5 years; is that right?

Mr. DIXON. That is right.

Mrs. SULLIVAN. Is dollars per hundred on the average unpaid balance the same as the annual percentage rate which they would have to show after 1972?

Mr. GREENBERG. It isn't clear.

Mr. DIXON. It is not the same?

Mrs. SULLIVAN. I think it was testified that when they said \$12 per hundred per year on the average unpaid balance it meant 12 percent.

Mr. GREENBERG. On the average unpaid balance—if you consider a hundred as a basis for percentage, conceivably this might be so. I would have to sit down and figure that out.

Mrs. SULLIVAN. This is the interpretation we were given—that it means the same thing. If so, then why did the Senate provide a 5-year moratorium on stating the percentage rate if this phraseology means exactly the same thing? We were told it was because of the State usury laws.

In your statement I think you made it clear that this fear was unfounded and I think Secretary Barr did the same thing—thus making this provision of the Senate bill unnecessary; is that true?

Mr. GREENBERG. That appears to be correct.

Mrs. SULLIVAN. I am worried, however, that this is possibly subject to a different interpretation; that is, that under the language of S. 5 they could for 5 years quote a discount rate as \$6 per hundred per year instead of the actual rate of 12 percent.

Mr. DIXON. I think you could. Six dollars per hundred per year.

Mr. GREENBERG. I would have to study that.

Mrs. SULLIVAN. When you get a copy of the transcript—let me read that once more.

I want to know if the provision of S. 5 is possibly subject to a different interpretation than the one we were given; that is, that under the language they could for 5 years quote the discount rate as \$6 per hundred per year, when it is actually a 12-percent rate.

Mr. DIXON. I think I would want to look at that and want my bookkeeper to give me some advice.

Mrs. SULLIVAN. I wish you would go over these last few questions because we have been told that dollars per hundred per year on the average unpaid balance, as provided for 5 years in S. 5, actually is the same as the annual percentage rate specified in H.R. 11601.

CONSUMER CREDIT PROTECTION ACT

Mr. BINGHAM. Would the chairlady yield on that point?

Mrs. SULLIVAN. Yes, Mr. Bingham.

Mr. BINGHAM. It might be of some help in preparing an answer if you look at pages 18 and 19 of the Senate committee report, because they do indicate there the purpose of giving the 5 years grace on that which will allow the States to change their usury laws.

Personally I do not feel there is any problem in this interpretation, that this could be used to excuse a discount rate.

Mrs. SULLIVAN. Maybe you can clarify that when you get the transcript.

(The material referred to follows:)

REPLY OF SMALL BUSINESS ADMINISTRATION

It appears to SBA that section 4(i)(1) of Senate-passed S. 5, which allows disclosure of a "dollars per hundred per year rate of the average unpaid balance" in certain cases, could not be used to quote a discount rate of \$6 per hundred per year when it is actually a 12 percent rate. This is so because the dollars per hundred per year rate must be computed on the "average unpaid balance", and such balance would reflect any initial discount or declining balance during the period over which the credit is extended.

REPLY OF FEDERAL TRADE COMMISSION

FEDERAL TRADE COMMISSION,
Washington, D.C., August 18, 1967.

HON. LEONOR K. SULLIVAN,
Chairman, Subcommittee on Consumer Affairs, Committee on Banking and Currency, House of Representatives, Washington, D.C.

DEAR CHAIRMAN SULLIVAN: As you suggested, having had an opportunity to read the testimony which I gave before your subcommittee on August 9, 1967, concerning H.R. 11601, I reviewed the answers to the questions which you propounded to Mr. Greenberg and me with reference to S. 5 as it passed the Senate. You first asked if that bill would leave out first mortgages, which you classified as the biggest credit transaction most families ever experience.

In reply I said that you were right. There is no question but that subsection 4 of section 8 of the bill does specifically exempt from its provisions extensions of credit secured by first mortgages on real estate. As to whether such mortgages constitute the biggest transaction most families ever experience. I do not know. I presume that's true, but have no particular knowledge in support of the belief.

You next asked if S. 5, as passed by the Senate, would exempt from the finance rate any credit transaction in which the credit charge is \$10 or less, and further, whether this does not mean usually items costing around \$100. Section 4(b)(7) does specifically exempt such credit charges. I would assume that a finance charge of \$10 or more would usually apply to purchases of \$100 or more, but I have no specific knowledge to sustain this assumption.

Your third inquiry is whether S. 5 as passed by the Senate would not require an annual percentage rate disclosure on open end credit plans such as department store revolving charges and gasoline and other credit plans. That bill would not require disclosure of the annual percentage rate on revolving open end credit plans, but only a disclosure of the percentage rate per period (section 4(d)(1)(C)). Unquestionably, this exemption would apply to revolving charge accounts usually employed by department stores. However, as to whether the exemption also would apply to gasoline and other credit card plans, I have no knowledge, and while this probably is true in most instances, I am not in a position to say it is accurate as to all such plans.

Fourth, your inquiry as to whether the exemption of the requirement of disclosure on annual percentage rates on open end credit plans would only leave "large ticket items, installment transactions like automobiles, television sets, sizeable loans, second and third mortgages, and so forth." You further added as to none of these items would the annual percentage rate have to be given "until July 1972."

S. 5 as passed by the Senate does provide specifically that whenever an annual percentage rate is required to be disclosed, it may be expressed either as a percentage rate per year or as a dollars per hundred per year rate of the average unpaid balance, and that it is only after January 1, 1972 that all such rates requiring disclosure must be expressed as percentage rates (section 4(i) (1)).

As to whether this provision applies only to large ticket items, installment transactions like automobiles as you mentioned, I have no special knowledge.

Your final inquiry was whether or not the provisions in S. 5 as passed by the Senate could not be subject to the interpretation that for five years the creditor could quote the "discount rate as \$6 per hundred per year, when it is actually 12 percent rate."

Section 4(i) (1) (A) reads: "whenever an annual percentage rate is required to be disclosed by this section, such rate may be expressed either as a percentage rate per year, or as a dollars per hundred per year rate of the *average unpaid balance*". (Italic supplied.)

As I interpret this section, the key words are "dollars per year rate of the average unpaid balance." Undoubtedly, in your question you meant to include the underscored wording.

My belief is that if a discount rate of \$6 per hundred per year is expressed as a true percentage, the interest rate would amount to 12 percent on the average unpaid balance of \$50 as the amount of the loan is paid in equal monthly installments so that by the end of six months, one-half of the loan would have been paid off. Since the interest paid amounts to \$6 on an average unpaid balance of \$50, S. 5 as passed by the Senate would require a statement of the interest, if expressed in dollars, at the rate of \$12 per hundred per year on said average unpaid balance.

You recall with reference to this last inquiry, I stated (transcript 440 and lines 11 and 12) "I think I would want to look at that and want my bookkeeper to give me some advice." I have looked at your statement and have been advised by members of the staff that the above answer is in accord with the advice they gave me.

May I thank you for having given me this opportunity of reviewing my answers to the questions or statements by you which I have enumerated.

I ask that this letter be made part of the transcript of my testimony of August 9, 1967.

Kindest personal regards.

Sincerely yours,

PAUL RAND DIXON, *Chairman.*

Mrs. SULLIVAN. I just have one more question, Mr. Dixon.

In answer to Mr. Williams' question about margins in commodities being earnest money and not credit, you said the provision we have in section 207 should not be in this bill. Should such a provision be in any bill? Do you believe commodity futures trading requires no margin regulation, ever?

Mr. DIXON. It is something that should be studied—after study given here by the Federal Reserve Board—because of various contingencies that might arise.

Mrs. SULLIVAN. They do not want to touch it, I can tell you that.

May I say this before you answer. If you recall in the sugar speculation in 1963 they only required 7½-percent margin to be put on and this meant that anyone—and many did—who wanted to turn over a fast dollar for a few hundred dollars could get in and trade day to day \$20,000 and \$25,000 worth of futures with just putting down a couple of hundred dollars of margin.

Mr. DIXON. It could be argued that that has an advantage during some times and disadvantages during other times.

Mrs. SULLIVAN. They said they needed speculators to come in and gamble in order to make a market. But nevertheless, what excessive speculation on very low margin did to sugar was, in a very few months,

to double the price. The sugar market went completely out of bounds and the world sugar price later collapsed and never got back since to what it should be. We found out in our investigation that people who had never before speculated in sugar futures were in it in a big way, some making a very good profit and others taking a loss which in some cases they could not afford. They didn't realize the price could fall so far so fast, just as it had previously soared.

Only because of the way this affects the consumer do we feel that this needs some discussion out loud. It was not being discussed anywhere else; therefore we put it in this bill.

Mr. Halpern?

Mr. HALPERN. Thank you, Madam Chairman.

Mr. Dixon, you mentioned that certain of the advertising provisions in H.R. 11601 might duplicate regulations already in existence under the Federal Trade Commission statute.

I wonder what the nature of the protection is that consumers currently received in view of the many advertisements of credit arrangements that have been cited which may not be false but which, in their choice of items disclosed, are certainly highly misleading?

Mr. DIXON. I wouldn't want to try to make out a case that we have done any great job in this field. I cited two types of cases that we proceeded against—General Motors and Ford Motor Co. Certainly where we found such transactions taking place in commerce, and we had reason to believe there was deception or something unfair with it, we have a statute that is broad enough to enable us to proceed against such practices. But the problem that this bill is addressed to is far greater than this—it is failure to do certain things.

It is failure to make clear for one reason or another what this bill is addressed to. We had in the *General Motors* case, for instance, what we considered an affirmative misrepresentation, that is, citing 6 percent when it was more than that. If someone just failed to disclose what credit terms were, just didn't recite anything, just said the total price for instance was \$400, then you get into the fringe area of our society where people don't have good credit rating and cannot get credit ratings, maybe for good reasons or bad reasons—sometimes we found that there is no credit terms mentioned, just said you want this television or this radio, it will be \$400 to you.

Now, that is the total cost. What is the price? It might be advertised for, say \$2.50 per week. They do not tell you what the price is or how many weeks or anything.

Now, should they be told?

Certainly, \$2.25 a week is truthful. It is not misrepresenting. The failure there, if there is any deception, is the failure to give enough information.

Now, here in the District of Columbia we have enough jurisdiction I think to do something about some of these types of problems. But when you get across the broad scope of America I think that our problems are a little more difficult.

Mr. HALPERN. What is your opinion of the provisions in H.R. 11601 which prohibit statement of credit terms, unless such terms are "usually and customarily" arranged?

Mr. DIXON. Specific downpayment is required unless the creditor usually and customarily arranges downpayments in that amount?

Mr. HALPERN. Yes.

Mr. DIXON. This will be a prohibition.

Mr. HALPERN. What is your opinion about that?

Mr. DIXON. I think it would be a good provision, I think it would be helpful. In other words, I don't see anything basically wrong in the purpose—whether it is the Senate version or this version or the many others, that as long as the section is, within a reasonable manner, forcing enough disclosure so that a purchaser is properly apprised of the complete cost of credit and finance charges when he comes into it.

Mr. HALPERN. Do you feel that advertisers could comply with the provisions requiring specification of all credit terms if any terms are mentioned without necessitating highly unwieldy advertisements?

Mr. DIXON. I don't think this will kill advertising, no, sir. I will tell you, I believe in advertising and I don't think truthful advertising hurts anybody.

Mr. HALPERN. I am saying, would the advertising—

Mr. DIXON. They would just not advertise if you had to do all that. I think that business says if you want people to know you have a better product, you better tell them about it.

Mr. HALPERN. How do you feel the advertising could comply with it?

Mr. DIXON. Well—

Mr. HALPERN. Do you think—do you feel the advertising could comply with it?

Mr. DIXON. I do. I think within a reasonable fashion, yes.

Mr. HALPERN. Thank you, Mr. Dixon.

Mr. GREENBERG, how have small businesses fared, in general, as a result of the expanded use of credit rather than cash transactions?

Mr. GREENBERG. I couldn't give you the information. I would like to supply it for the record.

(The material referred to follows:)

In general, it appears to SBA that the expanded use of consumer credit has had a beneficial effect upon small business. The availability of consumer credit has helped sustain consumer demand, thereby helping to sustain sales volume of small retailers, distributors, service industries, and manufacturers of consumer goods. There appears little doubt that small businesses extend consumer credit to their customers for competitive reasons, and that the costs of credit selling may cause greater financial strain on the small business than on the large. However, available data indicates that the great bulk of the large increase in consumer credit over the past twenty-five years has been supplied by financial institutions. The extra expenses which small concerns may incur in extending consumer credit are generally more than compensated for in added business receipts.

Mr. HALPERN. I will submit the question to you exactly as I presented it to you and I would appreciate your response.

How do you feel about the exemption of small transactions from the disclosure provisions of truth-in-lending legislation?

Do you think that this might have the effect of exempting many small retail businesses from disclosure altogether?

Mr. GREENBERG. Well, the position of the agency is that we think all credit transactions should be covered. We think they should all be treated alike. We feel, too, excluding this kind of thing would in effect be affecting the very people who we think are most in need of

this kind of information. We, therefore, agree with the original S. 5 and the elimination of that exemption as proposed in H.R. 11601.

Mr. HALPERN. Thank you.

Thank you, Madam Chairman.

Mrs. SULLIVAN. I want to thank both you gentlemen for your patience. It is obvious we are not united on this subcommittee on the product of 12 times $1\frac{1}{2}$ or the quotient of one-twelfth of 18. Eventually we will have to use our best judgment on this question of annualizing revolving credit accounts.

The subcommittee will meet tomorrow morning at 10 o'clock when we will hear Secretary Weaver and witnesses from the American Bankers Association.

(Whereupon at 3:40 p.m., the subcommittee recessed, to reconvene Thursday, August 10, 1967, at 10 a.m.)

CONSUMER CREDIT PROTECTION ACT

THURSDAY, AUGUST 10, 1967

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSUMER AFFAIRS
OF THE COMMITTEE ON BANKING AND CURRENCY,

Washington, D.C.

The subcommittee met, pursuant to recess, at 10:15 a.m., in room 2128, Rayburn House Office Building, Hon. Leonor K. Sullivan (chairman of the subcommittee) presiding.

Present: Representatives Sullivan, Stephens, Gonzalez, Minish, Hanna, Annunzio, Bingham, Dwyer, Fino, Halpern, Wylie, and Williams.

Mrs. SULLIVAN. The Subcommittee on Consumer Affairs will come to order.

We are honored again today to have as a witness on consumer credit legislation a member of President Johnson's Cabinet, the Honorable Robert C. Weaver, Secretary of the Department of Housing and Urban Development, a distinguished educator who began working on the problems of the poor people of this country during the days of the depression more than 35 years ago, with ever-increasing responsibilities in this field ever since, particularly in the area of housing.

Dr. Weaver is accompanied by Assistant Secretary for Mortgage Credit and FHA Commissioner Philip N. Brownstein, one of the most highly respected career men in the entire Federal service, who guided the GI home loan program for the Veterans' Administration with great success before becoming FHA Commissioner.

We welcome you both as old friends of the Committee on Banking and Currency. I appreciate very much the sacrifices in time and effort being made by Secretary Weaver to squeeze this appearance into a brutally crowded schedule and I want to assure you that we will not hold you overly long, since Mr. Brownstein can ably answer our questions, I am sure.

Your presence here in support of effective credit disclosure legislation is further evidence of the strong drive behind such legislation by the executive department.

I understand, Mr. Secretary, as soon as you make your statement that you are going to have to leave.

Secretary WEAVER. Yes.

Mrs. SULLIVAN. While we hate to see you do so, we will ask Mr. Brownstein to take over.

Your statement is short. You would probably like to read it just as it is. You may proceed.

STATEMENT OF HON. ROBERT C. WEAVER, SECRETARY OF HOUSING AND URBAN DEVELOPMENT; ACCOMPANIED BY PHILIP N. BROWNSTEIN, ASSISTANT SECRETARY FOR MORTGAGE CREDIT AND FEDERAL HOUSING COMMISSIONER, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary WEAVER. Madam Chairman and members of the committee, it is a pleasure for me and Assistant Secretary Brownstein to appear before your committee in support of truth-in-lending legislation and to discuss with you additional provisions in your Consumer Credit Protection Act (H.R. 11601).

Mr. Brownstein is responsible for the programs of the Department of Housing and Urban Development which would be directly affected by the provisions of Senate-passed S. 5 and H.R. 11601. He will give you specific views as to the effect of the bills on those programs. He will tell you, also, of the steps that have already been taken by the Department to implement the truth-in-lending legislation.

I have been in complete accord with the objectives of the truth-in-lending bill since its inception. Truth-in-lending legislation was requested by the President in his message to the Congress on consumer protection early this year. It has been supported by the administration since 1962.

The availability of easy credit is a mixed blessing to many of our people—particularly those who need it the most. Like all good things, it can and has been abused and misused. Some, at least, of the unhappiness and discontent of the riot areas can be attributed to these misuses.

The report of the Governor's commission on the Los Angeles riots states:

Another problem is "easy credit" which can become harsh indeed if the disadvantaged person defaults on his installment obligations. The debtor may experience the loss of his property through repossession, or the loss of his job through repeated garnishments of his wages. While it is easy to say that the improvident debtor brought this state upon himself, we deplore the tactics of some merchants and lenders who help induce low-income persons to become heavily debt-burdened.

The truth-in-lending legislation will not of course correct this situation completely any more than any one other piece of legislation. It can, however, be a major part of the consumer education program being sponsored by the President through the work of his Special Assistant for Consumer Affairs.

As Under Secretary Barr told you, it is not only the poor and disadvantaged who do not understand or comprehend all the current lending practices. Even those sophisticated in finance have difficulty in distinguishing between the various methods used in imposing charges for credit.

The truth-in-lending legislation would lead the way in providing this simplification and uniformity. It will give the people the information they need to compare costs and make intelligent decisions as to what they purchase, from whom they purchase, and when.

This is important not only in connection with consumer installment and revolving credit purchases, but it is also important to families—particularly to low-income families—who are interested in purchasing a home. They should be fully informed as to the total amount in dollars they will pay for their homes and the annual rate of financing included in the total dollar amounts.

At the request of the Senate Subcommittee on Production and Stabilization, when it was considering the truth-in-lending bill in 1962, we furnished to the committee information on State laws relating to the subject matter of the bill. Among other things, this information showed the inadequacy of most State laws in this field.

As you know, H.R. 11601 contains more than just truth-in-lending provisions. It would, in addition, put an arbitrary limit on financing charges, authorize consumer credit control during national emergencies, prohibit garnishment of wages, establish a National Commission on Consumer Finance, and prohibit confession-of-judgment notes. As indicated by Under Secretary Barr, these provisions are complex and have not had the benefit of complete study by the Congress and the administration. I concur with his view that they should be explored more fully before enactment into law.

On the other hand, enactment of the truth-in-lending provisions should not be delayed. They have been under consideration for at least 6 or 7 years. Truth in lending is one of the ways we can help the poor without extensive expenditures.

Mr. Brownstein is here and will discuss further with you the effects of this legislation on our programs.

Mrs. SULLIVAN. Thank you, Mr. Secretary, I know that you must go so we will direct our questions to Mr. Brownstein, and we will excuse you.

Secretary WEAVER. Thank you.

Mrs. SULLIVAN. Thank you for coming. I know how hard it is for a Cabinet officer to fit in all of the demands upon his time.

I have just one question I want to ask you, Mr. Brownstein, before I pass to the others. Today we are going to reverse the order of questioning and start down at the end of the table instead of up here at the top.

I understand that you have a statement of your own that you would like to read first.

Mr. BROWNSTEIN. I have a brief statement, Madam Chairman.

Mrs. SULLIVAN. Will you read your statement, then, before we question you?

STATEMENT OF HON. PHILIP N. BROWNSTEIN, ASSISTANT SECRETARY FOR MORTGAGE CREDIT, AND FEDERAL HOUSING COMMISSIONER, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. BROWNSTEIN. Madam Chairman and members of the committee, I am glad to appear before your committee today and testify on the Consumer Credit Protection Act.

A major portion of this bill consists of what has been known as the truth-in-lending bill. The Department of Housing and Urban Development has consistently supported the objectives of the truth-in-lending bill during the years of its consideration. In fact, starting in 1961, the Department has put into effect procedures designed to accomplish those objectives.

The truth-in-lending provisions would require creditors who extend credit in connection with the sale of goods or services to give the persons to whom credit is extended information prescribed by the bill aimed at assuring that the purchasers are fully aware of the finance charge they are paying for the credit.

Long-term mortgage debt accounts for around \$230 billion in outstanding debt. American consumers now owe in the neighborhood of

\$95 billion in short and intermediate debt. The rate of consumer debt is growing rapidly. Since 1945, consumer credit—excluding real estate—has increased from \$5.6 to \$94.8 billion. In 1966 FHA insured almost 422,000 mortgages on homes totaling close to \$6.1 billion in amount. These figures, while incomplete, indicate the volume of credit with which this bill would be involved. They also give some indication of the volume of home mortgages that would be covered by the bill.

Unlike S. 5, H.R. 11601 would require full disclosure of finance charges for home mortgages as well as other credit sales transactions. It is customary in mortgage transactions to set forth the financing charge in terms of a simple annual interest rate based on the outstanding balance of the loan but the borrower is generally unaware of the total dollar amount of the finance charge involved over the life of the loan. Even though many loans are paid in full prior to maturity, through refinancing, or from the mortgagor's personal savings, we favor requiring full disclosure of the total number of dollars which would be paid over the life of the mortgage if it runs to maturity in order that the mortgagor will have all of the facts available to him when negotiating for a mortgage loan.

In most instances buying a home is a major transaction to the family involved. Most people buy a home only once or twice during their lives. Many of them do not think of the total amount they will pay over the life of the mortgage, but think in terms of whether they have the necessary downpayment and can make the monthly payments. Often, in determining what they can afford, monthly payments are compared with what had been their rental. Debt-free ownership may not be as strong a motivation as in the purchase of consumer goods.

The family which is able to do so should be encouraged to make a larger than minimum downpayment and borrow less and for a shorter period of years so that they will reduce the interest costs over the life of the loan.

The FHA has procedures in effect which are designed to achieve many of the objectives in the truth-in-lending bill. These procedures place emphasis upon the consumer credit program where relatively short-term loans are obtained to finance repairs and property improvements. Printed tables appear on the application form for these loans showing the true interest rates and total interest charges involved over varying amortization periods. While the equivalent interest rate on a property improvement loan can be as high as 9½ percent on a 12-month loan, our disclosure requirements have received favorable acceptance.

The FHA has prepared and distributed in large quantities a guide to home buyers and owners containing information on mortgage and property improvement financing. Charts are provided in the publication which show specific monthly payments and total interest costs in varying amounts for varying amortization periods. The home buyer is urged to study these figures and to make a careful decision as to relative advantages of longer or shorter term loans based upon his particular financial situation and his plans for the future. For example, the chart explains that a 30-year loan costs about 60 percent more in total interest than a 20-year loan. We tell the home buyer that he may need the long-term financing in order to own a home but if he can afford slightly larger monthly payments it is distinctly to his advantage not to apply for the maximum term.

If the truth-in-lending provisions of the bill become law some changes in our procedures would be necessary in order to assure complete compliance with all of its provisions. We are prepared to do this immediately when the bill is enacted.

H.R. 11601 also contains provisions for standby authority to restrict or control the use of consumer credit during national emergencies, prohibit the garnishment of wages or salaries, and establish a National Commission on Consumer Finance.

The Commission would be directed to study the function and structure of the consumer financing industry and report to Congress its findings with respect to (1) the adequacy of the provisions of consumer financing at reasonable rates, (2) the adequacy of existing supervisory and regulatory mechanisms to protect the public, and (3) the desirability of Federal chartering of consumer finance companies or other Federal regulatory measures.

With respect to the prohibition of garnishment of wages we suggest that the committee should study alternatives before approving this provision. As an example, in the District of Columbia the amount which a creditor may garnish in one pay period is limited to a percentage of the total wages. This makes the proceeding less harsh but preserves it for use where needed. In most States garnishment is the only effective means for a creditor to obtain satisfaction of a judgment debt when a wage earner has no property upon which execution of a judgment can be levied. While we agree that the relative ease of garnishment may frequently influence a creditor to make an unwarranted extension of credit and that a garnishment action will often result in disruption of employment, we believe that the elimination of garnishment could cause greater problems than those eliminated. If creditors were not able to rely on garnishment as a resource for collection, fewer would be willing to extend the credit needed by many wage earners. The cost of credit might also increase because of the greater risk of ultimate losses.

We suggest that the studies proposed to be made by the Commission which would be established could just as well be carried out by an existing Federal agency or by the Congress. We also believe that the provision in the bill for establishment of standby consumer credit controls and other provisions in the bill not related to truth in lending should be given further study before enactment.

Mrs. SULLIVAN. Thank you very much, Mr. Brownstein.

I think the major questions that we would like to put to you would be on mortgages—first mortgages and other mortgages which would be covered by H.R. 11601. As the questioning develops we will probably go into that more deeply. I just want to ask two things now.

First, what do we now have on the books under the jurisdiction of HUD to make loans available to homeowners for extensive repairs, and how do you go about making this information known across the country?

Mr. BROWNSTEIN. We have several programs, Madam Chairman, that deal with this. One is the 203(k) provision which permits a second mortgage in back of a primary mortgage for a 20-year term, \$10,000 maximum mortgage amount. We have 220(h) for use in renewal areas. We have title I, the FHA improvement program, and 203(b) may be used to refinance an existing mortgage and include an additional advance to cover the cost of the improvement.

The way that we go about advising people of this is a consumer

bulletin which we have published that we call "Three Ways To Finance Home Improvements Through FHA."

Mrs. SULLIVAN. With these four provisions that you mentioned, what is the limit of a loan that can be made under FHA?

Mr. BROWNSTEIN. There are different limits under each of these. The largest of course would be in the 203(b) program where the maximum limitation on a single home loan is \$30,000.

Mrs. SULLIVAN. For extensive repairs?

Mr. BROWNSTEIN. This could be the refinancing of the existing house and repair of it.

Mrs. SULLIVAN. At what rate of interest?

Mr. BROWNSTEIN. Six percent.

Mrs. SULLIVAN. Six percent? Would this be available to, say, a homeowner whose home has been paid for?

Mr. BROWNSTEIN. It would be used principally for that type of person or one who still has a mortgage on it but needs extensive repairs and he refinances the balance due on the existing mortgage and includes an additional advance to cover the repairs.

Mrs. SULLIVAN. This 203(b) loan could be as high as \$30,000 on an individual home?

Mr. BROWNSTEIN. Yes.

Mrs. SULLIVAN. Now let me ask this: If the home should be in such condition that—it is in poor condition—and the family has a low income but is a good credit risk, could they borrow up to \$10,000 for a home that perhaps is not worth \$10,000 in order to bring it up to par by putting extensive repairs into that home?

Mr. BROWNSTEIN. The as-repaired value of the house would have to meet the requirements of the law and the appraisal cannot be exceeded.

Mrs. SULLIVAN. In other words, if the house is only worth \$6,000 now and they want to apply for a \$10,000 loan; when the repairs and extensions are added to the house, it would have to then have a value, a real value of some \$16,000 in order to get that loan; is that what you mean?

Mr. BROWNSTEIN. If it has a current value, a current as-is value of \$6,000 and the cost of the repairs is \$10,000 and they need \$16,000, yes, it would have to have to appraise at that amount in order to get the loan.

Mrs. SULLIVAN. They can get that now under FHA at a 6-percent rate?

Mr. BROWNSTEIN. Yes, madam.

Mrs. SULLIVAN. In most cities, would loans of that kind be discounted—with points?

Mr. BROWNSTEIN. At the present time in most cities I would say yes, there probably would be a discount.

Mrs. SULLIVAN. So the rate then would really be higher if they have to pay points?

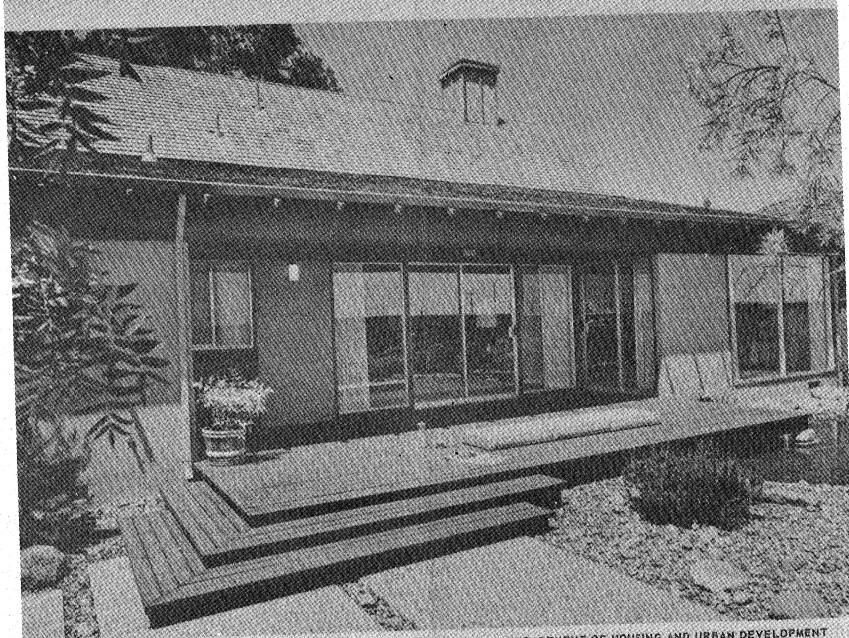
Mr. BROWNSTEIN. The cost to the mortgagor would be higher, yes.

Mrs. SULLIVAN. I believe that it would be helpful for us at this point in the record if you would put this information chart that you have just shown us into the record so that we would know what is available for any kind of repair loan, whether the house is already mortgaged or whether it is free of mortgage.

Mr. BROWNSTEIN. It is covered in this pamphlet.
(The pamphlets referred to follow:)

CONSUMER
BULLETIN

FHA HOME MORTGAGE INSURANCE



The cover photograph is a view of one of the FHA insured homes in the Montclair West subdivision in San Jose, California. The home received an Honor Award in FHA's 1964 Awards for Residential Design.

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Robert C. Weaver, Secretary
FEDERAL HOUSING ADMINISTRATION
Washington, D. C. 20410

FHA No. 208

April 1966

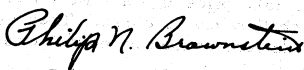
INTRODUCTION

Few families are able to pay cash for their homes. A basic purpose of the Federal Housing Administration is to help the family that finances its home purchase to buy it on a sound basis.

Under the FHA system a home buyer makes a small down payment and obtains a mortgage loan for the rest of the purchase price. The mortgage contract calls for monthly payments over a long term of years. The loan is made by a bank, building and loan association, mortgage company, insurance company, or other FHA-approved lender, and is insured by the FHA. It is not a Government loan. The FHA does not lend money or build homes.

FHA mortgage insurance protects the lender against loss on the loan. Because the loan is insured, the lender is able to lend on more liberal terms than the home buyer might otherwise be able to obtain. In this way, many more families can own their homes.

Mortgages insured by the FHA can be used to pay for building, buying, or refinancing homes.



*Philip N. Brownstein,
Assistant Secretary-Commissioner
Federal Housing Administration*

Department of Housing and Urban Development

THE FHA AND THE HOME BUYER

WHO CAN BORROW? An FHA borrower must have a good credit record. He must have the cash needed at closing. He must have enough steady income to make the monthly mortgage payments without hardship.

The FHA has no rigid age limit for a borrower. Nor does it say he must have a certain amount of income to buy a home at a certain price. His age and his income will be considered along with other factors that help the FHA to judge whether or not he will be able to repay the loan.

THE PROPERTY. It must at least meet FHA minimum standards. The house must be well planned, well built, and located in a suitable neighborhood.

HOW TO APPLY. Application can be made to any lender that has been approved by the FHA to make insured mortgage loans. If the lender is willing to make the loan, he provides the necessary forms and helps the borrower to complete them. Then he forwards the papers to the FHA insuring office that serves the area in which the property is located.

The FHA office reviews the forms in order to judge whether the loan would be a reasonable one for the borrower to take on. The FHA tells the lender what it has decided. The lender informs the borrower. If FHA has approved the application the lender arranges with the borrower for the closing of the loan.

An owner who wishes to sell a home can obtain from the FHA, before the house is listed for sale, a statement of the mortgage amount that the FHA will insure on it for a buyer acceptable to the FHA. This is done by applying through an FHA-approved mortgage lender for a conditional commitment from the FHA.

BUILDER'S WARRANTY

When the FHA approves a home before the building is begun, the builder must warrant that the house conforms substantially to the plans and specifications on which the FHA based its appraisal. The warranty is in effect for one year. The year dates from the time the first buyer takes title to the home, or from the time the home is first lived in-- whichever occurs first.

If during that year the owner notices defects that he believes the builder should correct, he should ask the builder in writing to correct them. If the builder fails to do so, the owner should write to the FHA insuring office. He should be sure to mention his FHA case number. If inspection by the FHA shows the builder to be at fault, the FHA will try to persuade him to correct the defects. If he does not, the owner can take legal action. Most builders take pride in their work and will correct defects for which they are to blame. They cannot be expected to correct damage caused by normal wear and tear or by poor upkeep.

THE FHA-INSURED MORTGAGE

INTEREST RATE. Interest rates vary from time to time with changes in the supply of and demand for mortgage money. At present the FHA rate for any insured home mortgage is not more than 5 1/4 percent a year.

The longer the term of a mortgage, the lower the monthly payment will be but the more interest will be paid over the entire term. On a 20-year loan of \$10,000 at 5-3/4 percent, the monthly payment to principal and interest is \$70.30. Over 20 years the interest adds up to \$6,830.93. On a 30-year loan, the monthly payment to principal and interest is only \$58.40, but the total interest over 30 years will be \$10,983.21.

MORTGAGE INSURANCE PREMIUM. The FHA charges a mortgage insurance premium of 1/2 percent a year on the average scheduled loan balance outstanding during the year. The amount charged does not take into account delinquent payments or payments made in advance. The FHA uses the income from premiums, and from fees and investments, to pay its expenses and insurance losses and to maintain its insurance reserves. The premium is included in the monthly mortgage payment.

CLOSING COSTS AND PREPAID ITEMS. Closing costs may include the FHA application fee, a lender's service charge, costs of title search, charges for preparing, recording, and notarizing the deed and mortgage, and other items. The borrower may also be asked at closing to make payments in advance for such items as taxes and fire insurance.

CONSUMER CREDIT PROTECTION ACT

A lender cannot collect a discount from an FHA home buyer. But the FHA cannot prevent the lender from asking a borrower to pay a charge of that kind if he is building houses for sale, or building a home to live in, or refinancing a mortgage. Nor can the FHA prevent the charge if the borrower is buying a home from a Government agency that cannot pay a discount.

MONTHLY PAYMENT. The monthly mortgage payment includes interest, part of the loan balance, and amounts for mortgage insurance premium, fire and other property insurance, and taxes and special assessments.

ADVANCE PAYMENTS. A home owner can pay off his entire mortgage balance, or make one or more extra payments of principal, whenever he makes a regular monthly payment. But he must give his lender written notice at least 30 days in advance that he intends to do this. By making extra payments, he can repay his loan faster and save interest.

If in any calendar year extra payments of principal total more than 15 percent of the original loan, the FHA may charge an adjusted premium when the loan is paid off. The charge is not made if the mortgage insurance has been in force for at least ten years when final payment is made. Nor is it made if the owner pays the loan in full when a new FHA-insured mortgage is placed on the home by him or by a new owner.

THE RESALE. If a home is sold while the insured mortgage is in force, there are several ways in which the buyer can finance. The person who sells the home should talk with his mortgage lender about this and be sure he understands how the financing will affect him.

1. The buyer can pay cash, and the seller can pay off the mortgage balance. This ends the seller's obligation.
2. With the consent of the FHA, the lender can put the new owner's name on the mortgage and take the seller's name off. This ends the seller's obligation. The buyer must be approved by the FHA and he must make a down payment equal to the difference between the selling price of the home and the unpaid mortgage balance.
3. The buyer can buy the home subject to the mortgage. FHA approval is not needed; but the seller's name will still be on the mortgage, and if the buyer fails to make the mortgage payments the lender will look to the seller for payment. This could damage the seller's credit; it could result in serious claims against him; and it could have other undesirable results. Also, he might not be able to obtain an insured mortgage loan on another house while he was still liable on the old mortgage. The first or second arrangement mentioned above is usually better for the seller.

TWO PLANS OF FHA HOME MORTGAGE INSURANCE

What has been said so far applies to any home mortgage insured by the FHA. But the FHA has two major plans of home mortgage insurance. The special features of each plan are outlined here.

Most home mortgages insured by the FHA are insured under Section 203 of the National Housing Act. This is the basic FHA program.

The second plan is provided under Section 221 of the National Housing Act. It applies to homes for families forced to move because of urban renewal or other governmental action such as highway building. It also applies to homes for other families of low and moderate income.

Mortgages on 2-, 3-, and 4-family homes as well as on one-family homes can be insured under Section 203 and for displaced families under Section 221. Because nearly all FHA-insured home mortgages are for one-family homes, the information that follows is for one-family homes only.

Mutual Mortgage Insurance (Section 203)

LOAN AMOUNT. Under Section 203(b), mortgage amounts insured can be as high as \$30,000 on one-family homes. Mortgage amounts can be higher in Alaska, Hawaii, and Guam because costs are higher there.

RATIO OF LOAN TO PROPERTY VALUE. The amount of a mortgage insured under Section 203(b) cannot be more than 97 percent of \$15,000 of the FHA estimate of the property value, plus 90 percent of the next \$5,000 of value, plus 80 percent of the remaining value. For qualified veterans who have not received any home financing aid through the Veterans Administration, the mortgage limit is 100 percent of \$15,000, plus 90 percent of the next \$5,000, plus 85 percent of any remaining value. The veteran must make a cash investment of at least \$200. The \$200 requirement applies to a home costing \$15,000 or less. It also applies to the first \$15,000 of value if the home costs more than \$15,000.

For a home approved for mortgage insurance after building is begun and before the house is a year old, the mortgage amount insured under Section 203(b) cannot be more than 90 percent of \$20,000 of value, plus 80 percent (or 85 percent for veterans) of value above \$20,000.

A Section 203(b) loan to refinance a home cannot be more than (1) 85 percent of the amount that can be insured when the borrower is buying or building a home to live in, or (2) the unpaid balance of the old mortgage plus the cost of any repairs or improvements, plus the costs of obtaining the loan. A loan to buy or build a home as an investment is also limited to not more than 85 percent of the amount that can be insured for a borrower who is buying or building a home to live in.

Section 203(i) mortgages are insured by the FHA in amounts up to \$12,500 on homes in areas that do not meet the location requirements under Section 203(b).

A Section 203(i) mortgage cannot be more than 97 percent of appraised value. If the home is approved for mortgage insurance after building is started and before the house is a year old, the limit is 90 percent of value.

A Section 203(i) loan made to someone who does not intend to live in the house cannot be more than 85 percent of the FHA-appraised value. If an owner who lives in his house wishes to refinance an old mortgage, the new mortgage cannot be more than (1) 85 percent of appraised val-

ue, or (2) the old mortgage balance plus the cost of repairs or improvements and the costs of getting the loan.

DOWN PAYMENT. Under Section 203 the down payment is the difference between the insured mortgage and the acquisition cost of the home. (Acquisition cost is the purchase price plus closing costs. It does not include prepaid items.) The insured mortgage is a percentage of the FHA estimate of value or of the acquisition cost, whichever is less.

The purchase price and the FHA value are not always the same. If the purchase price is more than the FHA value, the home buyer pays the difference in cash. If the purchase price is less than the FHA value, the ratio of loan to acquisition cost is figured in the same way as the ratio of loan to property value.

Under Section 203(b) a borrower must be prepared to pay the down payment (including closing costs) and the prepaid items in cash or the equivalent of cash. If he owns his lot, that may count as all or part of the down payment, depending on the value of the lot and how much he has paid on it. A buyer 62 years of age or older may borrow the money for down payment and prepaid items from a person or corporation approved by the FHA.

TIME ALLOWED FOR REPAYMENT OF LOAN. A Section 203(b) or 203(i) loan may be repaid in monthly payments over a term of 10, 15, 20, 25, or 30 years. In a few special cases the term may be 35 years.

MINIMUM PROPERTY STANDARDS. The minimum standards for property as well as for location are somewhat lower for Section 203(i) loans than for Section 203(b) loans.

Low and Moderate Priced Homes (Section 221)

LOAN AMOUNT. A mortgage insured under Section 221 on a one-family home is limited to not more than \$11,000. This limit may be increased to as much as \$15,000 in high-cost areas. Limits have been set by the FHA for the area served by each of its insuring offices, based on cost levels in the area.

RATIO OF LOAN TO PROPERTY VALUE. A Section 221 mortgage for the full value of the property can be insured if the owner is to occupy it as his home. There is an exception to this. If the house is approved for mortgage insurance after building was started and before the house is a year old, the mortgage cannot be more than 90 percent of value.

For a borrower who is buying and improving a home to live in, the mortgage amount insured under Section 221 cannot exceed the estimated cost of repairs plus the estimated value of the home before the improvements are made.

For a borrower other than an owner-occupant, a Section 221 mortgage cannot be more than (1) 85 percent of the amount FHA can insure for an owner-occupant, or (2) 85 percent of the property value -- whichever is less. If an owner-occupant borrows to refinance, the mortgage limit is set in one of two ways. The 85 percent ratio can apply. Or the limit can be the amount of his present mortgage balance plus the cost of repairs or rehabilitation and the costs of getting the loan.

DOWN PAYMENT AND INITIAL CHARGES. Under Section 221, a displaced family must make a down payment of at least \$200. The \$200 can be applied to closing costs and prepaid items. Other families must make a down payment of at least 3 percent of acquisition cost.

TIME ALLOWED FOR REPAYMENT OF LOAN. Under Section 221, except in a few special cases, the longest term is 30 years.

MINIMUM PROPERTY STANDARDS. The FHA minimum standards for low-cost housing apply to one-family homes financed under Section 221. The location standards are the same as under Section 203(b).

TYPICAL TRANSACTIONS

On the next two pages are tables showing, for homes of various values, the highest mortgage amounts that can be insured under Section 203 and under Section 221. Also shown are the smallest down payments that can be made, and the monthly payments to interest, principal, and mortgage insurance premium. Amounts for other items included in the monthly payment, such as taxes and fire insurance, vary from place to place and are not shown in these tables. The tables apply only to homes that the owners are to live in.

EQUAL OPPORTUNITY IN HOUSING

FHA regulations under the President's Executive Order 11063 of November 20, 1962 require that housing provided with FHA assistance be made available without discrimination because of race, color, creed, or national origin.

The regulations prohibit any person, firm, or group receiving the benefits of FHA mortgage insurance or doing business with FHA from practicing such discrimination in lending or in the sale, rental, or other disposition of the property. Violations may result in discontinuation of FHA assistance.

One- or two-family dwellings which have been occupied by the owner are exempt from the regulations; but if the purchaser of such a home wishes to finance it with an FHA-insured mortgage the lender may not refuse to make the loan because of the buyer's race, color, creed, or national origin.

CONSUMER CREDIT PROTECTION ACT

SECTION 203(b)

MAXIMUM MORTGAGE AMOUNTS, MINIMUM DOWN PAYMENTS, AND MONTHLY MORTGAGE PAYMENTS FOR OWNER-OCCUPIED 1-FAMILY HOMES*

Proposed and Existing Construction					Existing Construction Completed Less Than One Year and not Approved Prior to Beginning of Construction			
FHA Value	Maximum mortgage amount ^{1/}	Minimum down payment	Loan-value ratio	Monthly payment (30-year term) ^{2/}	Maximum mortgage amount ^{1/}	Monthly payment (30-year term) ^{2/}	Minimum down payment	Loan-value ratio
\$ 6,000	\$ 5,800	\$ 200	96.7%	\$36.27	\$ 5,400	\$33.78	\$ 600	90.0%
7,000	6,750	250	96.4	42.22	6,300	39.40	700	90.0
8,000	7,750	250	96.9	48.47	7,200	45.03	800	90.0
9,000	8,700	300	96.7	54.41	8,100	50.66	900	90.0
10,000	9,700	300	97.0	60.67	9,000	56.29	1,000	90.0
11,000	10,650	350	96.8	66.61	9,900	61.92	1,100	90.0
12,000	11,600	400	96.7	72.54	10,800	67.54	1,200	90.0
13,000	12,600	400	96.9	78.80	11,700	73.18	1,300	90.0
14,000	13,550	450	96.8	84.74	12,600	78.80	1,400	90.0
15,000	14,550	450	97.0	91.00	13,500	84.43	1,500	90.0
16,000	15,400	600	96.3	96.32	14,400	90.06	1,600	90.0
17,000	16,300	700	95.9	101.94	15,300	95.69	1,700	90.0
18,000	17,200	800	95.6	107.57	16,200	101.32	1,800	90.0
19,000	18,100	900	95.3	113.20	17,100	106.94	1,900	90.0
20,000	19,000	1,000	95.0	118.83	18,000	112.58	2,000	90.0
21,000	19,800	1,200	94.3	123.83	18,800	117.58	2,200	89.5
22,000	20,600	1,400	93.6	128.83	19,600	122.58	2,400	89.1
23,000	21,400	1,600	93.0	133.84	20,400	127.59	2,600	88.7
24,000	22,200	1,800	92.5	138.85	21,200	132.59	2,800	88.3
25,000	23,000	2,000	92.0	143.85	22,000	137.59	3,000	88.0
26,000	23,800	2,200	91.5	148.85	22,800	142.59	3,200	87.7
27,000	24,600	2,400	91.1	153.85	23,600	147.60	3,400	87.4
28,000	25,400	2,600	90.7	158.86	24,400	152.61	3,600	87.1
29,000	26,200	2,800	90.3	163.86	25,200	157.61	3,800	86.9
30,000	27,000	3,000	90.0	168.86	26,000	162.61	4,000	86.7
31,000	27,800	3,200	89.7	173.86	26,800	167.61	4,200	86.5
32,000	28,600	3,400	89.4	178.87	27,600	172.61	4,400	86.3
33,000	29,400	3,600	89.1	183.88	28,400	177.62	4,600	86.1
34,000	30,000	4,000	88.2	187.63	29,200	182.62	4,800	85.9
35,000	30,000	5,000	85.7	187.63	30,000	187.63	5,000	85.7

^{1/} After adjustment to next lower multiple of \$50 for mortgage amounts up to \$15,000 and \$100 for mortgage amounts above \$15,000.

^{2/} Monthly payment includes principal, interest at 5-3/4 percent per annum, and 1/12th the first annual premium at 1/2 percent per annum.

* Mortgage amounts may be increased and cash payments reduced for qualified veterans.

SECTION 221

MAXIMUM MORTGAGE AMOUNTS, MINIMUM DOWN PAYMENTS, AND MONTHLY MORTGAGE PAYMENTS
FOR OWNER-OCCUPIED 1-FAMILY HOMES

Mortgagor, displaced from an urban renewal area or as a result of governmental action, occupying a new or existing structure				Any other low- or moderate-income mortgagor					
				Property approved by FHA or VA before construction and inspected by FHA or VA during construction			Property not approved by FHA or VA before construction and not inspected by FHA or VA during construction		
Acquisition cost plus prepaid items ^{1/}	Maximum mortgage amount ^{2/}	Mortgagor's minimum investment ^{3/}	Monthly payment 30-year term ^{4/}	Maximum mortgage amount ^{5/}	Mortgagor's minimum investment	Monthly payment 30-year term ^{4/}	Maximum mortgage amount	Mortgagor's minimum investment	Monthly payment 30-year term ^{4/}
\$ 6,000	\$ 5,800	\$ 200	\$36.27	\$ 5,800	\$ 200	\$36.27	\$ 5,400	\$ 600	\$33.78
7,000	6,800	200	42.53	6,750	250	42.22	6,300	700	39.40
8,000	7,800	200	48.78	7,750	250	48.47	7,200	800	45.03
9,000	8,800	200	55.03	8,700	300	54.41	8,100	900	50.66
10,000	9,800	200	61.29	9,700	300	60.67	9,000	1,000	56.29
11,000	10,800	200	67.54	10,650	350	66.61	9,900	1,100	61.92
12,000	11,800 ^{6/}	200	73.80	11,600 ^{6/}	400	72.54	10,800	1,200	67.54
13,000	12,800 ^{6/}	200	80.05	12,600 ^{6/}	400	78.80	11,700 ^{6/}	1,300	73.18
14,000	13,800 ^{6/}	200	86.31	13,550 ^{6/}	450	84.74	12,600 ^{6/}	1,400	78.80
15,000	14,800 ^{6/}	200	92.56	14,550 ^{6/}	450	91.00	13,500 ^{6/}	1,500	84.43
16,000	15,000 ^{6/}	1,000	93.81	15,000 ^{6/}	1,000	93.81	14,400 ^{6/}	1,600	90.06

^{1/} Acquisition cost includes settlement expenses. Items of prepaid expense include initial payments for taxes, hazard insurance premiums, mortgage insurance premiums, and other prepaid expenses.

^{2/} Mortgage amount cannot exceed whichever is less: 100% of FHA value; or 100% of FHA value plus prepaid expense items, minus \$200.

^{3/} Mortgagor's minimum investment may include amounts covering settlement expenses and items of prepaid expense.

^{4/} Monthly payment includes principal, interest at 5-3/4% per annum, and 1/12th of the first annual mortgage insurance premium at 1/2% per annum.

^{5/} Mortgage amount cannot exceed whichever is less: 100% of FHA value; or 97% of FHA value plus prepaid expense items.

^{6/} Mortgage amount is limited to \$11,000, except that, in geographical areas where FHA finds cost levels require a higher amount, it may be increased to not over \$15,000.

CONSUMER CREDIT PROTECTION ACT

THE FHA IN BRIEF

Since its establishment in 1934, the Federal Housing Administration has written mortgage and loan insurance aggregating \$107 billion, covering 8 million homes, more than a million living units in multifamily projects, and nearly 28 million property improvement loans. FHA has helped more than 37 million families improve their housing standards and conditions.

Congress provided the FHA mortgage and loan insurance system to encourage improvement in housing standards, to promote sound financing practices in the housing field, and to act as a stabilizing force in the mortgage market. The FHA is self-supporting through income derived from fees, insurance premiums, and investments, and its insurance reserves are well over a billion dollars.

The Agency does not build houses or lend money. It acts only as an insurer of privately made loans from approved lenders.

In addition to its original programs of insurance for home improvement loans, home mortgages, and multifamily rental housing mortgages, FHA now insures mortgages through its 76 field offices on land development; housing for families of low and moderate income; housing in urban renewal areas; housing for the elderly or handicapped; nursing homes; cooperative housing; condominiums; experimental housing; housing at military installations; and long-term loans for major home improvements.

In over 31 years of operation, FHA has significantly influenced the location, volume, and kind of housing built in the United States. The agency has helped to make the low-downpayment, long-term, fully amortized mortgage the standard in mortgage lending.

The soundness of the FHA concept has been demonstrated over the years, and millions of mortgage and property improvement loans insured by FHA have been made by banks, building and loan associations, mortgage companies, and other FHA-approved lending institutions. By protecting these lenders against loss, FHA insurance enables them to advance credit on more liberal terms than might otherwise be available to families with moderate means.

The FHA-insured mortgage also is marketable on a national scale. This fact helps to keep localities supplied with mortgage money by enabling lenders to sell mortgages in return for new supplies of cash.

In 1947, the Federal Housing Administration was made a constituent agency of the Housing and Home Finance Agency. In 1965, it was made a part of the Department of Housing and Urban Development.

OTHER FHA CONSUMER BULLETINS

- FHA No. 106 *FHA Mortgage Insurance for Veterans*
- FHA No. 206 *FHA Insured Loans for Major Home Improvement*
- FHA No. 221 *FHA Mortgage Insurance for Rental and Cooperative Housing for Persons of Low and Moderate Income*
- FHA No. 227 *FHA's Cooperative Housing Program*
- FHA No. 246 *FHA Experimental Housing Program*
- FHA No. 247 *FHA Mortgage Insurance on Housing for the Elderly*
- FHA No. 415 *FHA's Rental Housing Program*
- FHA No. 428 *FHA Financing for Home Purchases and Home Improvements*
- FHA No. 428-A *An FHA "Quick Guide" to Buying a Home*
- FHA No. 467 *FHA Forbearance Provisions*
- FHA No. 491 *FHA Mortgage Insurance on Condominiums*
- FHA No. 512 *Title I Property Improvement Loans*
- FHA No. 528 *FHA Mortgage Insurance for Urban Renewal*
- FHA No. 696 *FHA Nursing-Home Mortgage Insurance*
- FHA No. 770 *A Comparison of FHA Home Improvement Programs*
- FHA No. 793 *FHA Assistance for Home Trade-Ins*
- FHA No. 895 *FHA and the Home-Buying Serviceman*
- FHA No. 2575 *Digest of Insurable Loans*

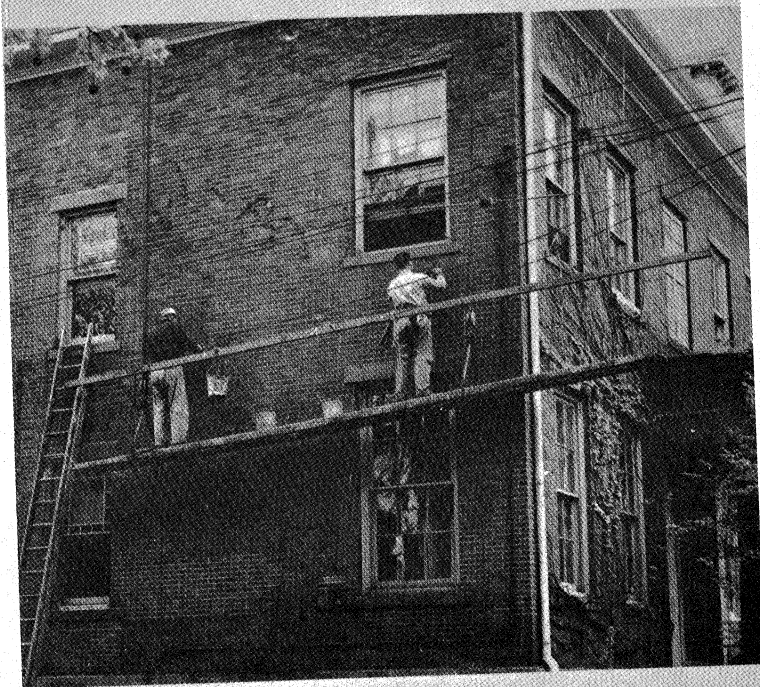
Information contained in this publication is subject to regulatory and statutory changes.

FHA INSURING OFFICES

- ALABAMA, BIRMINGHAM** 35203
2121 8th Avenue North
Tel. 325-3264
- ALASKA, ANCHORAGE** 99501
Room 222, Federal Bldg., P.O. Box 480
Tel. 272-5451
- ARIZONA, PHOENIX** 85002
244 West Osborne Road, P.O. Box 13468
Tel. 261-4434
- ARKANSAS, LITTLE ROCK** 72203
3433 Federal Office Bldg., 700 W. Capital Ave.
Tel. 372-5404
- CALIFORNIA, LOS ANGELES** 90013
5th & Broadway Bldg., 312 W. 5th Street
Tel. 688-5127
- SACRAMENTO** 95809
1800-I Street
Tel. 449-3471
- SAN DIEGO** 92101
1415 Sixth Avenue
Tel. 293-5310
- SAN FRANCISCO** 94111
100 California Street
Tel. 556-2238
- SANTA ANA** 92701
Freeway Center Bldg., 1440 East First St.
Tel. 543-0401
- COLORADO, DENVER** 80202
Railway Exchange Bldg., 909 17th St.
Tel. 297-4521
- CONNECTICUT, HARTFORD** 06103
Federal Office Bldg., 450 Main Street
Tel. 241-3638
- DELAWARE, WILMINGTON** 19801
536 Wilmington Trust Bldg.
Tel. 654-6561
- DISTRICT OF COLUMBIA, WASHINGTON** 20412
Railway Labor Bldg., 400 First St., N. W.
Tel. 783-4591
- FLORIDA, CORAL GABLES** 33134
3001 Ponce de Leon Blvd.
Tel. 445-2561
- JACKSONVILLE** 32201
21 West Church Street
Tel. 354-7221
- TAMPA** 33609
4224-28 Henderson Blvd., P.O. Box 18165
Tel. 228-7510
- GEORGIA, ATLANTA** 30303
230 Peachtree Street
Tel. 526-6595
- HAWAII, HONOLULU** 96801
P.O. Box 3377
Tel. 588-552
- IDAHO, BOISE** 83701
331 Idaho Street
Tel. 342-2231
- ILLINOIS, CHICAGO** 60604
219 S. Dearborn Street
Tel. 828-7660
- SPRINGFIELD** 62705
628 East Adams St., P.O. Box 1628
Tel. 525-4414
- INDIANA, INDIANAPOLIS** 46209
Arch. & Builders Bldg., 333 N. Penn. St.
Tel. 633-7188
- IOWA, DES MOINES** 50309
615 Park Street
Tel. 284-4481
- KANSAS, TOPEKA** 66603
700 Kansas Avenue
Tel. 234-8241
- KENTUCKY, LOUISVILLE** 40202
Madrid Bldg., Third & Guthrie Sts.
Tel. 582-5252
- LOUISIANA, NEW ORLEANS** 70113
Federal Bldg., 701 Loyola Avenue
Tel. 527-2563
- SHREVEPORT** 71101
627 Spring Street
Tel. 425-6600
- MAINE, BANGOR** 04401
Exchange Bldg., 27 State Street
Tel. 942-8242
- MARYLAND, BALTIMORE** 21231
404 North Bond Street
Tel. 685-8320
- MASSACHUSETTS, BOSTON** 02116
100 Baylston Street
Tel. 225-2741
- MICHIGAN, DETROIT** 48226
1249 Wash., Blvd., Book Bldg.,
Tel. 226-6216
- GRAND RAPIDS** 49503
921 Division Avenue North
Tel. 456-2225
- MINNESOTA, MINNEAPOLIS** 55401
110 South Fourth Street
Tel. 334-2641
- MISSISSIPPI, JACKSON** 39201
301 Bldg., 301 N. Lamar St.
Tel. 948-2267
- MISSOURI, KANSAS CITY** 64106
601 East 12th Street
Tel. 221-3201
- ST. LOUIS** 63101
315 N. Seventh Street
Tel. 622-4761
- MONTANA, HELENA** 59601
Steamboat Block, 616 Helena Ave.
Tel. 442-3211
- NEBRASKA, OMAHA** 68102
215 North 17th Street
Tel. 221-3740
- NEVADA, RENO** 89505
70 Linden Street, P.O. Box 4700
Tel. 784-5213
- NEW HAMPSHIRE, MANCHESTER** 03105
P. O. Bldg., Hanover & Chestnut Sts.
Tel. 669-7753
- NEW JERSEY, CAMDEN** 08103
The Parkade Bldg., 519 Federal St.
Tel. 963-2301
- NEWARK** 07102
10 Commerce Court
Tel. 645-3010
- NEW MEXICO, ALBUQUERQUE** 87110
625 Trueman Street, N. E.
Tel. 256-9834
- NEW YORK, ALBANY** 12202
City & County Savings Bank Bldg.
Tel. 472-3567
- BUFFALO** 14202
304 U. S. Court House
Tel. 842-3510
- HEMPSTEAD** 11550
175 Fulton Avenue
Tel. 485-5000
- NEW YORK** 10016
2 Park Avenue
Tel. 532-0900
- NORTH CAROLINA, GREENSBORO** 27401
221 South Ashe Street
Tel. 275-9361
- NORTH DAKOTA, FARGO** 58102
700 Seventh Street, South
Tel. 237-5136
- OHIO, CINCINNATI** 45202
Federal Office Bldg.,
550 Main Street
Tel. 684-3451
- CLEVELAND** 44115
1375 Euclid Avenue
Tel. 241-7340
- COLUMBUS** 43215
Old P. O. Building
Tel. 469-7345
- OKLAHOMA, OKLAHOMA CITY** 73103
1401 North Robinson
Tel. 236-2293
- TULSA** 74103
9 East 4th St. Bldg.
Tel. 584-7435
- OREGON, PORTLAND** 97204
Cascade Bldg., 520 S. W. Sixth Ave.,
Tel. 226-3963
- PENNSYLVANIA, PHILADELPHIA** 19102
2 Penn Center Plaza
Tel. 597-2358
- PITTSBURGH** 15222
1000 Liberty Ave.,
Tel. 644-2802
- PUERTO RICO, SANTURCE** 00910
Garralon Bldg., 1608 Ponce de Leon Ave.,
P. O. Box 8065
Tel. 724-5976
- RHODE ISLAND, PROVIDENCE** 02903
P. O. Annex
Tel. 528-4391
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1515 Lady Street
Tel. 253-3361
- SOUTH DAKOTA, SIOUX FALLS** 57102
225 South Main Avenue
Tel. 336-2222
- TENNESSEE, KNOXVILLE** 37902
725 Gay Street, S. W.
Tel. 524-3144
- MEMPHIS** 38103
Rm. 447, Federal Office Bldg.,
Tel. 534-3141
- TEXAS, DALLAS** 75201
Wilson Bldg., 1621 Main Street
Tel. 749-2651
- FORT WORTH** 76102
711 West Seventh Street
Tel. 335-2601
- HOUSTON** 77002
Rm. 7419, Federal Bldg., 515 Rusk Ave.,
Tel. 228-4335
- LUBBOCK** 79401
1601 Ave. N., P. O. Box 1647
Tel. 765-8271
- SAN ANTONIO** 78204
535 South Main Avenue
Tel. 225-5673
- UTAH, SALT LAKE CITY** 84111
P. O. Box 11009
Tel. 524-5237
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- WASHINGTON, SEATTLE** 98104
Norton Bldg., 801 Second Ave.,
Tel. 583-7457
- SPOKANE** 99201
501 Am. Legion Bldg., 108 N. Wash., St.
Tel. 838-3203
- WEST VIRGINIA, CHARLESTON** 25301
500 Quarrier Street
Tel. 343-1321
- WISCONSIN, MILWAUKEE** 53203
744 North 4th Street
Tel. 272-3222
- WYOMING, CASPER** 82601
P. O. Box 580
Tel. 265-3252

HUD CONSUMER BULLETIN

THREE WAYS TO FINANCE HOME IMPROVEMENTS THROUGH FHA



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Robert C. Weaver, Secretary
FEDERAL HOUSING ADMINISTRATION
Washington, D.C. 20410

"If the consumer is to be a wise sovereign in our progressive market economy, he must be fully informed. Free consumer choice—indeed, our free enterprise system—must rest on a firm foundation of reliable information on the costs and contents of the products we buy."

Lyndon B. Johnson

Three Types of Loans

There are three main ways in which FHA helps in the financing of home improvements. They are: loans insured under Title I of the National Housing Act; refinancing mortgages insured under Section 203(b); and loans insured under Sections 203(k) and 220(h). The 220(h) loans are like 203(k) loans in all except minor details, but they can be used only in urban renewal areas.

This publication is intended to help the borrower in choosing the type of FHA insured loan best suited to his situation.

Deciding on the Financing Method

Choice of the financing method to use should be made only after careful study. From the borrower's standpoint the choice depends on a number of factors. For instance: What kind of, and how much, debt is already on the property? What is the borrower's financial condition? What type of, and how much, work is to be done?

In most cases, a Title I loan would be best for minor improvements and a 203(k) loan for major changes. In some cases, it might be more advantageous to refinance and include the cost of the improvements in the new mortgage.

Choosing Between Title I and 203(k)

When a choice between Title I and 203(k) is to be made, the amount of loan needed is a deciding factor. If more than \$3,500 is needed, Title I, which has a top limit of \$3,500, cannot be used.

To obtain a Title I loan the borrower needs a good credit standing and enough income to repay the loan over its term. Security other than his signature is seldom required. A 203(k) loan is secured by a lien against the property.

It takes about one to three days to get a Title I loan and about two to three weeks to get a 203(k) loan. Improvements under

203(k) have the advantage of being made according to approved specifications and usually under FHA inspection.

Initial fees or charges are not paid by the borrower on Title I loans. Loans under 203(k) involve an FHA application fee, a lender's origination and closing charge, and other closing costs that vary from one place to another. These costs can be included in the loan.

Title I loans may be obtained quickly. No FHA processing is involved. Except for a \$3 credit investigation fee, there is no lender's service charge. These are "plus" points for Title I. Nevertheless, a borrower who needed \$3,500 and was willing to pay the closing cost of a 203(k) loan might find such a loan more practical than a Title I loan if he required a longer time to pay than the five years allowed under Title I. Under 203(k) he would also have the benefit of FHA's processing of the loan and inspection of the work.

The financing charge on a Title I loan, which includes an FHA insurance premium, is \$5 discount per \$100 per year on the first \$2,500 and \$4 per \$100 per year on the amount above \$2,500. On a simple interest basis this equals an interest rate ranging from 8.54 percent to 9.58 percent. The interest rate ceiling on a 203(k) is 6 percent, and the FHA insurance premium is $\frac{1}{2}$ of 1 percent.

For minor repairs and for loans under \$3,500 that the borrower plans to pay off in 5 years or less, Title I would be used. For jobs ranging up from \$2,500 the advantage begins to swing to 203(k). For 5-year loans in the \$2,500 area there is little difference between the monthly payments under Title I and under 203(k), but the overall amount paid for financing is more under Title I.

The monthly payment, including the financing charge, on a \$3,500 Title I loan made for 5 years would be \$71.89. On a \$3,500 203(k) loan made for 5 years, the monthly payment to principal, interest, and

FHA insurance premium during the first year would be \$69.03. For a 203(k) loan in the same amount made for 10 years, the monthly payment would be \$40.30.

Choosing Between 203(k) and Refinancing

When the costs will be large for a home improvement, the home owner should first decide whether he would be better off to buy another home rather than improve the one he has. He should give careful thought to whether the changes would add enough value and appeal to his property to merit their cost or whether they would over-improve his home. He should decide whether staying in his present house means enough to him to warrant the costs involved.

If he settles in favor of home improvement, he should then decide whether he would do better to obtain a long-term 203(k) loan or to refinance.

The first thing to consider is the existing debt on the property and the effect it would have on the amount that could be borrowed for improvements. Other factors include: what kind of loan the borrower has—conventional, FHA, or VA; what interest rate he is paying; how much equity he has in his home; whether the loan can be prepaid, and if so what prepayment premium is required.

With a 203(k) loan the borrower could get up to \$10,000 if that amount, added to the outstanding debt on the property, did not exceed the dollar limit and loan-value ratio set by law for a mortgage insured under Section 203(b). He could pay off the loan over a period ranging from 3 to 20 years. His closing costs would normally be less than for refinancing, and on a long-term loan he would save in total interest paid.

The borrower who can afford the monthly payments of a 203(k) on top of his present mortgage will pay less in the long run than

Table I—Sec. 203(k) Monthly Payment to Principal, Interest at 6% Per Annum, and Insurance Premium

Amount of Advance	5 Year Loan			10 Year Loan			15 Year Loan			20 Year Loan		
	Principal and Interest	Insurance Premium*	Total Monthly Payment	Principal and Interest	Insurance Premium*	Total Monthly Payment	Principal and Interest	Insurance Premium*	Total Monthly Payment	Principal and Interest	Insurance Premium*	Total Monthly Payment
\$ 2,500	\$ 48.35	\$.96	\$ 49.31	\$ 27.78	\$ 1.01	\$ 28.79	\$ 21.10	\$ 1.02	\$ 22.12	\$ 17.93	\$ 1.03	\$ 18.86
6,000	116.04	2.30	118.34	66.66	2.41	69.07	50.64	2.45	53.09	43.02	2.47	45.49
10,000	193.40	3.83	197.23	111.10	4.02	115.12	84.40	4.09	88.49	71.70	4.12	75.82

*Monthly premium during first year of loan at the rate of 1/2% per annum on outstanding scheduled loan balance.

Table II—Title I Property Improvement Loans with Equal Monthly Payments to Principal and Interest

Amount of Advance	Maximum Discount per Year per \$100	12 Month Loan		24 Month Loan		36 Month Loan		48 Month Loan		60 Month Loan	
		Monthly Payment	Equivalent Interest Rate	Monthly Payment	Equivalent Interest Rate	Monthly Payment	Equivalent Interest Rate	Monthly Payment	Equivalent Interest Rate	Monthly Payment	Equivalent Interest Rate
\$ 500	\$5	\$ 43.86	9.58%	\$ 22.95	9.43%	\$ 15.97	9.30%	\$ 12.49	9.18%	\$ 10.40	9.05%
1,000	5	87.72	9.58	45.89	9.43	31.94	9.30	24.97	9.18	20.79	9.05
2,500	5	219.30	9.58	114.71	9.43	79.85	9.30	62.42	9.18	51.96	9.05
3,500	5.84	306.11	9.01	159.72	8.89	110.93	8.77	86.53	8.65	71.89	8.54

Table III—Sec. 203(b) Refinancing Monthly Payment to Principal, Interest and Mortgage Insurance Premium, and Total Monthly Payment—at 6 Percent

Term of Loan	\$10,000			\$15,000			\$20,000		
	Principal and Interest	Mortgage Insurance Premium*	Total Monthly Payment	Principal and Interest	Mortgage Insurance Premium*	Total Monthly Payment	Principal and Interest	Mortgage Insurance Premium*	Total Monthly Payment
20 years	\$71.70	\$4.12	\$75.82	\$107.55	\$6.17	\$113.73	\$143.40	\$8.23	\$151.63
25 years	64.50	4.13	68.63	96.75	6.20	102.95	129.00	8.27	137.27
30 years	60.00	4.14	64.14	90.00	6.21	96.21	120.00	8.29	128.29

*Monthly premium during first year of loan at the rate of 1/2% per annum on outstanding scheduled loan balance.

the borrower who refinances. Also, lenders cannot charge borrowers a discount on 203(k)'s, whereas on 203(b) refinancing mortgages they can.

Assume, for instance, that it will take \$6,000 to improve a home bought in 1957. The house was financed with a conventional \$11,000, 20-year mortgage at 5½ percent interest. It has monthly payments of \$75.68 excluding taxes and insurance.

Say the owner still owes \$6,927 on the mortgage, and that the value of the property when the improvements are finished will be \$18,000.

If the home owner obtained a 20-year 203(k) loan of \$6,000 at 6 percent, his monthly payment would be \$45.49. This amount added to his monthly mortgage payment of \$75.68 would total \$121.17. So he would pay \$121.17 per month for ten years—until his mortgage was paid off—and for the next ten years he would pay \$45.49 per month.

If he refinanced with a 203(b) mortgage of \$13,400 (\$6,927 balance on present mortgage, plus \$6,000 for improvements, plus \$500 for loan costs—with the mortgage amount adjusted to the next lower \$50 multiple) at 6 percent interest, his monthly payments excluding taxes would be \$101.60 on a 20-year loan and \$85.95 on a 30-year loan.

His total interest and premiums on the 20-year 203(k) loan and the future interest payments on his outstanding mortgage would be \$6,740. His total interest and premiums for refinancing would be \$10,425 on a 20-year mortgage and \$16,774 on a 30-year mortgage.

Factors other than costs to bear in mind are:

- To be eligible for a 203(k) loan a home must be at least 10 years old, unless the loan is to be used mainly for major structural changes or, in some cases, to correct defects. This does not apply in 203(b) refinancing.

- Work already started is not eligible under 203(k) but may be financed under 203(b).
- Under 203(k), luxury or unessential items cannot be financed. Such items may be included in 203(b) refinancing if they add value to the property. Changes financed with either a Title I or a 203(k) loan must be essential to the livability and usefulness of the home. Changes financed with the 203(b) loan must add to the value of the property.

The tables on pages 6 and 7 outline various payment features of Title I loans, 203(k) loans, and 203(b) refinancing loans.

Equal Opportunity in Housing

FHA regulations under the President's Executive Order 11063 of November 20, 1962, require that housing provided with FHA assistance be made available without discrimination because of race, color, creed, or national origin.

The regulations prohibit any person, firm, or group receiving the benefits of FHA mortgage insurance or doing business with FHA from practicing such discrimination in lending or in the sale, rental, or other disposition of the property. Violations may result in discontinuation of FHA assistance.

One- or two-family dwellings which have been occupied by the owner are exempt from the regulations; but if the purchaser of such a home wishes to finance it with an FHA-insured mortgage the lender may not refuse to make the loan because of the buyer's race, color, creed, or national origin.

The FHA in Brief

Since its establishment in 1934, the Federal Housing Administration has written mortgage and loan insurance in a total amount of well over a hundred billion dollars. This amount covers mortgage insurance on millions of homes, on more than a million living units in multi-family projects, and on many millions of property improvement loans. Altogether, FHA has helped between 35 million and 40 million families to improve their housing standards and conditions.

Congress provided the FHA mortgage and loan insurance system to help improve housing standards, to promote the use of sound financing methods, and to help keep the mortgage market steady. FHA supports itself through income derived from fees, insurance premiums, and investments. Its insurance reserves are well over a billion dollars.

All loans insured under FHA programs are made by private FHA-approved lenders. FHA does not lend money or build housing.

The first FHA programs dealt with insured home improvement loans, home mortgage loans, and rental housing mortgage loans. Through its 76 field offices FHA now also insures mortgages to develop land, and to provide homes for servicemen and their families, housing for people of low and moderate income, housing in urban renewal areas, housing for the elderly or handicapped, nursing homes, cooperative housing, condominiums, experimental housing, housing at or near military centers; and long-term loans for major home improvements.

FHA has had a marked influence on the location, volume, and kind of housing built in the United States. It has helped to make the low-downpayment, long-term, fully amortized mortgage the standard in mortgage lending.

Mrs. SULLIVAN. I announced earlier that the questioning today would start at the other end of the line and let the newer members have the privilege of asking questions first.

Mr. Williams, you may have your 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chairman. I certainly appreciate this change in the procedure. I may recommend it to the chairman of the full committee.

Mr. Brownstein, I noted with great interest your comments on garnishment of wages, and your comments to the effect that the merchant must have some way for recovering his loss of those—his losses of those who do not pay if he is going to be fair with the rest of his customers. But obviously, if we prohibit garnishment of wages, the only way the merchant can recover his losses is to increase his price to other customers which is most certainly unfair. If we do away with garnishment of wages, what alternatives would you suggest?

Mr. BROWNSTEIN. I think this is something, Mr. Williams, that ought to be studied.

Mr. WILLIAMS. Are you recommending that we do not do away with garnishment of wages as long as it is done sensibly?

Mr. BROWNSTEIN. I think all of the alternatives ought to be examined before anything is done to eliminate this.

Mr. WILLIAMS. You refer to a system used here in the District of Columbia where the garnishing is limited to a percentage to pay for any given pay period. What is that percentage.

Mr. BROWNSTEIN. I can't tell you what it is, Mr. Williams.

Mr. WILLIAMS. But if it were a reasonable small percentage so it would not affect the man's ability to live otherwise, then you seem to indicate in your testimony that you think this is a reasonable approach.

Mr. BROWNSTEIN. I think that doing away with them could result in the purchaser having difficulty, in having credit extended to him. Or, if it is extended, it would be more costly.

Mr. WILLIAMS. Rather than limiting the garnishment to a percentage of the wages, is there any other alternative that you can think of right now?

Mr. BROWNSTEIN. No; I have none to offer on this. This is not an area in which I profess any expertness.

Mr. WILLIAMS. You also tie your testimony into the ability of people to obtain credit. In your opinion, if a person wanted to make a purchase, would it make any difference to that purchaser, even though the interest was fully disclosed, even though it was as high as 20-percent interest that he would be paying on his purchase, do you think if this full disclosure of the interest to be paid would deter him from overextending his repayment ability—do you think this full disclosure of the interest to be paid would deter him from overextending his repayment ability?

Mr. BROWNSTEIN. I think it would depend on the purchaser, Mr. Williams.

Mr. WILLIAMS. What about the average purchaser in the poorer area?

Mr. BROWNSTEIN. I think the important thing here is that he be fully apprised of what the cost to him will be and then he will have to consider this in the light of his own circumstances and decide which way he wants to go.

Mr. WILLIAMS. I want to determine the impact that it would have on the average purchaser to know the full interest that he is going to pay. Would this deter him from making purchases?

Mr. BROWNSTEIN. I believe it would depend entirely on what his needs are and what his attitude is toward the extension of credit that he seeks.

Mr. WILLIAMS. I understand that the maximum garnishment of wages in the District of Columbia is 10 percent. Now, do you think that is too high?

Mr. BROWNSTEIN. Would I think what?

Mr. WILLIAMS. I understand that the garnishment ceiling on wages in the District of Columbia is 10 percent. Do you think that is too high?

Mr. BROWNSTEIN. I am really not in a position to discuss the merits or demerits of this, Mr. Williams.

Mr. WILLIAMS. On page 3 of your testimony, at the bottom of the page, you talk about guides that have been prepared for homeowners and charts are provided. Will you please make these available for the committee and for the record?

Mr. BROWNSTEIN. I'll be glad to. I have them right here.
(The material referred to follows:)

CONSUMER CREDIT PROTECTION ACT

FHA MORTGAGEE NO.		U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT FEDERAL HOUSING ADMINISTRATION		FHA CASE NO.		Form Approved Budget Bureau No. 63R-1067.1	
STATEMENT OF APPRAISED VALUE FOR A MORTGAGE TO BE INSURED UNDER THE NATIONAL HOUSING ACT ☐ SEC. 203(b) ☐ SEC.				PROPERTY ADDRESS			
MORTGAGEE				ESTIMATED FHA VALUE ☐ Replacement Cost Sec. 213 or 220		MONTHLY ESTIMATES	
Value (Excl. Cl. Costs) . . . \$				Fire Ins. . . . \$			
Closing Costs \$				Taxes \$			
FHA VALUE \$				Main. & Repairs \$			
				Heat & Utilities \$			
STATEMENT ISSUED BY (Authorized Agent)				DATE THIS COMMITMENT			
				Expires:		196	
DEFINITION OF APPRAISED VALUE						196	

The Federal Housing Commissioner has valued the above identified property for mortgage insurance purposes in the amount shown. FHA's estimate of "Value" or "Replacement Cost" (Section 213 or 220) does not fix a sales price; it does not indicate FHA approval of a purchase of the property; nor does it indicate the amount of an insured mortgage that would be approved.

"Value" is an estimate of the total price of a property, excluding payments for closing costs and prepaid expenses such as taxes and insurance assessments.

"Replacement Cost" is an estimate of the current cost to reproduce the property including land, labor, site survey and marketing expense but excluding payments for prepaid expenses such as taxes and insurance and closing costs.

"FHA VALUE" is the sum of the estimate for "value" or "replacement cost" and the FHA estimate of closing costs, such as survey, title evidence, recording fees, etc. Under those sections of the National Housing Act (such as 213 or 220) where the maximum mortgage amount must be based on estimated replacement cost, the "FHA Value" shall be deemed to mean "replacement cost" for mortgage insurance purposes.

The law requires that FHA mortgagees receive a statement of "appraised value" prior to the sale of the property. If the sales contract has been signed before the mortgage receives such a statement, the contract must contain, or must be amended to include, the following language:

"It is agreed that the purchaser shall not be obligated to complete the purchase, or to incur any penalty, unless the seller has delivered to the purchaser a written statement setting forth the value of the property for mortgage insurance purposes not less than \$ The purchaser shall have the privilege of proceeding with this contract without regard to the amount of the valuation."

ADVICE TO HOME BUYERS

ADVANCE PAYMENTS—Make extra payments when able. You pay less interest and have your home paid for sooner. Notify the lender in writing at least 30 days before the regular payment date on which you intend to make an advance payment.

DELINQUENT PAYMENTS—Monthly payments are due the first day of each month and should be made on or before that date. The lender may make a late charge up to 2 cents for each dollar of any payment more than 15 days late. If you fail for 30 days to make any payment to perform any other agreement in the mortgage, your lender may foreclose. You could lose your home, damage your credit, and prevent your obtaining further mortgage loans. If extraordinary circumstances prevent your making payments on time, see your lender at once. If you are temporarily unable to make your payments because of illness, loss of job, etc., your lender may be able to help you. Ask your lender to explain FHA's forbearance policy. **YOUR CREDIT IS AN IMPORTANT ASSET; DON'T LOSE IT THROUGH NEGLIGENCE.**

ADJUSTED PREMIUM CHARGE—If you make extra payments in any year of more than 15% of the original mortgage amount, you may have mortgage. FHA is authorized to charge a premium of 1% of the original of 1% or more than 1% per year, but has set the premium at 1/2 of 1% assuming it will be paid over the whole mortgage term. When a mortgage is paid off in advance, the premiums collected do not cover FHA charge were not made, the premium would have to be higher. An adjusted premium is not made if a new FHA mortgage is placed on the property, or if the FHA insurance is in force for 10 years or longer.

TAXES, ASSESSMENTS, AND INSURANCE—Send your lender bills for taxes, special assessments, or fire insurance that come to you only the balance of the loan. Check this with your lender. You may wish to take out additional insurance so that if the house is damaged by fire, windstorm, or other cause, write your lender at once. If they exceed the amount accumulated from your payments, you will be asked to pay the difference. If they are less, the difference will be credited to your account. The same is true of fire insurance. Some States allow homesteaded or veteran's tax exemptions. Apply for any exemption to which you may be entitled. When it is approved, notify your lender.

CLOSING COSTS—In the heading is FHA's estimate of anticipated attorneys' fees, title insurance, origination fees and documentary stamp taxes. The estimate does not include charges for such prepayable items as taxes, fire insurance.

BUILDER'S WARRANTY—When FHA approves plans and specifications before construction, the builder is required to warrant that the house conforms to FHA approved plans. This warranty is for 1 year following the date on which title is conveyed to the original buyer or the date on which the house was first occupied, whichever occurs first. If during the warranty period you notice defects for which you believe the builder is responsible, ask him in writing to correct them. If he fails to do so, notify the FHA insurance office in writing. Mention the FHA case number shown in the heading. If inspection shows the builder to be at fault, the FHA will try to persuade him to make corrections. If he does not, you may seek legal relief under the builder's warranty. Most builders take pride in their work and will make justifiable corrections. They cannot be expected to correct damage caused by ordinary wear and tear or by poor maintenance. Keeping the house in good condition is the owner's responsibility.

OPERATING EXPENSES—In the heading are FHA estimates of monthly costs of taxes, heat and utilities, fire insurance, maintenance and repairs. The estimated figures will probably have to be adjusted when you receive the actual bills. **BEAR IN MIND THAT IN MOST COMMUNITIES TAXES AND OTHER OPERATING COSTS ARE INCREASING.** The estimates should give some idea of what you can expect taxes may also include local charges such as sewer charges, garbage collection fees, water rates, etc.

IF YOU SELL—If you sell while the mortgage exists, the buyer may finance several ways. Understand how these arrangements may affect you. Consult your lender.

1. You may sell for all cash and pay off your mortgage. This ends your liability.

2. The buyer can assume the mortgage and pay the difference between the unpaid balance and the selling price in cash. If the FHA and the lender are willing to accept the buyer as a mortgagor, you can be released from further liability. This requires the specific approval of the lender and the FHA.

(EITHER OF THE ABOVE TWO METHODS IS PREFERABLE TO METHOD NUMBER 3.)

3. The buyer can pay the difference in cash and purchase subject to the unpaid mortgage balance. FHA or lender approval is not necessary, **BUT YOU REMAIN LIABLE FOR THE DEBT. IF THE BUYER DEFAULTS, IT COULD RESULT IN A DEFAULT JUDGMENT AND IMPAIR YOUR CREDIT STANDING.**

THE COST OF BORROWING

When you borrow to buy a home, you pay interest and other charges which add to your cost. A larger downpayment will result in a smaller loan. Borrow as little as you need and repay in the shortest time. If you borrow \$10,000 at 6%, the monthly payment to principal and interest is \$11.70 less for a 30-year loan than it would be for a 20-year loan.

MONTHLY PAYMENTS, PRINCIPAL & INTEREST, MORT. INS. PREMIUM, TOTAL INTEREST & MORT. INS. PREMIUMS PAID @ 6%

Term	\$10,000-LOAN				\$15,000-LOAN				\$20,000-LOAN			
	Prin. & Int. Mo. Payt.	Total Int.	Mtg. Ins. Premium Mo. Payt.	Total	Prin. & Int. Mo. Payt.	Total Int.	Mtg. Ins. Premium Mo. Payt.	Total	Prin. & Int. Mo. Payt.	Total Int.	Mtg. Ins. Premium Mo. Payt.	Total
20 Yrs.	\$71.70	\$ 7,181.56	\$4.12	\$598.48	\$107.55	\$10,772.34	\$6.17	\$ 897.72	\$143.40	\$14,363.11	\$8.23	\$1,196.96
25 "	64.50	9,301.51	4.13	775.14	96.75	13,952.27	6.20	1,162.71	129.00	18,603.02	8.27	1,550.28
30 "	60.00	11,554.81	4.14	962.90	90.00	17,332.22	6.21	1,444.35	120.00	23,109.63	8.29	1,925.80

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Form Approved
Budget Bureau No. 63-R037.10

CREDIT APPLICATION FOR PROPERTY IMPROVEMENT LOAN
This application is submitted to obtain credit under the provisions of Title I of the National Housing Act.
(PLEASE ANSWER ALL QUESTIONS)

FH-1 Rev. 9/64

CONSUMER CREDIT PROTECTION ACT

FH-1 Rev. 9/64

9. PROPERTY TO BE IMPROVED

If this is a residential structure, has it been completed and occupied for 90 days or longer?

Address (Number, Street, City and State)

ALL ONE	IS OWNED BY	Name of Title Holder	Type - Home, Apt., Store, Farm, etc., (If apt., no. of units)	Date Purchased
	IS BEING OUGHT ON CONTRACT BY	Name of Purchaser	Date of Mortgage	Price Paid \$
	IS LEASED TO:	Name of Lessee	Name and Address of Title Holder	Price Paid \$
	Name of Landlord	Address	Date Lease Expires	Rent Per Month \$

10. PROCEEDS OF THIS LOAN WILL BE USED TO IMPROVE THE DESCRIBED PROPERTY AS FOLLOWS:

Describe Each Improvement Planned	Name and Address Contractor/Dealer	Estimated Cost
		\$
		\$
		\$

WARNING
Any person who knowingly makes a false statement or a misrepresentation in this application or causes such a false statement or misrepresentation to be made shall be subject to a fine of not more than \$5000 or by imprisonment for not more than 2 years, or both, under provisions of the United States Criminal Code.

IMPORTANT - APPLICANT READ BEFORE SIGNING

The selection of a Contractor or Dealer, acceptance of materials used, and work performed is your responsibility. Neither the FHA nor the Financial Institution guarantees the material or workmanship or inspects the work performed.
I (We) certify that the above statements are true, accurate, and complete to the best of my (our) knowledge and belief. This application shall remain the property of the Lending Institution to which submitted for the purpose of obtaining a loan.

No. _____ (Applicant) (LS) Name _____ (Applicant) (LS)

NOTE TO SALESMEN: If proceeds will be disbursed to the Contractor/Dealer, the person(s) selling the above described improvements must sign the following certification.

I (We certify that: 1 - I (We) am (are) the person(s) who sold the job. 2 - The Contract contains the whole agreement with the borrower. 3-The borrower has not been given or promised a cash payment or rebate nor has it been represented to the borrower that he will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction; that the improvements have not been misrepresented; that there are no guarantees beyond those of the manufacturer; no promises impossible of attainment; no encouragement of trial purchases; no promise that the improvements will be used as a model for advertising or other demonstration purposes; and no offer of debt consolidation.

(LS) Name _____ (My true name and signature are as shown above) (LS)

If application is prepared by one other than the applicant, the person preparing the application must sign below.
I (We) certify that the statements made herein are based upon information given to me (us) by the borrower(s) and are accurate to the best of my (our) knowledge and belief.

Prepared by: _____ (Signature of preparer other than borrower) Address _____

Representing: _____ (Name of Dealer/Contractor)

Title I Provides a limited home improvement program with a maximum loan amount of \$3500 and a maximum term of 60 months. The lender is allowed to charge a discount of not more than \$5 per \$100 per year on the first \$2500 of the loan and \$4 per \$100 on the amount above \$2500. The \$5 or \$4 discount should not be interpreted as 5 percent or 4 percent interest. The table below shows some typical loans and monthly payments under Title I and the equivalent interest rate for the amount of discount shown. The five columns at the right of the table show the total cost of interest for these loans.

AMOUNT OF ADVANCE	12 MONTH LOAN		24 MONTH LOAN		36 MONTH LOAN		48 MONTH LOAN		60 MONTH LOAN		TOTAL COST OF INTEREST				
	Maximum Discount Per Year Per \$100	Monthly Payment	Equivalent Interest Rate	Monthly Payment	Equivalent Interest Rate	Monthly Payment	Equivalent Interest Rate	Monthly Payment	Equivalent Interest Rate	Monthly Payment	12 Month Loan	24 Month Loan	36 Month Loan	48 Month Loan	60 Month Loan
\$ 500	\$5	\$43.86	9.58%	\$22.95	9.43%	\$15.97	9.30%	\$12.49	9.18%	\$10.40	9.05%	\$26	\$51	\$75	\$99
\$1,000	5	87.72	9.58	45.89	9.43	31.94	9.30	24.97	9.18	20.79	9.05	53	101	150	198
\$2,500	5	219.30	9.58	114.71	9.43	79.85	9.30	62.42	9.18	51.96	9.05	132	253	374	496
\$3,500	5.84	306.11	9.01	159.72	8.89	110.93	8.77	86.53	8.65	71.89	8.54	173	333	493	653

Mr. WILLIAMS. That is all I have. Thank you.

Mrs. SULLIVAN. Mr. Bingham?

Mr. BINGHAM. Thank you, Madam Chairman. I, too, appreciate the opportunity for questioning earlier in the proceedings.

I would like to ask you primarily about the first mortgage coverage. First of all, can you give us an idea of the percentage of home mortgages that are insured by the FHA?

Mr. BROWNSTEIN. Well, on new construction, about 17 percent of all new housing starts come under FHA. However, our new homes business is only about 20 percent of the total of FHA business. Nearly 80 percent of the mortgages that we insure are on existing construction.

Mr. BINGHAM. What does that amount to percentagewise in relation to the total of such mortgage financing?

Mr. BROWNSTEIN. I don't have that, Mr. Bingham. I might add one other thing, though. I think a rather significant figure is the fact that on houses costing \$17,500 and less, the FHA percentage is about 42 percent. So you see it is the low- and moderate-income family that is being served through the FHA program.

Mr. BINGHAM. Now, your statement does not clearly indicate, as I read it, what your position is on the inclusion of first mortgages in the truth-in-lending bill.

Are you in favor of that?

Mr. BROWNSTEIN. We favor this.

Mr. BINGHAM. I notice that you indicate that you would have to make some changes in your procedures in order to comply. Will you list the essential nature of the changes that you have to make?

Mr. BROWNSTEIN. Mr. Williams asked that I put into the record what we now are doing and what we have here on the appraisal form, for example, that goes to the mortgagor on a home mortgage case, we show the monthly payments, we show the total interest that he will pay over a 20-year period, a 25-year period, and 30-year period. This is on a \$10,000 loan, a \$15,000 loan, and a \$20,000 loan. But we don't have in here the FHA insurance premium. I don't believe that this bill excludes that. It would require some modification to take care of this and some of the other provisions.

Mr. BINGHAM. Are you familiar with the provisions of H.R. 11601 on page 5 where the definition of finance charges is specified and certain items relating to closings are excluded?

Mr. BROWNSTEIN. Yes.

Mr. BINGHAM. The suggestion has been made that the appraisal fees and credit reports which are excluded under this section are properly credit charges that would not be incurred if there was no mortgage and should be excluded under the total finance charges.

Mr. BROWNSTEIN. I don't believe that they should be included under the total of finance charges. This is not a return to the lender on the amount of his investment in any way. This is an out-of-pocket charge that has to be paid for, a particular service. Furthermore, I think to try and spread this over the entire term of the loan and translate it into an equivalent charge would be rather meaningless.

Mr. BINGHAM. Is it not true that these are charges that would not be incurred if the buyer were to buy the home for cash?

Mr. BROWNSTEIN. They may or may not be. I would think the buyer buying a home for cash would still want an appraisal made and it would cost him an appraisal fee. So that he would know that the amount that he is paying for the home would be in line.

Let me say also, that the purchaser is aware in the usual mortgage transaction of all of these things because they are delineated on a settlement sheet which in practically every mortgage transaction is given to the buyer at the time of settlement.

Mr. BINGHAM. Yes; but the purpose of specifying the total finance charge is to give the purchaser a way of telling how much he is going to have to pay if he uses credit for his purchases; is that not correct? How much extra it is going to cost him if he borrows?

Mr. BROWNSTEIN. I think that the important thing here is that he know what these charges are, and these are all outlined on the settlement sheets.

Mr. BINGHAM. I do not think that is quite responsive to my question. He may know what the charges are but he may not know which of those charges could be eliminated if he were not to borrow for the purpose of making the purchase. Of course, this may be more theoretical in the case of a home purchase where a cash purchase is very rare than it is in the case of small appliances and so forth. I realize that.

Mr. BROWNSTEIN. I would think, Mr. Bingham, for the most part, that somebody who is in a position to pay all cash for a home probably is pretty knowledgeable in this particular area.

Mr. BINGHAM. What we have tried to do in the bill, however, is to divide those items that are properly attributable to mortgage financing and those that would normally occur as part of a closing. What I was trying to get from you was your opinion as to whether the list that we have specified here for exclusion is the correct list.

Perhaps you might like to look at that further and give us an answer for the record.

My time has expired.

Mr. BROWNSTEIN. I would prefer answering it for the record, but offhand I believe that they are proper exclusions.
(The information referred to follows:)

The items set forth in section 202(d) of H.R. 11601 as exclusions are believed to be an appropriate and proper listing of exclusions for computing the finance charge in a real estate transaction.

Mr. BINGHAM. Thank you.

Mrs. SULLIVAN. Mr. Wylie?

Mr. WYLIE. Thank you, Madam Chairman.

Mr. Brownstein, I would like to get into a discussion of this matter of adding points at the time of closing. I mentioned this the other day. I have represented many sellers at real estate closings wherein there was a contract in advance. The seller had a pretty good notion how much he was going to get for the sale of his property, he thought. At the time of closing someone from the bank would rush in and say we must add two points, two discount points or three points, and so forth.

I wonder if you could explain a little bit to me and to the committee how this works—how are these points determined? Who fixes the points, and why they are necessary?

Mr. BROWNSTEIN. Well, the points or the discount is a mechanism by which an instrument having a fixed coupon rate such as a mortgage,

bond, or another security is made to yield an amount necessary to attract investment capital.

In the case of mortgages, if the fixed interest rate is inadequate to compete successfully in the capital market, then the way that the yield is brought up is through the charge of points or a discount.

In the case of FHA, we do not permit the mortgagor, the borrower, to pay these points. Therefore, it is the builder or seller who has to absorb the discount. The amount is set entirely by the parties to the transaction—this is the seller and the lender. They are the ones who must agree on this.

I agree with you that this is extremely onerous on the part of the seller and none of us like discounts. The seller may consider various alternatives. If he chooses, of course, he could perhaps suggest to the buyer that he arrange financing elsewhere, since he declines to absorb these points, or possibly, if there is an existing mortgage on the property he could sell, subject to the existing mortgage and take back a second mortgage to cover his equity. These are alternatives that he could consider, Mr. Wylie.

Mr. WYLIE. In one instance I represented a seller where two points were added at closing. I advised him to forget about the whole transaction and leave. We then made an arrangement whereby he would sell the house for a little more money and realize the amount that he thought he was going to have available in the first instance, so he purchased another house. But this causes a lot of anxiety and heartache. I am wondering, since we are talking about truth in lending, if there is a way in which we could know in advance what these discount points might be, or if it is feasible to establish a point in time—for instance, the first of the month and say during the month no more than one point may be added. We could establish that no more than one point will be added or no more than two points will be added this month, so there could be some disclosure in this area and we would not run into this situation where at the closing table somebody runs in and says we just checked and we must add three more points.

Mr. BROWNSTEIN. FHA has nothing to do with setting these points.

Mr. WYLIE. I understand that the lending institution actually fixes the amount, but they do it ostensibly at least, with approval of FHA—if not through overt approval of the FHA, certainly with the implied approval.

Mr. BROWNSTEIN. Well, let me say, Mr. Wylie, two times Congress has tried to legislate out these points or this discount. One time they required that the discounts be established as reasonable in the FHA-VA program, and another time a somewhat similar law was passed.

It was found that all this really did was impede the flow of mortgage credit and it did not result in the kind of a benefit that was hoped for and that had been expected. So Congress repealed this section both times in order to free up the flow of mortgage funds.

Mr. WYLIE. I think it was Mr. Barr who suggested that the only way you could eliminate this practice is to remove the ceiling on interest rates. Would you say whether that should or should not be done? What do you think about removing the ceiling on interest rates? I am not suggesting this be done. I am just asking you to express your expert opinion.

Mr. BROWNSTEIN. I think that unquestionably, the way that the discount is eliminated is to have a yield through an interest rate that will be competitive and will attract the capital.

Mr. WYLIE. My time has expired. I would just like to end with one more question.

Mrs. SULLIVAN. All right.

Mr. WYLIE. Do you have any suggestion or feeling as to whether this point practice should be eliminated, and if so, how we might do it?

Mr. BROWNSTEIN. I think I share the wish of every member, of not only this committee, but in the Congress, and all the people in the executive branch who have a responsibility here, Mr. Wylie, that we deplore the discounts that are typified.

Mr. WYLIE. I did not mean to be repetitious. The next question is, do you or anyone in your Department have a suggestion how the practice of adding discount points might be eliminated on FHA loans?

Mr. BROWNSTEIN. The only way you can eliminate them is by having an interest rate which is adequate to attract the flow of mortgage funds.

Mr. WYLIE. By removing the ceiling on interest rates?

Mr. BROWNSTEIN. By at least leaving enough flexibility so that the rate can be fixed at a competitive level.

Mrs. SULLIVAN. May I answer that? I think if you read over our bill and help get this bill passed, we can eliminate these points. I offer this as a recommendation to back up my statement—this is an article that comes from the Kiplinger magazine of June 1967 and it says, "How Much Your Mortgage Really Costs." They have a table here that shows what the nominal interest rate is for a 20-year mortgage or 25-year mortgage and the effective rate if loan is repaid after 5 years, 10 years, 15 years, 20 years, 25 years, if points are charged. So that if someone would quote a 6-percent interest rate for a 25-year mortgage, and they would add on five points to that mortgage, the interest rate for a 25-year loan at 6 percent would not be 6 percent, it would be 6.55 percent. So that the man who had this information would know he is not getting a mortgage for 6 percent; he would have to pay 6.55. This gives him a chance then to try to find some other financing agency for his mortgage.

Mr. WYLIE. I would like to work with you on this, Madam Chairman, but I do not want to be maneuvered into a situation where the ceiling will be fixed at 18 percent.

Mrs. SULLIVAN. I think that is a little different.

Mr. Annunzio?

Mr. ANNUNZIO. Thank you, Madam Chairman. I appreciate your forthright statement before the committee. You always make a constructive contribution.

I myself disagree with your statement of garnishment of wages. As you know, the President in his statement before the Congress some 5 or 6 months ago referred to a provision of garnishment of wages and the Department of Labor, Office of Economic Opportunity, and other departments have studied this problem for 6 months. It takes 5 or 6 years to get to this state with the truth-in-lending bill, so it will probably take us 5 or 6 years to have courage to say that garnishment of wages at the 100-percent level should be exempt from every State in the Union.

I want to call the attention of my colleagues on this committee, while this committee has been studying this for 5 months, I got from the U.S. Department of Labor a list which lists the 50 States and, Mr. Williams of Pennsylvania, I want to call to your attention that Pennsylvania has 100 percent of earnings that are exempt. The District of Columbia has 90 percent exempt. The State of New York has 90 percent exempt. Now, these various State legislatures—

Mr. WILLIAMS. Will the gentleman yield?

Mr. ANNUNZIO. I will be happy to yield to my distinguished colleague from Pennsylvania.

Mr. WILLIAMS. When you say 90 percent, you mean 90 percent of the wages are exempt, 10 percent is what is garnished?

Mr. ANNUNZIO. That is right. As I stated before the committee, an example from my own State is the Inland Steel Co. which has an 85-percent exemption. This company is harassed by a volume of garnishment that exceeds \$500,000 a year. What I want my colleagues to understand is that it is not only the cost to the companies, their legal departments, and the people; it is also a tremendous cost to the cities and the counties where the courts are located and this expenditure of money could be used to alleviate much of the suffering in the poor communities of the large cities of America.

So, Madam Chairman, I ask unanimous consent that, at this point in the record, this insert be made on the exemptions involving all 50 States in the Union.

Mrs. SULLIVAN. For garnishment?

Mr. ANNUNZIO. For garnishment of wages.

Mrs. SULLIVAN. Without objection it will be made part of the record.

(The material referred to may be found in the appendix, p. 935.)

Mrs. SULLIVAN. Mr. Halpern?

Mr. HALPERN. Madam Chairman, first I wish to commend our distinguished witness and also our outstanding and very valuable Secretary of Housing and Urban Development for their frank presentations this morning which I am certain will prove most helpful to the committee in our deliberations.

Mr. Brownstein, we have been exposed to many disturbing statistics about the abuses in the credit industry and the unfortunate consequences in terms of bankruptcies which all too often result.

Now, first, in the home buying sector do you feel there are many intentional abuses on the part of creditors taking advantage of the ignorance of the customer?

Mr. BROWNSTEIN. This will be a very difficult question to answer, Mr. Halpern. I can speak principally from the FHA's side and what we find there.

Mr. HALPERN. If I may interrupt, let me add a second part to that question. Do you believe that many personal bankruptcies tend to result from unwise mortgage arrangements or are the customers in the home ownership sector generally sufficiently well informed and have high enough income levels at least to prevent the ultimate economic catastrophe of bankruptcy?

Mr. BROWNSTEIN. Again, this is strictly my own impression, but I would believe that the bankruptcies would be aggravated much more by installment credit than by home purchase credit.

Mr. HALPERN. Does the Department of Housing and Urban Development provide any advisory facilities whereby a prospective homeowner can have a consultation with an expert on the type of home he should buy, given his financial position and so forth, the best source of mortgage credit and so forth?

Mr. BROWNSTEIN. Just last week, Mr. Halpern, we put into effect in five cities a housing counseling service that will do this.

Mr. HALPERN. I am glad to hear that. But has it been in effect?

Mr. BROWNSTEIN. No, we have not had this type of service in effect before. We have just initiated it in five of the cities of our country, and as we gain experience with this we plan to broaden it.

Mr. HALPERN. Very glad to hear that. That is all, Madam Chairman.

Mrs. SULLIVAN. Mr. Hanna?

Mr. HANNA. Thank you, Madam Chairman. We are delighted to have you before us again, Mr. Brownstein, on this very important legislation.

I certainly want to be associated with the remarks of my colleague from Illinois about the concern we have for the costs in time, in money, and in the people's feelings in terms of the garnishment situation; and I commend him for having made available this important information.

In talking about this point system, if we might go back to that, Mr. Brownstein, am I incorrect in my understanding that the point system itself has a great deal to do with the competitiveness—first of all in the mortgage market as to certain pressures that come upon the flow of funds into mortgages where there is a fixed interest rate and there has to be some kind of response to the competitive position of the mortgage instruments, and has that been reflected in the FNMA discount to a great degree?

Mr. BROWNSTEIN. The points or discounts are totally as a result of what is called for in the capital market to attract the flow of funds to mortgages.

Mr. HANNA. Is it not also part of the problem of cash flow into places where there is mortgage money need, and the place where the money is, so that the point system itself operates as part of the mechanism for cash flow?

Mr. BROWNSTEIN. Unquestionably this is the case, Congressman Hanna.

Mr. HANNA. Then it would seem to me that there are considerations, some very complicated considerations that have to do with the mortgage interest situation that are very much involved with this whole problem that are not part of the other credit interest structure, is that not correct?

Mr. BROWNSTEIN. Well, I doubt that the matter of discounting is quite as pronounced in some of the other sectors as it is in the mortgage sector because there, particularly on your consumer credit the rate can be sufficiently high so that this kind of discount is not necessary.

Mr. HANNA. What you are saying is that there they have a flexibility in the interest rate itself which will accommodate this and they do not have to fall as heavily back on discount as we would, for instance, in FHA or VA mortgage situation where there is no flexibility in the interest rate itself, is that not true?

Mr. BROWNSTEIN. We have always found, Congressman Hanna, that when the interest rate itself was adequate to attract the flow of mortgage credit, then there was a very small discount or none at all.

Mr. HANNA. I think, Madam Chairman, that that is the important point of the discussion on the mortgage industry. If your mortgage interest was responsive to, No. 1, the flow of funds requirements as between regions, and No. 2, were responsive to the actual pressures of the money market then you would have just a modicum of influence on points. But absent that flexibility I think you are always going to be dealing with the point system, and unfortunately, the point system falls on the transaction a little differently than the interest rate, is that not true?

Mr. BROWNSTEIN. Yes, as has been pointed out here before, if the discount itself is absorbed by the seller or the builder and it is passed on to the buyer only to the degree that an increase in the price can be made to accommodate this, but I would say also that FHA does not recognize in its valuations the amount of the discount.

Mr. WYLIE. Would the gentleman yield?

Mrs. SULLIVAN. However, that is just under FHA, is it not?

Mr. BROWNSTEIN. FHA and VA.

Mr. HANNA. Under FHA and VA. In the conventional mortgage there is more flexibility in the interest rate itself. You would find the interest rate responding to these two pressures I am talking about, whereas in the FHA and VA there is no flexibility, therefore the response is in the points.

Mrs. SULLIVAN. That is why, in this chart from the Kiplinger magazine that I quoted, it would not reflect as much what FHA does as it would on a conventional mortgage.

Mr. HANNA. I think the committee would make a mistake to move in this area about interest and the declaration of interest rates in first mortgages. I think the logical step is to leave the VA and FHA mortgage interest open-ended so there will be a true reflection of what the market requires.

Mr. WYLIE. Would the gentleman yield on that?

Mr. HANNA. Yes; I'll be glad to yield.

Mr. WYLIE. The point that I want to make is that the discount points or interest when it is reflected in the form of discount points at the time of closing is absorbed immediately by the seller, whereas if it is in the form of fixed interest which is allowed to adjust according to the market, it is absorbed over a period of 25, 30 years, whatever the period of the loan is, this indicates the hardship on the seller, I think.

Mr. HANNA. That would be true if you assume under most circumstances the seller really absorbs it and does not put it in the price of the goods. This is something the committee has to be aware of all the way along, that to a degree, when we start monkeying around with the interest rates we may be affecting price levels, also. Because there is only one way to skin a cat and if you think there is not an imaginative response possible with the enterprising entrepreneur in American society, you have pretty much downgraded the fellow where he really ought to be. Because I think this is what would happen, because the point is reflected in the price in most instances, believe me—in most instances.

Mrs. SULLIVAN. I cannot help but point out that there really is more than one way to skin a cat, and I think these cats have proven that the American consumer has been skinned a number of times.

Mr. Fino?

Mr. FINO. Thank you, Madam Chairman.

Mr. Brownstein, regarding the requirement for full disclosure of finance charges for homebuyers, is it not a fact that a homebuyer will purchase the home whether or not he is apprised of the entire interest cost because in most cases, and I will speak as a lawyer, there are three important factors entering his mind.

No. 1, a desire to own his own home. No. 2, whether the rent he is now paying for his apartment will be sufficient to cover the carrying charges on the mortgage. And No. 3, the knowledge that at the end of the mortgage period he will own his own home. So that if you tell him that his mortgage is going to cost him \$10,000 more at the end of 30 years than what it was in the beginning, this is not going to change his mind about buying a home. Do you agree?

Mr. BROWNSTEIN. I think that the three elements that you mentioned, Mr. Fino, are all very important considerations. However, I don't think really there is any such thing as a typical homebuyer. I think that the typical homebuyer is about as typical as any other American citizen—there will be various patterns that are developed among homebuyers the same as in any other walk of life. There are people who decide that this may not be the time that they want to buy because they think that perhaps if they wait a little while they can get either a better price on the unit they want to buy or a little better deal on the financing. This is entirely a matter of personal belief and personal preference.

Mr. FINO. Getting to the garnishment of salaries. Is it not true that if we were to eliminate the garnishment of salaries that the poor people would be the ones that would be the most affected?

Mr. BROWNSTEIN. What we are suggesting, Mr. Fino, on that is that it ought to be considered because it could possibly have this kind of consequence.

Mr. FINO. H.R. 11601, the bill introduced by Mrs. Sullivan, provides for a ceiling of 18 percent on revolving charge accounts. We had testimony before this committee which has shown service charges run 10, 11, 12, 15 percent. Do you not feel that if we were to set a ceiling at 18 percent, that that might encourage businessmen to go to that figure and use that figure in the operation of their business?

Mr. BROWNSTEIN. Well, we believe that this, too, is something that ought to be looked at very carefully, Mr. Fino, so that it does not have a consequence opposite to that that is desired.

Mrs. SULLIVAN. May I interrupt just a moment, Mr. Fino?

Mr. FINO. Are you asking me to yield?

Mrs. SULLIVAN. Will you yield?

Mr. FINO. Yes.

Mrs. SULLIVAN. My bill does not set a ceiling of 18 percent on the revolving charges.

Mr. FINO. You have that in your bill.

Mrs. SULLIVAN. That is on all credit that we are talking about in this bill, not just revolving credit.

Mr. FINO. Yes.

Mrs. SULLIVAN. It is not directed specifically and exclusively to the revolving charge. But on the revolving charge issue, I do not think the committee has been shown that $1\frac{1}{2}$ percent a month is not 18 percent a year. That is all I want to call your attention to.

Mr. FINO. We have testimony here from Montgomery Ward or Sears, Roebuck and they charged 11, 12 percent.

Mrs. SULLIVAN. If the gentleman will yield, you may have believed them on that, but I do not think some of us did.

Mr. FINO. You tell me that you can always play around with figures.

Mrs. SULLIVAN. You can indeed.

Mr. FINO. While it is true that we could play around with figures, I think I have sufficient trust and confidence in the business people of this country that they are not out to fleece and cheat the American public. I am sure we have certain unscrupulous business people, but they are by and far in the minority in comparison to all the business people in this country.

Mrs. SULLIVAN. If the gentleman will yield further, I certainly agree that the average business is not out to cheat the customer. But I think they were trying to demonstrate something in that chart presented yesterday that they do not actually practice in their own business. You have got to show me—I am from Missouri—that that is the way they actually compute their credit charge.

Mr. WILLIAMS. Would you yield? I would like to suggest that this is the second or third time I have heard the comment that the testimony we heard yesterday from representatives of the American Retail Federation is not true. Now, I think this is an important point to resolve and I would like to suggest that you have our staff make a check as to the actual practices that are being used by the members of the American Retail Federation to determine if their testimony is true or not.

Mrs. SULLIVAN. If the gentleman will yield, my comment was that the method of computation they showed us from the chart is not the way they actually figure their interest.

Mr. WILLIAMS. I understand your comment. All I am saying is that they came in here with testimony and while they were here I did not hear any comment made to the effect that this was not the practice they are following. I believe it is very important for us to know whether this is the practice they are following or not. Certainly, with the extensive staff this committee has we can give them the assignment of determining whether or not their testimony yesterday was true and that the practices they outlined to us yesterday in the application of interest rates on revolving charge accounts was true or untrue.

Mrs. SULLIVAN. I hope we can prove that before this committee.

Mr. WILLIAMS. I certainly think we should make that a first point of order.

Mrs. SULLIVAN. Mr. Fino, I am sorry to have taken up your time.

Mr. FINO. I have no further questions.

Mrs. SULLIVAN. Mr. Minish?

Mr. MINISH. Thank you, Madam Chairman.

Mr. WILLIAMS. I had one additional comment. As I remember the testimony yesterday, they said this was an actual account that was selected because it was typical.

Mrs. SULLIVAN. I do not attempt to disprove that, Mr. Williams. I say the way they figured the finance charge on that account is not the method they are actually using in assessing credit charges. What they were trying to prove—they were trying to prove that they charge a low rate of interest, but it is not a typical way of figuring interest, no matter how they slice it. Go ahead, Mr. Minish.

Mr. MINISH. Thank you, Madam Chairman.

Mr. Brownstein, it is nice to have you before this committee and I want to concur in the remarks of the chairwoman—she said you are one of the most highly dedicated public servants.

I see in your testimony that you have your own little truth-lending operation at FHA. We have been meeting here morning and afternoon trying to learn how this bill will affect the public and getting the views of different witnesses. Maybe you can tell us what you are doing in your Department along these lines.

Mr. BROWNSTEIN. We have, Mr. Minish, in practically all of our publications, references to what the actual interest rate is and what the entire amount of interest would be over the full term of the loan.

I was asked to put into the record some of the pamphlets and some of the forms that deal with this. But we do make a concerted effort to see to it that the prospective home purchaser or home repair person is fully advised of what the cost to him will be.

Mr. MINISH. Thank you. That is all.

Mrs. SULLIVAN. Mrs. Dwyer?

Mrs. DWYER. Thank you, Madam Chairman.

Mr. Brownstein, the FHA or VA could reveal to the homeowner the total dollar amount of first mortgage interest payments on its own without any legislation, could they not?

Mr. BROWNSTEIN. Yes, Mrs. Dwyer, and in fact we do.

Mrs. DWYER. Just how do you do that?

Mr. BROWNSTEIN. On the appraisal form which the home buyer gets, or the prospective home buyer gets in the case of FHA, we show the amount of principal and interest that he pays each month, we show what the total amount of interest is for a 20-year term, 25-year term, and 30-year term at varying loan amounts.

Mrs. DWYER. Secretary Weaver said that the average home buyer purchases only one or two homes during his lifetime. This understates recent experience, I think, does it not, that millions of American families purchase at least three homes during their lifetime?

Mr. BROWNSTEIN. I think I am the one who said it, who said the one or two, Mrs. Dwyer, and this is the best of my information. I don't know whether it is three—it could be that in our affluent society it has now gone up.

Mrs. DWYER. With homebuilding starts down, do you not think that if telling a potential homebuyer that he will pay \$28,000 in interest over 30 years for a \$25,000 home that it might discourage sales, especially when such a disclosure overstates the true interest?

Mr. BROWNSTEIN. I don't believe that any mechanism which is aimed at making a person more knowledgeable or in a better position to judge what in his circumstance he ought to do is undesirable, and I think further, that if the person is dedicated to homeownership, as the vast majority of the American public is today, that they will take this into account, but they also will take into account all of the other advantages of homeownership.

Mrs. DWYER. Mr. Brownstein, is it the considered judgment of the economists in your Department that the FHA and VA requirements that points be paid only by the seller in fact means that the final incidence of these charges is ultimately on the seller?

Mr. BROWNSTEIN. I am not going to say to anyone, Mrs. Dwyer, that appraisal is such a precise science, that you can appraise out totally the amount of the discount.

I will say, however, that we do not in our replacement costs take the discount into consideration.

Mrs. DWYER. Let me ask you this question, then. Is it not likely, in the highly competitive real estate market, that the buyer really ends up paying these points in the form of a higher price for the house?

Mr. BROWNSTEIN. About all I can do is repeat what I said earlier, I believe it depends a good deal on the market condition. For example, there are many sellers of homes who offer the house, either FHA, VA, or conventionally. Now, on the conventional mortgage it may well be that there is no discount involved. Nevertheless, the sales price of the house in the vast majority of the cases would not vary irrespective of whether it is financed FHA, VA, or conventionally. So to this degree in very large measure the discounts are in fact absorbed by the sellers.

Mrs. DWYER. That will be all. Thank you.

Mrs. SULLIVAN. Mr. Stephens?

Mr. HANNA. I wonder if we might make a point here. I think it is important from what the gentlelady said—is it not observable that when the seller has to pick up the cost of selling, that there is then less inducement to sell and in what we have seen in the movement of housing, that when this phenomenon occurs that the seller has to pick up the points, that there are less houses being sold and therefore it affects the whole dynamics of homebuilding because it seems to me it has been observable by me at least that the movement in housing is that the new house is usually sold to somebody who already had a house and he has to sell that to somebody else before he moves up in class, and that is really the dynamics of the modern house operation, as I see it in my area.

Mr. BROWNSTEIN. I don't think there is any question but what this is true, Mr. Hanna. For example, I think that our experience last year verifies this fact. We had a very sharp reduction in FHA activity in the existing house field, and the reason that I think we had this reduction in activity was because of the very deep discounts that the sellers were asked to absorb in connection with the sale of their houses. And they in turn, who perhaps had been looking at new houses that they might want to buy, decided that the house they were living in looked much better to them at that point. And the equity that they thought they had been developing over the years was, in fact, being evaporated because of the discount that would be involved in the sale of the house.

Mr. HANNA. And I think there is only one point, one other point that I wanted to make, and following along the lady's remarks, and that is the magic word is equity. When you talk about homeownership in the United States today I think you would have to look at it just as we do with automobile ownership. I would say many of the people in front of me and many of us back in the stands never get to the point where we have the pink slip of the automobile or the deed to the house in our hands. We have an equity, and when I see the FHA setting up

40-year mortgages for retirement villages, I think they understood it as equity. A person in the 55 to 65 age is not really looking forward to paying off a 40-year mortgage. Have we not moved into the field of really equity in ownership?

Mr. STEPHENS. Would you yield back to me now?

Mr. HANNA. I certainly would.

Mr. STEPHENS. I take it, Mr. Brownstein, what Mr. Hanna mentioned there is like the experience I had in closing a sale for a man. I told the purchaser: "Here is the warranty deed." He said, "I don't want that, I want the mortgage deed." I said, "Why?" He said: "The last time I had the warranty deed the fellow who had the mortgage deed got the house."

What I want to ask you about, in S. 5 and in H.R. 11602, and the similar bill that I introduced, first mortgages have been exempt. What was the reasoning, in your understanding, in the Senate for leaving first mortgages out?

Mr. BROWNSTEIN. I think probably because, Mr. Stephens, it was believed on the part of many that the interest rate which is stated in the first mortgage is the true interest rate that the buyer pays and that there probably was not the need for the full disclosure in the case of the first mortgage as there was in other types of credit.

Mr. STEPHENS. Would not the effect of that be that in the FHA rules a statement has to show the true interest rate?

Mr. BROWNSTEIN. As a matter of fact, as I have testified earlier and have introduced into the record, the FHA has gone beyond that and lets the buyer know exactly what he is paying, both in terms of rate and in dollar amount.

Mr. STEPHENS. In Mr. Weaver's statement and in yours, but I think Mr. Weaver primarily pointed this out. He said that H.R. 11601 would take in more truth-in-lending provisions. Then he cites that putting an arbitrary limit on financing charges, to authorize consumer credit control during national emergencies, prohibit garnishment of wages, establish a National Commission on Consumer Finance, and prohibiting confession of judgment notes, that ought to be looked into further.

But nothing was mentioned about the proposal made in H.R. 11601 of truth in advertising. Do you all have any comments you would like to make on the proposals in H.R. 11601 about advertising true rates, and so forth?

Mr. BROWNSTEIN. Well, I believe that the important thing, Mr. Stephens, is that the prospective borrower know what the true rate is and the amount that he is paying, and our concern would be that a mechanism be provided that would assure him of this kind of information.

Mr. STEPHENS. I would like to make a comment in respect to the points that are charged.

As you pointed out, it is reflective of the marketplace. But if we begin to try and make some kind of regulation in that we are going to have to go further than just the mortgage business, because that is the essence of the bond business—the yield. A stockbroker will counsel with his client and tell him that if he buys a certain municipal bond at a given price with this interest rate, then the yield that he will receive will be so much. We would have to go into that kind of borrowing as well when we get into points. Then we become involved in the

transactions that many banks make with Federal bonds and Federal securities, because they are looking for yield based upon what the market price of it is. The Government itself sells its instruments at a discount.

If we are going to have to go into the questions of discount, we will have to go into it further than we are prepared to now.

Mr. BROWNSTEIN. Discounts are not confined to mortgages, as you suggest, Mr. Stephens. They are typified in the corporate bond market as well as the U.S. Government bond market.

Mr. STEPHENS. Also not confined to consumer items. Sometimes a fellow gets into domestic difficulties, gets a judgment of alimony against him, and will not pay it and his wife cannot get the money out of him, so it is not confined completely to the question of this.

Mrs. SULLIVAN. I would just like to comment that the legislation that we are considering would not apply to bonds or anything of that nature. Title I of this bill would only apply to consumer credit. It specifically says on page 17, line 14 of the bill, that the provisions of this section shall not apply to credit transactions involving extensions of credit for business or commercial purposes, transactions in securities or commodities.

So it would not apply to what Mr. Stephens was discussing.

Mr. Brownstein, you are always a fine witness and a great help to us.

Mr. FINO. Madam Chairman, I have just one question I would like to ask Mr. Brownstein, if I may.

Mrs. SULLIVAN. All right.

Mr. FINO. Mr. Brownstein, from your many years of experience with FHA have you found many cases where banks cheated in financial charges for home mortgages?

Mr. BROWNSTEIN. Well, we have had cases, Mr. Fino, where some mortgage originators who were then in the program—are not now in because of some irregularities—but this has been an extremely rare occasion.

Mr. FINO. Rare case. So when you are speaking of rare occasions, are you speaking of banking institutions, financial institutions?

Mr. BROWNSTEIN. Probably there have been a couple over the many years that FHA has been in existence, but it has been an extremely rare thing.

Mr. FINO. Thank you.

Mrs. DWYER. Madam Chairman, I have just one more question. We are all concerned over the one major sector of our economy that is apparently depressed, namely the homebuilding industry. During a period of tight money or high interest rates if we were to reveal total dollar costs, would not potential home buyers delay home purchases until interest rates declined, thus sharpening the gyrations in an industry that already suffers the effects of tight money?

Mr. BROWNSTEIN. I think it depends entirely, Mrs. Dwyer, on the particular home buyer and what his circumstance is and depends, if he finds a house that meets his family needs and if this is the house that he believes is what he wants, and if he can afford the down-payment and the monthly payments, these I think will be the elements of his primary consideration.

Mrs. DWYER. Thank you.

Mrs. SULLIVAN. Thank you, Mr. Brownstein. As I said, you are a fine witness and you are always helpful to us.

Mr. BROWNSTEIN. Thank you, Mrs. Sullivan.

Mrs. SULLIVAN. This issue that we have pursued with you on mortgages is extremely important to this legislation on credit disclosure for I think it is one of the major differences between the disclosure sections of H.R. 11601 and the Senate bill. We thank you very much for your contribution.

Mr. BROWNSTEIN. Thank you.

Mrs. SULLIVAN. Now we will call the witnesses from the American Bankers Association, Dr. Charles E. Walker, executive vice president, Mr. Thomas L. Bailey of the Marine Midland Corp., of Buffalo, and Mr. John F. Rolph, counsel. The American Bankers Association is represented frequently before this committee, of course, and we appreciate your willingness to participate with us in trying to work out the concept and details of this important legislation in the field of consumer credit.

Dr. Walker, I am wondering if it is a mark of the traditional thriftiness of the banker that you save approximately 14½ percent in the number of letters normally required to spell your first name.

Would you gentlemen be able to come back this afternoon for questioning?

Mr. WALKER. Yes.

Mrs. SULLIVAN. I am sure we can get permission to meet again at 1:30 and we want to give you all the time that is needed, and I know that we cannot do it in the time that is left. So I think between now and the time we recess we will have time to read your statement, and this afternoon we would like you to come back and talk with us. We would also like to ask you some questions.

We also have this afternoon the Reverend Robert J. McEwen, chairman of the Department of Economics at Boston College, who had a great deal to do with the truth-in-lending legislation that is operating now in Massachusetts.

We would like later in the afternoon to hear his statement and to let him participate in some of the questions and answers as we are questioning you gentlemen, so that we can have some experience on what has happened in one State on this problem and see how it relates to your position.

Mr. WALKER. We shall be happy to do so.

Mrs. SULLIVAN. With that understanding, would you proceed now to make your statement?

STATEMENT OF CHARLES E. WALKER, EXECUTIVE VICE PRESIDENT, AMERICAN BANKERS ASSOCIATION; ACCOMPANIED BY THOMAS L. BAILEY, MARINE MIDLAND CORP. OF NEW YORK; AND JOHN F. ROLPH, AMERICAN BANKERS ASSOCIATION STAFF

Mr. WALKER. We appear before you on behalf of the American Bankers Association to give you the views of the association on the bills pending before you—S. 5, as it passed the Senate, H.R. 11601, introduced by the subcommittee chairman for herself and other Congressmen, and H.R. 11602, introduced by Mr. Widnall for himself and other Congressmen, which I understand, is identical with S. 5.

I am Charls E. Walker, executive vice president of the American Bankers Association. I plan to make a brief statement on behalf of the association and to submit a detailed statement on the disclosure bills for the information of the committee.

Mrs. SULLIVAN. Without objection, your full statement will be made a part of the record.

Mr. WALKER. We have also developed a statement on technical problems involved in the legislation which we will have available for you before the hearings end.

Mr. SULLIVAN. That will be fine.

Mr. WALKER. Before I identify my associates I want to apologize for a few typographical errors in the statement. I will identify those as I go along. They have been corrected in the statement brought up today in our desire to get the statement before you as early as possible, and there were some unavoidable typographical errors.

Mr. Thomas L. Bailey of the Marine Midland Corp. of New York has worked extensively with installment credit and bank credit cards and related matters and will answer questions in this field. Mr. John F. Rolph is a member of the ABA staff and will answer questions on legal and technical matters concerning these bills and related State laws.

Consumer credit is vital to our productive and distributive systems and to the health of the economy. Total consumer credit outstanding is over \$90 billion, of which banks hold more than \$30 billion. Consumer credit is being extended at the rate of \$6 to \$7 billion a month, and repayments are almost as large, the net increase during the past year amounting to almost \$5 billion. First mortgages, which would also be affected by H.R. 11601, are equally vital to the homebuilding industry and to the economy, and they involve even more money. The total of residential mortgages outstanding is over \$200 billion and the amount invested in them in recent years has been in the neighborhood of \$35 billion per year—that is a gross figure, not a net figure.

The ABA has historically endorsed the principle of full disclosure of consumer finance charges and we have strongly supported efforts to improve State laws in this field. As evidence of this we would call the committee's attention to the very substantial support both in time and money which the ABA has given over the past 4 years to the Uniform Consumer Credit Code project of the National Conference of Commissioners on Uniform State Laws. Other segments of the consumer credit industry, consumer groups and foundations have also contributed significantly to this project. Approximately \$250,000 has been spent on this project. Our contribution has been approximately \$62,500, not counting thousands of dollars of ABA staff time.

However, in spite of ABA's support of the principle of full disclosure, we have been deeply concerned about the possible effect of earlier versions of the consumer credit disclosure proposal on consumers and on the consumer credit industry, practically by reason of the relation between those proposals and the many different State laws applying to various aspects of the consumer credit business. We have also been deeply concerned about the workability of these earlier proposals and the administrative burdens they might impose on the Federal Reserve Board.

The bill which the Senate recently passed, S. 5, shows very careful attention to the issues which gave ABA so much concern. While we do not feel that the final Senate version is beyond the need for amendment, we feel it represents a great improvement over the earlier versions. We propose to suggest further amendments which we feel are consistent with the objectives of the proposal.

The most important problem raised by the bill is the relationship between it and the many State statutes in the field. We conducted an intensive research project in connection with our testimony in the Senate, and we estimate there are over 400 State statutes of this type which may be involved. In our work with the National Conference of Commissioners on Uniform State Laws on the proposed Uniform Consumer Credit Code, we have learned of the many hundreds of State laws in this general field—disclosure laws, small loan laws, usury laws, garnishment laws, and so on. These laws differ widely. In some States, they provide virtually all the protection suggested by any of the bills before the subcommittee. In a few States, legislation in this field is admittedly limited. Still, one thing is clear: If the Federal Government is to enter into this complicated field, it must do so carefully and cautiously; otherwise, the legislation could seriously disrupt existing relationships, to the detriment of borrowers and lenders alike.

The bills before the committee recognize this problem and contain specific provisions as to their impact on State laws. State laws would not be affected by the Federal statute except to the extent State laws are inconsistent, and the Federal Reserve Board must exempt from the Federal statute those credit transactions which are subject to State laws which are substantially similar. While there are some technical problems involved in the language of these provisions which are discussed in the detailed ABA statement, we agree with these general principles. I trust that we will be able to continue our work with the Commissioners on Uniform State Laws and the ABA committees working in this field, so that the Federal and State laws would be fully coordinated. If all States should adopt laws which qualify for exemption under the Federal law, the new Federal law might eventually become a standby measure.

Until this coordination is accomplished, and the State laws are fully meshed in with the new Federal law, serious problems will arise.

Many State laws limit finance charges or interest rates and require them to be stated in different ways—percent per month in the case of credit unions, dollars per hundred or percent per month or per annum discount or add-on in the case of loans, or the time price in the case of sales. These States will have to decide whether to abandon these requirements or to require lenders and sellers to set forth finance charges in two different ways on each transaction, with resulting danger of confusion.

Many States have stringent usury statutes, prohibiting interest charges above 6 or 7 or 8 percent simple annual interest. Exceptions to these usury statutes have been carved out by judicial decision or by statute. But when a seller or a lender is required by the new Federal law to state that the "finance charge" is 12, 18, or 24 percent—or

whatever the charge may be—including credit life insurance and other costs under H.R. 11601 or a more limited group of costs under S. 5 and H.R. 11602, how many courts will disregard the time price doctrine or the add-on or discount statutes, taking the position that the percentage rate disclosed under the new Federal statute must be considered as the interest rate for the purpose of the State usury laws?

The Senate committee has taken great pains to make it clear that this is not their intention. We hope all courts will accept this view, but we are dealing with the laws and the courts of 50 different States, and it seems to us unwise to assume that each of these courts will reach the result the Senate committee intended.

These problems are compounded under H.R. 11601, which also applies to first mortgages, and which imposes ceilings on the amount of finance charges.

The problems of coordinating existing State statutes with the new Federal law make it essential to give adequate leadtime before the new law takes effect. In the Senate, the ABA recommended that a 3-year leadtime be provided, since many State legislatures meet only every other year, and some State constitutional amendments will be necessary. Another reason is that it will give more time for adoption of the Uniform Consumer Credit Code which is moving toward fruition that is very extensive and will take some time to enact. The Senate cut this down to something less than 2 years—giving a grace period up to July 1, 1969. H.R. 11601 would make title I, including the disclosure provisions, effective July 1, 1968—less than a year away. This, we feel, is entirely insufficient and would surely lead to serious problems in many States. It would lead to mechanical problems in the Federal Reserve Board with respect to the issuance of regulations, as Governor Robertson pointed out the other afternoon.

The Senate provided an important safeguard in the provision authorizing annual percentage rates to be stated either as a percentage rate per year or as a dollars per hundred per year rate—on the declining balance of the loan—up to January 1, 1972. We believe this alternative should continue indefinitely. In any event it is important that it should be continued at least until 1972. H.R. 11601 does not provide for this option.

The ABA is also seriously concerned about the installment open-end credit plan provisions of S. 5 and H.R. 11602. These bills seek to distinguish between short-term revolving credit and long-term installment credit, using three standards to define plans which must set forth the finance charge on an annual basis: (1) retention of a security interest by the seller; (2) a repayment schedule calling for less than 60 percent of the balance to be paid within 12 months; or (3) allocation of prepayments to future payments in order of due dates. The ABA agrees that finance charges should be stated on a monthly basis, but we oppose discriminatory use of different methods of time disclosure. S. 5 and H.R. 11602 would work a real hardship on bank revolving credit, including particularly bank credit card and check credit programs, because in most cases it would require banks to state their finance charges on an annual basis, while many competitors under similar circumstances could state their charges on a monthly basis. We can go into this in detail in the questions, if you so desire.

By stating some types of finance charges on a monthly basis and others on an annual basis, S. 5 and H.R. 11602 would eliminated 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.

We firmly believe that the \$10 floor on disclosure in installment loans, as provided by S. 5 and H.R. 11602, must be contained in any Federal disclosure statute. This provision is essential if banks are to continue to make relatively high-cost loans of small amounts.

H.R. 11601 would include first mortgages, which were excluded from S. 5 on the ground that there was no evidence of substantial abuse in this area. The ABA also opposes this provision of H.R. 11601.

H.R. 11601 would require all finance charges to be stated as an annual percentage rate, with no special provision for monthly rates for revolving credit, and without any option to use a dollars-per-hundred-per-year after the effective date. As I have said, the ABA favors uniform statement of finance charges, in the interest of comparability, but we recommend use of monthly rates, not annual, and we would prefer dollars-per-hundred-per-year to an annual percentage rate.

H.R. 11601 would require certain information about credit terms to be stated whenever specific credit terms are set forth in an advertisement. We go into this in detail in our supplementary statement. We would agree that if credit terms are advertised, the information supplied should be sufficiently complete so that the advertisement is not misleading. The detailed ABA statement contains suggestions for improving this provision.

H.R. 11601 also contains several provisions completely unrelated to the disclosure objectives of S. 5 and H.R. 11602.

H.R. 11601 would prohibit any finance charge in excess of the maximum rate permitted by State law, or in excess of 18 percent per annum. Since the finance charge must include many items other than interest, such as insurance, service charges, loan fees, and discounts, this provision might prohibit loans and mortgages made at the ceiling permitted under State law, if insurance or loan fees or discounts were involved. And since the ceiling of 18 percent on finance charges would also have to include these other items, the effective ceiling on true interest might be reduced appreciably below 18 percent, if any of these other charges were involved.

The ABA strongly opposes the enactment of any Federal usury statute, and especially a Federal usury statute not based on interest charges in the same manner as State laws but on a much broader finance charge. There is no doubt in our minds that the imposition of the proposed usury statute would substantially reduce the availability of funds for consumer credit from responsible financial institutions and force poorer borrowers into the hands of loan sharks operating outside the bounds of law.

H.R. 11601 would prohibit wage and salary garnishment in connection with consumer credit. This is a substantial change in the law of creditors' remedies, which historically has been considered solely within the jurisdiction of the States.

This proposal might have substantial effects on the availability of credit for less affluent borrowers. Clearly it has nothing to do with disclosure of the cost of consumer credit—with "truth in lending." In the limited time since the introduction of H.R. 11601, we have not been able to make a thorough survey of the State laws on this subject, or to obtain the considered views of our members. We shall examine Mr. Annunzio's exhibit with considerable interest in that respect.

Fundamental legislation of this sort should be enacted only after thorough consideration of its effect on State laws, on the consumer finance industry, and on the availability of credit for consumers.

H.R. 11601 contains two anti-inflationary proposals—authority to regulate consumer credit along the lines of regulation W, and authority to regulate credit and credit margins on commodity exchanges.

Consumer credit regulation was exercised during World War II and the Korean conflict, as part of overall wage and price stabilization programs. An effort to reinstate consumer credit regulation, on a standby basis, was made in 1966 as part of the extension of the Defense Production Act. Although there were far greater and more immediate inflationary pressures at that time than at the present, the proposal was overwhelmingly defeated by the House.

Regulation of commodity exchange credit was proposed by the administration in 1950 as part of its stabilization program in the Defense Production Act. It was not adopted.

Neither of these proposals has anything to do with disclosure of the cost of consumer credit—with “truth in lending.” We are not aware of any evidence that inflationary pressures at the present time call for the direct controls which these provisions would authorize, with all their difficulties for the administering agencies, the finance industry, and those prospective consumers who are not so affluent that they can meet their needs without borrowing. On the contrary, the ABA is convinced that the current inflationary pressures can be held in check by more conventional and less troublesome methods.

H.R. 11601 would establish a nine-member National Commission on Consumer Finance, which would be directed to study and appraise the functioning and structure of the consumer finance industry, including the adequacy of the existing industry to provide consumer financing at fair rates, the adequacy of existing supervisory and regulatory mechanisms to protect the public from unfair practices, and the desirability of Federal chartering of consumer finance companies. The ABA cannot support this provision. The House and Senate Banking and Currency Committees, the Joint Economic Committee, and the executive agencies can make any needed study of consumer financing and can give advice and recommendations to the Congress and the President. We have cooperated with the studies of these groups in the past; we shall continue to do so in the future.

In summary, the ABA believes that S. 5 and H.R. 11602 represent great improvements over disclosure legislation introduced in Congress in recent years.

We believe that H.R. 11601 would have a decidedly adverse impact on consumers, lenders, and the economy, and therefore oppose its enactment.

Thank you very much.

(The supplementary comments follow:)

SUPPLEMENTARY COMMENTS AND RECOMMENDATIONS OF THE AMERICAN BANKERS ASSOCIATION

These comments and recommendations of The American Bankers Association supplement the statement made before the House Banking and Currency Committee, on August 10, 1967, on S. 5 and H.R. 11601 and other similar bills on the subject of the disclosure of finance charges in consumer credit transactions.

The position of The American Bankers Association on the "truth-in-lending" bills before this Committee may be summarized as follows:

1. A single uniform method of time disclosure should be applied without discrimination to all creditors and all types of credit in order to provide consumers with a one unqualified test for comparing consumer credit costs. We recommend that the monthly method of time disclosure is best designed for this purpose. However, if the Congress does not agree, we believe that the annual method of disclosure should be uniformly applied to all creditors and all types of credit.

2. As provided by S. 5, it is essential that creditors should be permitted the option of stating finance charges or rates in terms of dollars per hundred at least until January 1, 1972.

3. As provided by S. 5, it is essential that the \$10 floor on rate disclosure for installment loans be permanently retained if commercial banks are to continue to make small accommodation loans to certain classes of borrowers.

4. The effective date of any Federal disclosure act should be no earlier than July 1, 1970 in order to permit the State legislatures to take necessary action to amend affected State laws and to facilitate the implementation of the Uniform Consumer Credit Code.

5. As provided by S. 5, finance charges to the extent that they are required to be stated as a rate should not include insurance charges.

6. As provided by S. 5, first mortgage real estate loans should be excluded from the disclosure requirements.

7. In accordance with S. 5, maximum interest rates or finance charges for consumer credit transactions should be left to the several States for determination and should not be prescribed by a Federal law.

8. A Federal Act should not vest broad and cumbersome enforcement responsibilities in the Federal Reserve Board but should contain the system of "self-enforcement" provided by S. 5.

9. A Federal Act should not place any restriction on the traditional rights of creditors to collect unpaid debts which historically has been the subject of State jurisdiction.

10. Standby credit controls are not needed at this time and have no logical place in a Federal truth-in-lending law.

11. Provisions governing disclosure in advertising should be reasonable. We recommend that the approach in the Uniform Consumer Credit Code be adopted.

COMMENTS ON S. 5

A UNIFORM METHOD OF TIME DISCLOSURE

In testimony on S. 5 before the Senate Banking and Currency Committee on June 23, 1967, representatives of The American Bankers Association urged that a single, uniform method of time disclosure for all creditors and classes of credit should be adopted in any Federal disclosure Act. This recommendation was based upon (1) the fact that Section 3(h) of S. 5 contains a provision which would arbitrarily discriminate against certain creditors in different segments of industry and (2) the need for a time disclosure method which provides consumers with a uniform and unqualified test for comparing credit costs.

The "installment open-end credit plan" provision in Section 3(h) requires that an open-end credit plan which (1) creates a security interest in property, or (2) does not provide that at least 60 percent of the unpaid balance is to be paid within 12 months, or (3) provides that excess payments are applied to future payments—shall be subject to an *annual* rate of disclosure. S. 5 would provide that all other open-end or revolving credit plans which do not contain any one or more of these three characteristics would be subject to monthly disclosure. On the basis of the hearings before the Senate Committee it is clear that the provision in Section 3(h) is geared to the accounting methods and credit practices of a few large members of the retail industry.

In the case of commercial banks, this provision is both arbitrary and discriminatory for two important reasons. The great majority of bank revolving check credit or credit card plans provide consumers with payment terms which are more liberal than the 60 percent 12 month pay-out requirement of Section 3(h). In other words, typical bank revolving credit plans permits a consumer at least 20 months, or in some cases 22 or 24 months, in which to pay off an

obligation. In the future, and in the absence of any arbitrarily imposed structure under Federal law, bank plans may well afford even more liberal terms. The typical "mix" in a bank revolving credit account involves customer purchases varying from automobile gasoline or low cost department or chain store items to refrigerators, television sets or airplane tickets.

In view of the fact that the majority of existing bank revolving credit plans provide payment terms of 20 months or longer, these bank plans do not meet the 60 percent, 12 month pay-out requirement under Section 3(h). The maximum pay-out under a 20 month bank plan would be slightly under 5 percent per month on the declining balance in the account. Most bank plans would not even closely approach the 60 percent pay-out requirement in Section 3(h). The 60 percent figure is truly arbitrary. The result would be that under this provision practically all existing bank revolving credit plans would be subject to an annual disclosure rate whereas competitors who may offer less flexible revolving credit terms would be able to quote a much lower *monthly* disclosure rate.

It is also to be noted that many bank revolving check credit and credit card plans permit the taking of a security interest in property which a customer may charge to his revolving credit account. This feature, which is a growing development in bank revolving credit, provides definite and ascertainable benefits for the consumer. It means that the consumer need not seek an installment loan, with its attendant higher acquisition and servicing costs, on, for example, the purchase of a television set, but instead may charge the set to his revolving credit account. Acquisition and servicing costs in a revolving line of credit are substantially lower than in individual installment loan or sale credit transactions where a new loan account must be set up for each transaction. As indicated in our testimony of June 23 before the Senate Committee, if banks are placed at a competitive disadvantage because they have to quote an annual rate in cases where security interests would be taken in revolving credit loans, many banks may restrict this economical form of credit.

Many retailers, including small retailers who are not able to offer revolving credit terms on such items as furniture, television sets, or major home appliances, but who typically make such sales under installment credit arrangements involving security interests, would be also subject to discrimination in that they would be restricted to annual rate disclosure while some of their larger retail competitors would be able to quote monthly rates.

The net effect of the "installment open-end credit plan" in Section 3(h) is that banks, because of their flexible revolving credit terms, and many other extenders of credit who are restricted to installment credit transactions, would be discriminated against without legitimate foundation. The end result is that the consumer is ultimately bound to suffer.

It is paradoxical that the Senate Committee report on S. 5 supports the arguments of the banking industry and many other extenders of credit in behalf of uniform disclosure even though, despite these views and the urgings of industry, the Committee chose to retain this extremely discriminatory provision.

In elaborating upon the different practices which have developed historically in the consumer credit industry and in stressing the need for standardized legislative requirements, the Committee report makes the following statement:

"No one segment of the industry can afford to reform itself by disclosing the simple annual rate without incurring a competitive disadvantage. Clearly, the only solution is to require by legislation that *all creditors use the same method in computing and quoting finance charges* including the statement of an annual percentage rate.

"The committee believes that by requiring all creditors to disclose credit information in a uniform manner and by requiring all additional charges incident to credit to be included in the computation of the annual percentage rate, the American consumer will be given the information he needs to compare the cost of credit and to make the best informed decision on the use of credit." [Emphasis supplied.]

Despite these commendable statements of principle, the Senate Committee voted to retain the controversial and discriminatory provision in Section 3(h). A.B.A. representatives at the June 23 hearings urged the Senate Committee to consider placing all consumer credit on a uniform monthly disclosure basis. Our reasons for this recommendation were that installment and revolving credit charges may be accurately calculated and disclosed on a monthly basis. Credit unions historically have used the monthly charge for rate calculation and dis-

closure. The average consumer receives his income or salary, is billed for and makes payments for purchases and services and generally budgets his personal economy on a monthly basis. Monthly disclosure is more accurate in revolving credit than annual disclosure which may produce some distortions in the actual rate or charge to the consumer because of 30 to 60 day interest-free grace periods and because consumers frequently pay off revolving credit obligations in one, two, or three months in which case the rate actually charged may be substantially less than an annual rate.

It is for these reasons that The American Bankers Association recommended that the Senate Committee adopt the monthly method of time disclosure.

In addition to avoiding a discriminatory effect among different creditors, one of the most important advantages to calculating and disclosing finance charges on a single and uniform basis is that *this concept will permit the consumer to make a direct, uniform and accurate comparison of credit costs as between different categories of credit extenders and as between different types of consumer credit.* In other words, a single standard of time disclosure would permit the consumer to easily evaluate the comparative costs as between lender and vendor credit and as between installment and revolving credit.

Although we have urged the Congress to adopt the principle of monthly time disclosure because we believe that this method is best designed to serve the needs of the consumer and the credit industry as a whole, it is the considered judgment of the banking industry that in the final analysis it is essential that whatever method is decided upon must involve a *single nondiscriminatory system of time disclosure to be uniformly applied to all creditors and all types of credit.* Uniformity is essential if the consumer is to be given the means by which he may compare the costs of credit and if the credit industry is to be permitted to operate with optimum effectiveness.

If the Congress should decide that monthly disclosure is not feasible for a Federal disclosure Act, then we urge that the annual method of time disclosure be adopted and applied uniformly and without discrimination to all creditors and all types of credit.

DISCLOSURE—THE DOLLARS PER HUNDRED OPTION

As indicated in this statement and as previously expressed in the hearings and statements made in connection with the truth-in-lending bills which have been introduced since 1960, The American Bankers Association historically has endorsed the full and complete disclosure of finance charges in connection with all extensions of consumer credit. Beginning in 1960, at the time of the first Senate committee hearings on truth-in-lending legislation, the Association urged that disclosure legislation should require the expression of finance charges in terms of a dollars per hundred rate of charge.

We have believed that a finance charge expressed in terms of a dollars per hundred rate of charge, combined with an itemized statement of all credit charges in terms of their dollar costs, would provide consumers with a much more usable and comprehensible medium of measuring comparative credit costs than would be provided by either a simple annual rate or by an annual percentage rate. It is significant that the Special Committee of the National Conference of Commissioners on Uniform State Laws, after several years of independent study and research on the subject of various methods of finance charge disclosure, arrived at a similar conclusion in drafting the proposed Uniform Consumer Credit Code.

It is also significant that approximately half of the state statutes which govern consumer credit transactions require that finance charges either be calculated or disclosed in terms of dollars per hundred add-on or discount. The great majority of these statutes, as well as the state credit statutes which require finance charge disclosure or rate calculation on a percentage add-on or discount basis, constitute statutory exceptions to the interest (usury) statutes. Although contract interest rates under the state usury statutes vary from 6 percent to 21 percent simple interest, the majority of the usury ceilings for contracts range from 6 to 10 percent simple interest.

A Federal finance charge disclosure act which would require that credit costs be stated in terms of annual percentage rates, without an option to express such rates in terms of dollars per hundred, would create serious problems with respect to potential litigation on the subject of usury in a substantial number of

states. By way of illustration, a state statute governing interest rates on contracts may impose an 8 percent simple interest ceiling on such transactions. If we assume that there is a special installment loan law or small loan law in that state which expressly permits lenders to calculate and disclose interest charges on a \$6 per \$100 add-on or discount basis, it may be seen that a Federal Act requiring an annual percentage rate disclosure would produce a rate of charge in excess of 11 percent under the formula contained in the proposed Federal Act.

Some State courts may interpret the disclosure requirement of the Federal Act as preempting or superseding the disclosure requirement of the special loan statute which would otherwise govern disclosure. The result would be that the rate required to be stated under the Federal Act would supersede the rate permitted under the special loan law and would exceed the 8 percent rate ceiling under the applicable state usury statute. It is acknowledged that the Senate Committee report on S. 5 and the bill itself do state that the disclosure provisions of the Federal Act are not intended to precipitate actions under the usury statutes of the several states. Although this is a commendable statement of legislative intent, it is clearly not binding on the judgments of the courts of the fifty states with respect to whether or not an action for usurious charges may exist.

The constitutions of some states present special problems with respect to the implementation of the Federal Act. Some state constitutions contain express limitations on interest charges and also provide that the state legislatures may not enact special legislation on this subject. In some instances, dollars per hundred add-on of discount finance charge disclosure methods historically have been employed to produce rates which, because of the accepted method of quotation, do not conflict with the simple interest ceiling imposed by the state constitution. The annual percentage rate disclosure requirement under S. 5 may produce serious problems in these states. It is probable that constitutional amendments would be required in several states where special problems of this or a similar nature exist.

It is for these reasons that the A.B.A. has urged that any Federal credit disclosure legislation should permit charges to be expressed in terms of a dollars per hundred rate. S. 5 and H.R. 11602, in transactions where an annual percentage rate is required to be disclosed, permit such rate to be expressed *either* as a percentage rate per year *or* as a dollars per hundred per year rate of the average unpaid balance. Similarly, under these two bills a monthly percentage rate in the alternative may be expressed as a dollars per hundred per period rate. Under the Senate bill and H.R. 11601, the dollars per hundred rate disclosure alternative is permissible until January 1, 1972.

Although the A.B.A. is indeed gratified that the Senate Banking and Currency Committee recognized the importance of a permissible dollars per hundred rate alternative until January 1, 1972, we are not fully convinced that the legislatures of the several states will be able to enact amendatory legislation by January 1, 1972, or to amend the constitutions of several states, by that date in order to bring applicable state laws into line with the requirements of the Senate bill and H.R. 11602.

We are convinced that the continued smooth flow of credit to consumers requires that a dollars per hundred option be permitted under any Federal finance charge disclosure law.

THE \$10 FLOOR ON RATE DISCLOSURE

The disclosure provisions in Section 4(b)(7) relating to sales and in Section 4(c)(5) relating to loans in both S. 5 and H.R. 11602 require that the finance charge be expressed as an annual rate "... if the amount of such charge is \$10 or more. ..." Thus, the Senate bill exempts from the disclosure requirement installment sale and loan transactions in which the finance charge is less than \$10. When S. 5 was under consideration, The American Bankers Association recommended that the rate disclosure provision relating to loans be amended to incorporate a \$10 floor for disclosure purposes.

From the point of view of the consumer lending industry, the \$10 floor on rate disclosure in the case of loans is essential if banks are to continue to make "accommodation" loans. These are relatively high-cost loans of small amount which are made for the convenience or necessity of borrowers such as teachers, farmers and salesmen who have irregular incomes or borrowers who may be in marginal economic circumstances. Such loans usually are in amounts under

\$300 and are repaid within a matter of a few weeks or one to three months. The administrative or servicing costs in these loans are substantial in relation to the amount of credit extended and the yield thereon. Banks frequently have a minimum charge for these loans merely to cover the administrative costs of the transaction. A number of state statutes expressly exempt such minimum charges from rate disclosure.

This provision of H.R. 11601 would have a serious impact on lenders. If banks are required under a Federal disclosure law to convert a \$10 minimum charge to an annual percentage rate on a \$150 loan which is to be repaid in forty-five days then banks may well stop making loans of this size. The annual percentage rate on such a loan would appear inordinately high in comparison to the relatively lower rate on the typical bank installment loan which is usually much larger in amount and much longer in term. Unless the \$10 floor on disclosure is allowed, it is safe to predict that many banks may stop making small unsecured short-term loans to the detriment of less affluent consumers.

The disclosure provisions of H.R. 11601 in Section 203(c) (5) relating to loans have omitted the \$10 floor on rate disclosure. For the reasons above stated, we recommend that this Section be amended to correspond to the related provisions in S. 5 and H.R. 11602.

THE EFFECTIVE DATE AND THE IMPACT ON STATE LAW

As indicated in our statement to the House Committee, one of the most important problems posed by S. 5 is its relationship to the more than 400 state statutes which govern or relate to consumer credit transactions. With the possible exception of the retail installment sales acts and laws governing the activities of small loan companies in some states, these statutes do not follow any clear or ascertainable pattern. They have been drafted at different times over the years and under circumstances when conditions have differed substantially. The statutes in many states have been designed to accommodate different regional economic and credit industry characteristics. For example, several different loan laws in a single state may govern different types of loans made by commercial banks in that state. No single statute may govern all of the loans made by commercial banks.

In many states there are several special statutes which govern commercial bank loans and there are other statutes which individually govern loans made by industrial banks, Morris Plan banks, consumer finance companies, credit unions, savings and loan associations, mutual savings banks, pawnbrokers and real estate loans made by different lenders.

The finance charge disclosure provisions in such statutes vary in great degree. Some statutes provide disclosure in terms of dollars per hundred per year add-on or discount. Others provide for monthly dollars per hundred add-on or discount, while still others provide for percent per month add-on or discount or percent per year add-on or discount disclosure. Some statutes do not require that a rate in fact be disclosed, but simply require that rates above stated maximums according to specified credit terms may not be charged. Some disclosure provisions are contained in general licensing statutes which govern a specific segment of industry. Many disclosure statutes have been specially enacted and relate to other statutes which contain general powers under which a given segment of industry may operate. Also, a number of statutes contain limitations on either the type of transaction to which the disclosure provisions relate or on the parties who may be subject to the requirements of a particular statute.

Special constitutional limitations exist in several states which may well cause relatively serious legislative problems. In some of these cases, the state constitutions may have to be amended which may be a laborious and time-consuming procedure depending upon the particular method of amendment required under the constitution. It is possible that in one or two cases the state constitution may prohibit enactment of a law along the lines of the proposed Federal Act in which case the Federal Act may be the sole statutory authority governing transactions in the state.

There is no consistent pattern in the state statutes relating to penalties imposed for a failure to disclose required information or for other types of violations of credit statutes. Many disclosure acts contain specific penalties for violations thereof while others do not contain specific penalties but may make the penalty for violation subject to the operation of the State usury statute.

Thus, it may be clearly seen that there are many potential areas of conflict or difference between the proposed Federal Act and the hundreds of state statutes which will be affected thereby. The amendment of these state laws to conform to the requirements of the proposed Federal Act will be no simple matter. There will be a heavy burden on the legislatures of many states to amend affected statutes.

Because of our concern about this problem and the potentially high degree of confusion that may well exist in the minds of creditors and consumers alike with respect to exactly what statute or provision may govern individual credit transactions, the A.B.A. has recommended that the states be given a three-year lead time to amend the state statutes or constitutions before the Federal Act takes effect. The Senate Committee cut this leadtime down to less than two years by making the effective date July 1, 1969. H.R. 11601 would make the effective date of the Federal Act July 1, 1968, which is less than a year away. We believe that these dates are entirely insufficient to provide the states with adequate time to amend their laws. The orderly functioning of the consumer credit industry must be maintained and the threat of potential litigation must be minimized—both to the maximum possible degree.

Moreover, the proposed Uniform Consumer Credit Code is nearing completion. If the proposed Federal Act becomes law, the Code will be amended to the extent necessary to incorporate the substantive provisions of the Federal Act. The present time table of the Uniform Law Commissioners envisions that the Code will be presented to their National Conference and the American Bar Association in 1968 for ratification and that the Code will be submitted to the legislatures of the 50 States for adoption by January 1, 1969. The Uniform Code would supersede or replace virtually all state statutes governing consumer credit transactions, including the state usury statutes.

The Code is a much more comprehensive legislative approach to all aspects of consumer credit and consumer interests than is the proposed Federal Act. In the long run, consumers will derive substantially greater benefit from the Code than from the relatively limited legislative purpose of S. 5. Therefore, a strong case may be made for avoiding a two-step procedure whereby the states would be required (1) to amend state laws to conform to the Federal Act and (2) thereafter adopt the relatively complex Uniform Code. It clearly would be best if the effective date of the Federal Act were delayed until 1970 in order that it should be made the primary inducement for the state legislatures to enact the Uniform Code immediately. There is a distinct possibility that if an early effective date, such as July 1, 1968 or July 1, 1969, is established under the Federal Act many states, after amending their statutes to conform to the Federal law, will thereafter ignore the Uniform Code.

This suggested approach is clearly consistent with the following statement contained in the Senate Committee Report:

"... the National Conference of Commissioners on Uniform State laws has been working quite diligently on a proposed consumer credit code to recommend to the various State legislatures beginning in 1969. The committee applauds and endorses the worthwhile efforts of the National Conference of Commissioners on Uniform State Laws and urges that the States act favorably in adopting a uniform consumer credit code. Although this bill would be limited to the disclosure aspects of consumer credit, the proposed consumer credit code goes considerably beyond disclosure and, in fact, proposes a variety of beneficial changes in the entire consumer credit area. *The committee is hopeful that these worthwhile efforts will not be hampered by the passage of the Federal truth in lending law.*" [Emphasis supplied.]

It is therefore recommended that the states be given at least a 30 month lead time from January 1, 1968 and that the effective date of the proposed Federal law should be no earlier than July 1, 1970.

COMMENTS ON H.R. 11601

THE 18 PERCENT INTEREST CEILING

H.R. 11601 in establishing an 18 percent finance charge ceiling goes far beyond the objectives of any previously proposed Federal Truth-in-Lending legislation. In the first place, the provision in Section 203 (1) which sets the ceiling at (1) the maximum rate permitted under State law, or (2) 18 percent per annum, *whichever is less*, is not supportable on either economic or legal grounds. Con-

tract interest ceilings under the laws of the several States vary from 6 to 24 percent simple interest. These ceilings are contained in the State usury statutes. Four States have no usury ceilings on credit transactions subject to contract. As previously indicated in this statement, the State legislatures in the great majority of States have found that statutory usury limitations have been obsolete and economically unfeasible when applied to many different types of credit transactions. As a result, they have enacted special legislation permitting interest rates in credit transactions which exceed the contract usury rates that would otherwise be applicable.

The 18 percent ceiling is much more restrictive than the maximum interest or finance charge ceilings permitted under numerous existing State statutes governing certain types of financial transactions. For example the small loan laws in a number of States permit ceilings in the range of 18 to 20 percent per hundred per year add-on (approximately 36 to 40 percent simple interest) or even higher rates in some cases, in loan transactions which may range up to \$300. Small loan rates, and in many cases bank instalment loan rates, are graduated in accordance with the size of the loan and the maximum maturity prescribed by State law. The statutes which govern small loan company transactions, bank instalment loan transactions, and the transactions of consumer finance companies for the most part constitute intended exceptions to the State usury statutes. The higher rates permitted for small or medium-sized loan transactions are predicated upon the relatively high cost factor involved in such loans in proportion to their yield to the lender as well as, in certain cases, the relatively high risk factor.

On balance, the great majority of commercial bank instalment and revolving credit loans are made at rates less than 18 percent per annum. On the other hand as stated earlier in these remarks, banks do make accommodation loans which involve short-term small-amount advances. These accommodation loans, which generally may range from \$100 to \$300 may be made for anywhere between 15 and 90 days. The acquisition and servicing costs involved in such a loan may amount to between \$10 and \$15 per transaction. If a bank should be required to convert the minimum cost involved in accommodation loans to an annual percentage rate, this rate would substantially exceed 18 percent per annum. It is also pointed out that banks by-and-large do not make much profit from loans of this type. They are frequently made to accommodate people with irregular incomes and less affluent borrowers.

The imposition of an 18 percent ceiling on finance charges or interest cannot be countenanced if only for the reason that the consumer will be made to suffer significant economic harm. If legitimate lenders are cut off from making small loans at rates higher than 18 percent, marginal credit risk borrowers may be driven into the hands of loan sharks who will make advances at rates substantially in excess of the proposed 18 percent ceiling.

It is highly significant that the Uniform Law Commissioners, after years of studying all aspects of the question of maximum loan charges, have proposed a scale of graduated rates in the Uniform Consumer Credit Code which considerably exceeds the 18 percent ceiling contained in H.R. 11601. The Code rates would supersede or replace the ceilings imposed by State usury statutes and the numerous special laws which today constitute exceptions to the usury statutes. These rates on closed-end loans range from a high of 18 per \$100 (i.e., approximately 36 percent) on loans of \$300 or less to a low of 8 per \$100 (i.e., approximately 16 percent) on loans of \$1,000 or more. An optional ceiling of 18 percent per annum according to the United States rule is permitted.

FINANCE CHARGES

The definition of "finance charge" in Section 202(d) includes charges or premiums for property damage, liability, credit life, accident, and health insurance. It is to be noted that insurance charges or premiums of these types are expressly excluded from the definition of "finance charge" under S. 5 and H.R. 11602. It is the considered opinion of The American Bankers Association that a finance charge in a credit transaction should not include the insurance charges so described. S. 5 and H.R. 11602 quite correctly require that dollar charges of this nature be separately itemized and disclosed to the borrower or the credit purchaser. These forms of insurance generally are optional at the request of the borrower or credit purchaser and are for his direct benefit in that they afford

protection against personal loss or assure the discharge of his obligation in the event of the occurrence of an unforeseen contingency.

The requirement under H.R. 11601 that insurance charges or premiums be included in the finance charge upon which the annual rate is based would result in an unjustifiable inflation and distortion of the rate of charge. After all, the finance charge is the principal medium which enables a borrower or credit purchaser to compare the costs of credit. Finance charges are not truly comparable unless they relate solely to the service or commodity involved in the transaction. They should not include miscellaneous or collateral charges such as insurance which may or may not be involved in a transaction depending upon the needs of a specific individual who seeks the extension of credit. A finance charge should involve a relatively fixed concept to be of utility to consumers for the purpose of comparing credit costs.

A requirement that insurance or other miscellaneous charges be included in the finance charge which must be converted to a rate would probably create problems under the usury statutes of a number of States. For example, if a residential mortgage loan is made at the maximum contract interest rate permitted under State law, the inclusion in the finance charge of insurance charges or various other charges which traditionally have not been required to be included in "interest" rates could drive the rate over the ceiling prescribed by the State usury statute.

DISCLOSURE—THE DOLLARS PER HUNDRED OPTION

The Association urges that any Federal finance charge disclosure Act should contain a permissible option for expressing the finance charge in terms of dollars per hundred in lieu of a statement in terms of a percentage rate.

As previously noted, S. 5 permits a dollars per hundred option until January 1, 1972.

With regard to the dollars per hundred option, H.R. 11601 contains provisions which are truly perplexing.

Section 203(1) permits the annual percentage rate to be expressed in the alternative as a dollars per hundred per year rate of the average unpaid balance prior to July 1, 1968. Subsection (2) provides that after July 30, 1968, all rates must be expressed as percentage rates. This provision is altogether meaningless in view of the fact that the effective date of H.R. 11601 is stated in Section 211 to be July 1, 1968. Thus, Section 203(1) permits the dollars per hundred option to operate before the Act becomes law! We can only assume that one or more of these dates is in error.

THE \$10 FLOOR ON RATE DISCLOSURE

As indicated in the remarks relating to S. 5 and H.R. 11602, the disclosure provisions of H.R. 11601 in Section 203(b) (7) relating to consumer credit sales and under Section 203(c) (5) relating to loans omit the \$10 floor on rate disclosure.

For the reasons previously elaborated, the Association urges that H.R. 11601 be amended so that this provision will correspond to the related provisions under S. 5 and H.R. 11602 with the result that rate disclosure would be required only in instalment loans in transactions in which the finance charge is \$10 or more.

ADVERTISING

The disclosure in advertising provision in Section 203(j) (1) seems to us to be ambiguous. In effect, this provision requires that certain information must be set forth if a creditor advertises that "specific credit terms are available." The question arises as to whether the term "specific" relates to an advertisement which contains credit terms for a *specific* commodity, service or loan or whether, in effect, this term is intended to apply to an example or illustration of credit terms that may be provided by the creditor. In the event that the former assumption is correct, it would be meaningless to state, as is required, the down payment or the time sale price because these two factors vary according to the individual credit transaction. In other words, different consumers will make down payments of different sizes and in an instalment loan or sale the size of the instalment payments and the term of the loan will vary from transaction to transaction.

More important, from our point of view, is the fact that the items of information in Subsection (A) through (E) of this provision quite obviously do not

relate to typical instalment or closed-end *loan* transactions. For example in the typical loan transaction there is no "cash sale price," "down payment," or "time sale price." It is apparent that through obvious inadvertence this provision was designed to apply to consumer credit sales rather than to loans.

It is suggested that difficulties in terminology and application of the advertising disclosure provision may be resolved by deleting the existing provision and, in lieu thereof, adopting the approach to disclosure in advertising which has been developed by the Uniform Law Commissioners in the NCCUSL Second Tentative Draft of the Uniform Consumer Credit Code. The Code contains advertising disclosure provisions for both sales and loans in Section 2.302 and 3.303, respectively. These provisions state that an advertisement is misleading (and the advertiser is subject to penalties) (1) if it states the rate of the finance charge in a form other than the form in which the rate is required to be disclosed by the Code, or (2) if it states the dollar amount of the finance charge or the installment payment, and does not also state the rate of the loan finance charge, and the number and amount of installment payments. The advertising provisions of the Code also authorize the Administrator in each State to adopt rules which establish guidelines for determining the legality of advertising practices within the framework of the substantive Code provisions on advertising.

We urge that, if the Congress should determine that it is appropriate to incorporate provisions governing advertising practices in consumer transactions in a Federal finance charge disclosure Act, the Uniform Consumer Credit Code approach to this subject above summarized be followed. Moreover, it is our recommendation that the Board of Governors of the Federal Reserve System be expressly authorized to promulgate rules and regulations for the purpose of establishing guidelines to implement such a provision.

LIMITATIONS ON CREDITORS' RIGHTS

H.R. 11601 would prohibit creditors from accepting a confession of judgment against a debtor and would also prohibit the garnishment of wages or salary to satisfy an unpaid obligation in connection with consumer credit transactions. The A.B.A. is opposed to these limitations on creditors' rights or remedies, provisions which are entirely outside the scope of the accepted legislative intent of the bills before this Committee—the disclosure of finance charges in consumer credit transactions.

Historically, the question of creditors' rights or remedies with respect to collection of unsatisfied obligations has been within the jurisdiction of the several States. Limitations on creditors' remedies have been the subject of a serious and impartial study by the Uniform Law Commissioners. The proposed Uniform Consumer Credit Code contains some limitations on garnishment but these limitations by no means constitute an absolute prohibition on this traditional remedy. In short, the Code proposes to prohibit garnishments prior to a creditor's obtaining a judgment against the debtor. After the creditor's claim has been reduced to judgment, the Code permits the creditor to garnishee the debtor's earnings in excess of a minimum total earnings figure. This figure is subject to adjustment by action of the State administrator or agency charged with administering the provisions of the Code. The point to be stressed here is that the Code would leave matters affecting creditors remedies to the jurisdictions of the individual States.

Any prohibition or stringent limitation on the traditional right of a creditor to follow and collect on an obligation clearly will have the ultimate effect of hurting consumers generally. Such restrictions will doubtless cut off or reduce the availability of credit to less affluent borrowers and other consumers who are in marginal economic circumstances. It is important to note that this situation may be influenced by the area and the size of the creditors. A large creditor for example a nationwide retailer or a bank with outlets or offices in major urban centers, may not find it necessary to resort to garnishment as frequently as a small creditor to collect on unpaid obligations. This may be due to a number of factors, including the volume of creditor's business, the efficiency of his collection procedures, the creditor's delinquency ratio generally, and any other considerations which affect the creditor's ability and need to collect on the obligations. On the other hand, a small bank or retail merchant operating under limited capitalization and with less effective collection procedures may well have to resort to wage attachment or garnishment in order to stay in business.

It is also important to note that many consumers who are in marginal economic circumstances or who have records of prior credit delinquency or bankruptcy may not be able to obtain credit because they lack the ability to produce assurances against nonpayment. In these cases, the only assurance against nonpayment may be the consumer's earning capacity, i.e., the ability of a creditor to look to a portion of the debtor's earnings for satisfaction. If confessions of judgment and garnishments are prohibited by Federal statute there is a distinct probability that many consumers who are essentially judgment-proof may be denied credit by legitimate lenders and may be forced to resort to the loan shark who lends at exorbitant and illegal rates.

FIRST MORTGAGE REAL ESTATE LOANS

S. 5 and H.R. 11602 expressly exclude "transactions involving extensions of credit secured by first mortgages on real estate" from the operation of these proposed Acts. Conversely, the exclusions provision in Section 203(n) of H.R. 11601 does not exempt first mortgage real estate transactions from coverage.

It is the considered judgment of The American Bankers Association that these transactions should be expressly excluded from any Federal finance charge disclosure law. The Senate Committee's decision to exclude first mortgage real estate loans was made in cognizance of the fact that there are very few known abuses in loans of this type and finance charge disclosure in this field is fully adequate. The Uniform Law Commissioners have excluded first mortgages or first deeds of trust from the disclosure requirements of the proposed Uniform Consumer Credit Code for these reasons. Moreover, disclosure requirements for relatively short-term consumer credit are not appropriate for real estate loans which have maturities of 20 or 30 years.

The A.B.A. fully endorses the need for requiring disclosure in all second mortgage and second deed of trust transactions which relate to residential real estate. It is acknowledged that there have been flagrant abuses in the form of inordinately high rates charged by some unscrupulous lenders in transactions of this type. This problem would be rectified by a full and complete disclosure of finance charges in these transactions as is required under S. 5 and the two House bills.

THE REGULATION OF TRADING IN COMMODITY FUTURES AND STANDBY CREDIT CONTROLS

In 1950, the Administration, as a part of its stabilization program under the Defense Production Act, proposed that all commodity exchange credit transactions be subject to Government regulation. This proposal was not adopted by the Congress.

Standby consumer credit controls have been employed during emergency periods such as World War II and Korean conflict. In both cases, this program of credit regulation was an integral part of a broad-based wage and price stabilization program. An attempt was made in 1966 to reinstate consumer credit controls on a standby basis under the Defense Production Act, but this proposal was defeated in the House by a substantial margin.

In connection with the proposed regulation of trading in commodity futures under Section 207 and the proposed standby credit controls under Section 208, the A.B.A. urges that neither of these proposals is relevant to the basic objectives of this legislation, i.e., the disclosure of finance charges in consumer credit transactions. Moreover, no evidence has been suggested or produced which would indicate that there is a need for these controls. It is our considered judgment that current inflationary pressures can best be handled through fiscal and monetary actions.

ADMINISTRATIVE ENFORCEMENT

The A.B.A. is critical of the extremely broad and relatively complex enforcement provisions contained in Section 209. We believe that the scheme of "self-enforcement" contained in S. 5 is basically a more practical and economical approach to this problem.

The enforcement provisions would impose an onerous and complex burden upon the Board of Governors of the Federal Reserve System which will be heavily burdened by the rule making and regulatory responsibility imposed by Section 204. From the point of view of the banking industry, the enforcement burden conceivably could interfere with and impede the primary functions of the Federal Reserve Board, i.e., the making of monetary policy and the supervision of the member banks of the Federal Reserve System.

The Committee's attention is directed to the fact that the proposed Uniform Consumer Credit Code contains a broad and relatively far-reaching system for administrative regulations and enforcement at the State level. The Commissioners' approach to the problem of administration and enforcement by the States is more comprehensive than the proposal contained in Section 209.

The provisions in Section 209 are patterned on the enforcement provisions relating to unfair methods of competition contained in the Federal Trade Commission Act, 15 U.S.C. 45. The provisions in question are more directly consistent with the regulatory functions of the Federal Trade Commission than with the functions exercised by the Federal Reserve Board.

Therefore, it is the recommendation of the A.B.A. that the system of self-enforcement through the State and Federal Courts contained in S. 5 should be given the opportunity to operate before any broad enforcement responsibility is imposed upon the Board. It is quite possible that the provisions of S. 5, plus the system of administration and enforcement at the State level which will be ultimately produced by the Uniform Consumer Credit Code, will be entirely sufficient.

THE EFFECTIVE DATE

Section 211 provides that Title II relating to disclosure in credit transactions shall take effect on July 1, 1968. For the reasons elaborated in the comments on this subject regarding S. 5, the A.B.A. urges that the States be given a minimum of at least thirty month lead time in order to adopt the Uniform Consumer Credit Code, or in the alternative, to amend the more than four hundred State statutes which govern consumer credit transactions to conform to the Federal law. This grace period is essential in order to avoid confusion on the part of both creditors and consumers. Therefore, it is recommended that the effective date be no earlier than July 1, 1970.

Mrs. SULLIVAN. Thank you, Mr. Walker.

In view of the time, the committee will recess now until 1:30, at which time you may come back and we will have an opportunity to discuss your testimony and ask questions.

Mr. WALKER. We will be happy to.

(Whereupon, at 12 noon, the subcommittee recessed, to reconvene at 1:30 p.m., the same day.)

AFTERNOON SESSION

Mrs. SULLIVAN. The Subcommittee on Consumer Affairs will resume its hearing.

I ask that all of the witnesses for this morning and afternoon come to the witness table.

STATEMENT OF CHARLS E. WALKER; ACCOMPANIED BY THOMAS L. BAILEY, JOHN F. ROLPH (RESUMED), AND REV. ROBERT J. McEWEN, S.J., CHAIRMAN, DEPARTMENT OF ECONOMICS, BOSTON COLLEGE, CHESTNUT HILL, MASS.

Mrs. SULLIVAN. I am sure the other members will be here shortly but in the meantime, Father McEwen, I would like you to read the part of your statement that you wish to give right now so we can question you later along with the other gentlemen.

I think you know a great deal about how the credit disclosure law works in Massachusetts, since you had so much to do with its enactment.

For the benefit of the members and the audience I might say that in his prepared statement, our next witness, Father Robert J. McEwen,

follows customary procedure before congressional committees by giving his background and experience in the field of legislation under discussion. Since this is his first appearance before the House Committee on Banking and Currency, it is possible that some of the members may not be familiar with the work of this outstanding Jesuit educator who has been responsible for making college economics and political science departments throughout the country far more conscious of the need to teach consumer economics to their students.

And, of course, he has taken this subject out of the classroom also, and into State and National governmental agencies with great success. Father McEwen is immediate past president of the National Council on Consumer Information; he is a former member of the President's Consumer Advisory Council; and he was chairman of the Massachusetts Consumer Council which pioneered truth-in-lending legislation on the State level and saw its efforts succeed.

I do not know if all of you gentlemen know Father McEwen but he is chairman of the Department of Economics at Boston College and he has worked for years on consumer problems in the State and Nation, and particularly in the field of consumer credit. Since we are taking up, at this point, time we had originally allotted to him this afternoon, I think it would save time and accomplish more if we have all of you on together.

Father, you may proceed.

Father McEWEN. Ladies and gentlemen, my name is Father Robert J. McEwen. I am a member of the Jesuit order and chairman of the Department of Economics at Boston College. In addition to this, I served as first chairman of the Massachusetts Consumer Council, an agency created by the legislature as an independent office in the State government. Prior to that I served for 5 years as chairman of the advisory consumer council to the attorney general of Massachusetts. I was also one of the founders of the Massachusetts Consumer Association. In 1965 I was appointed by the President as a member of his President's Committee on Consumer Interests. I have been twice president of the Council on Consumer Information.

From this background I can tell you without reservation that consumer credit problems have been No. 1 on the list of items disturbing the consumers of this country for the 10-year period during which I have been connected with the consumer movement. I well remember that the one strong emotional issue agitating the 200 people who gathered in 1959 to plan the formation of the Massachusetts Consumer Association was the desire to do something about consumer credit abuses. Nothing in the intervening years has lessened the intensity of public concern over the problems associated with consumer credit.

I am proud and happy to say that the efforts of our consumer groups in Massachusetts, allied with the devoted work of labor and women's groups such as the Federation of Women's Clubs, have resulted in the passage of two credit acts, the Retail Installment Sales Act and the Truth in Lending Act.

Madam Chairman, may I assume that my statement and this article from the Boston College Law Review will be printed as a unit in the record?

Mrs. SULLIVAN. Yes, Father.

Without objection, your entire statement will be put in at this point in the record as well as the article from the Boston College Law Review.

(The article from the Boston College Law Review may be found in the appendix, p. 939.)

(The prepared statement of Father McEwen follows:)

STATEMENT OF REV. ROBERT J. McEWEN, S.J., CHAIRMAN, DEPARTMENT OF ECONOMICS, BOSTON COLLEGE, CHESTNUT HILL, MASS.

Ladies and Gentlemen, my name is Father Robert J. McEwen. I am a member of the Jesuit Order and Chairman of the Department of Economics at Boston College. In addition to this, I served as first chairman of the Massachusetts Consumer Council, an agency created by the Legislature as an independent office in the state government. Prior to that I served for five years as Chairman of the Advisory Consumer Council to the Attorney General of Massachusetts. I was also one of the founders of the Massachusetts Consumer Association. In 1965 I was appointed by the President as a member of his President's Committee on Consumer Interests. I have been twice President of the Council on Consumer Information.

From this background I can tell you without reservation that consumer credit problems have been number one on the list of items disturbing the consumers of this country for the ten year period during which I have been connected with the consumer movement. I well remember that the one strong emotional issue agitating the two hundred people who gathered in 1959 to plan the formation of the Massachusetts Consumer Association was the desire to do something about consumer credit abuses. Nothing in the intervening years has lessened the intensity of public concern over the problems associated with consumer credit.

I am proud and happy to say that the efforts of our consumer groups in Massachusetts, allied with the devoted work of labor and women's groups such as the Federation of Women's Clubs, have resulted in the passage of two credit acts, the Retail Installment Sales Act and the Truth in Lending Act. Of these I will say a few things later, but now I want to pay tribute to one man who is responsible for our success in his field more than any other single individual. He is the former Deputy Commissioner of Banking, John P. Clair, whose last public appearance (May 18) was before the Senate Antitrust and Monopoly Sub-Committee Hearing on Credit Insurance. He died very suddenly after a brief illness; and four days before he died, I visited him in the hospital and he told me he first began to feel sick on the plane returning from the Washington Hearing. We all know, in Massachusetts, that we have lost a truly great public servant, and I urge you to read his statement in the Senate Hearings.

CONSUMER CREDIT ABUSES AND RIOTS

Since the recent rioting, I have been pondering the connection between consumer abuses, particularly in the credit field, and the emergence of these irrational riots. Now, no one of us in this room, and certainly no one responsible in a consumer field condones the senseless pillage, looting, destruction, hatred and the violation of individual rights to life and property that have emerged in these riots. I have personal knowledge of the unsettling effect these riots have had on people far distant from them and up to now totally dissociated from them. Elderly people are fearful for their families traveling outside of their home city. The elderly themselves are afraid to go out. I know in one instance a small businessman in an area near a previous riot area has been unable to find a buyer for his grocery and liquor business partly because new buyers hesitate to set themselves up in these areas, and partly because banks are reluctant to lend to new owners of businesses in the central city danger areas. I am sure there are numerous instances of similar effects of the rioting on totally innocent people.

But, Ladies and Gentlemen, the more I think about it, the more I am convinced that there is a definite connection between the public inability or refusal to do anything about consumer abuses and the violence of these riots. Take the simple case of Truth in Lending legislation. The disclosure of true interest rates seems to

be such an elementary demand of equity and fairness that the simple people find it difficult to understand why legislatures at the state and federal level have balked for nearly ten years at meeting this simple demand. Social peace and social harmony are best preserved by the timely elimination and correction of social, political and economic abuses wherever or whenever they occur.

I have often asked myself why, since the consumer abuses are not new, and in fact even worse things may have happened in our past history, why suddenly do I see a connection between these abuses and riots? Maybe because of two things, and now I refer not to the hoodlum elements who are taking advantage of this situation but to the poor misguided slum dwellers, who have been manipulated into being part of the mass that goes on a holiday spree. Why did older generations, why did the Irish, the Italians, the Jews, the Poles, and so forth work more or less within the law without resort to civil insurrection to correct inequities and abuses? I wonder if it's because European civilization has a long history of the people's slow fight for right, justice, and freedom. The European peoples know from their fathers and grandfathers that the achievement of a decent society is a slow and painful process and in most cases is able to be won through the civilized procedures of law and government.

Other people from other civilizations may be more simple and direct. They instinctively see and feel the evil connected with exploitation, usury, and extortion. And they make simple connections between economic injustices and thievery. They think society is unable or unwilling to do anything. Therefore, they may see nothing wrong at all with returning one form of thievery for another.

Now, to the extent that our laws and commercial customs have been rigged in favor of the seller and against the consumer, to that extent they have perpetuated an alienation of the people—a loss of conviction that they could work through the orderly processes of government and law for the amelioration of their difficulties. Too often the law has been used against them. This breeds the conviction that the law and the forces of law and order are the enemy.

This is what I have preached right from the beginning of the Consumer Movement, namely, that government, legislatures and courts had to convince the general public that they were on the side of fairness and equity to all and were not being manipulated by special interests to hold down, exploit and deceive the people.

Let me say, by way of digression, that I am not here suggesting a clean-cut division between white and black, because from several sources I have been informed that the poor people are exploited by black owners and landlords just as much, if not more, than by any other seller. The main problem we are dealing with here is not one of color or race, but a problem of economic power and economic justice.

Therefore it is high time for the government of this great country, through its legislature and courts, to set the balance right between consumers and sellers with particular reference to access to credit.

In addressing these words to you, gentlemen, I know I am echoing thoughts addressed by Cardinal O'Boyle in a letter read to the people of Washington on the National Day of prayer proclaimed by President Johnson. The Cardinal called the riots "the frenzied cry of alienated people who are trying to tell us, out of a sense of enervating despair and utter hopelessness, that they want to be heard and want to participate as full-fledged American citizens in the economic, social and cultural life of our cities and our nation."¹

I might call your attention also to the words of the Archbishop of Detroit after the recent, sorry spectacle. The Archbishop urges us to ask, "Was there something I could have done to prevent this?" He says: "Each of us must begin to ask himself these questions: Have we ignored for too long the conditions of slum dwellings . . . the countless humiliation in every-day existence for the poor who see the products and the rewards of American middle-class prosperity, but can attain neither."²

These are only two voices out of the many who have urged us to delay no longer the injustices that make even good people willing to listen to outside agitators and disturbers.

¹ *The Anchor*, "Urges Action to Eliminate Slum Evils," August 3, 1967, p. 12.

² *The Anchor*, "Prelate Says Riot Presents Concrete Test of Faith," August 3, 1967, p. 12.

Finally, remember that Pope Paul in his profound "Letter on the Development of Peoples" treated of this general point in the following terms:

"We must make haste: too many are suffering, and the distance is growing that separates the progress of some and the stagnation, not to say the regression, of others . . .

"There are certainly situations whose injustice cries to heaven. When whole populations destitute of necessities live in a state of dependence barring them from all initiative and responsibility, and all opportunity to advance culturally and share in social and political life, recourse to violence, as a means to right these wrongs to human dignity, is a grave temptation.

"We know, however, that a revolutionary uprising—save where there is manifest, long-standing tyranny which would do great damage to fundamental personal rights and dangerous harm to the common good of the country—produces new injustices, throws more elements out of balance and brings on new disasters. A real evil should not be fought against at the cost of greater misery.

"We want to be clearly understood: the present situation must be faced with courage and the injustices linked with it must be fought against and overcome. Development demands bold transformations, innovations that go deep. Urgent reforms should be undertaken without delay."³

I believe there is logic and reason in which I have said to you about this connection between consumer abuses and the riots, but is there also evidence? I believe there is more than enough evidence to fill a library, and current investigations at Federal and State levels will bring this out.

California apparently thinks so, if the news account of the new color film produced by the California Attorney General's Office is any indication. A news dispatch on the film says:

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"It also aims at easing racial tensions in Watts and other troubled Negro areas by eradicating a major cause of resentment: the exploitation of the Negroes by unscrupulous whites. . . .

"The commodities are generally legitimate, the swindle comes in the conditional sales contracts the buyers are talked into signing."

Attorney General Lynch is then quoted as saying:

"We found that the resulting resentments are a significant factor in the chronic hostile feelings in minorit group areas."⁴

Ladies and Gentlemen, today I have no intention of repeating in great detail the arguments that consumer spokesmen have used for the last ten years to demonstrate the necessity of both Truth in Lending and other measures to remedy consumer credit abuses. The thousands of pages of testimony already on the record contain the case for this reform of our credit laws, at least with regard to full disclosure of interest rates.

I will content myself, however, with making specific reference to several points raised in the course of previous debate. 1. I cannot adequately express my dismay at those who take diametrically opposite positions when before state and federal legislatures. I quote from the July issue of *Banking*, the official magazine of the American Bankers Association. There is a statement by Jack Conn, President of the ABA made on June 9, explaining the ABA position on the interest disclosure proposal. In it we read,

"Finally, it has always been the position of the ABA that full and adequate interest disclosure is desirable, but that it should be legislated and administered at the state level." (p. 22)

Still, I remember year after year the spokesman for the Massachusetts Bankers Association appeared before legislative committees in our state and urged that nothing be done at the state level for two contradictory reasons; one, that the U. S. Senate was considering such a measure and therefore, the state should

³ Encyclical Letter of his Holiness Pope Paul VI *On the Development of Peoples*, p. 19, and 20, par. 29-32 (Boston: Daughters of St. Paul).

⁴ *New York Times*, Sunday, June 25, 1967.

not act and two, that the U. S. Senate had held hearings on this measure for many years, and had done nothing about it and, therefore, had found the whole proposal unacceptable. In considering this allegation by the American Bankers Association President, I ask the question: If all of you in the credit and lending field have been so devoted to the proposition that full and adequate interest disclosure is desirable, why haven't you long ago come up with an agreed upon set of formulae that would have made entrance of the government into this field unnecessary? Why haven't you voluntarily agreed on adequate interest disclosure long ago? To me this is a prime example of the failure of an industry to meet its moral and social responsibilities.

Into this vacuum, government must step, and I am proud to say that our representatives and Senators in Massachusetts paid no attention to these arguments and did enact meaningful legislation. I may also tell you, gentlemen, that I have not found a single banker in Massachusetts who now privately claims any truth to the arguments advanced by business and banking spokesmen in the attempt to prevent this legislation. Privately to me not one of them has claimed inability to live with the disclosure provisions of our law.

2. The question of percentage rate disclosure. I find it hard to understand why such violent objection is raised to the idea of percentage disclosure. Every financial calculation that business men and bankers make for themselves and their clients is reduced to a percentage calculation. It's the one common language they use with one another to express rates of profit, return and so forth. Why do they think the consumers have no right to the possession of such information? Knowledgeable people in the field admit that talk of the impossibility of calculating such percentages is pure nonsense and the hearing records of state and local committees contain many such statements in refutation of this point. And the Kiplinger Magazine, *Changing Times*, had recently a small box urging consumers to convert everything to percentages in order to be able to accurately appraise prices and savings and bargain.*

3. I see no particular reason for leaving out of consideration first mortgages. I am told that the inclusion of first mortgages in Massachusetts has resulted in the complete elimination of that obnoxious point system that added a whole new calculation of discounts and premiums to the question of real estate purchases.

THE MASSACHUSETTS LAWS

Let me speak to you a moment, Gentlemen, about some investigations I have conducted into the effect of our Massachusetts laws. Ever since the passage of these credit bills I have had two or three graduate students doing research on the effects of the Massachusetts acts. I particularly asked our students to enquire into the effects of the disclosure of true interest rates. We were very anxious to find if the disclosure provisions were causing any hardship at all to businessmen in the state—particularly to small businessmen. And I tell you, gentlemen, that all three students came back with the same answer, there is no evidence at all that any hardship has been caused or will be caused to any small businessman by compliance with the disclosure requirements on interest rates.

It appears that small businesses either (1) do not give credit or do not charge interest, or (2) participate in some credit card plan where the forms and the explanations are the responsibility of the credit card company, or (3) use the credit forms of a bank or other sales finance company. In none of these cases is the small retailer faced with a problem as a result of the new laws. The real problem, in my eyes, is that much of this business is channelled by the retailer into bank or finance company revolving credit accounts. I am very reluctant to see

*The complete quotation from *Changing Times* reads as follows:

PERCENTAGES

"Notice how often items on these pages point out potential savings in percentages, rather than in dollars and cents. You can cut 10% off a month's fuel bill, for example, or save 54% buying the special on canned beans.

"If you're really serious about trimming expenses, or are undertaking an all-out economy drive, try thinking percentages. A saving of a few cents or a few dollars may strike you as hardly worth the effort involved. But it could represent a saving of, say, 10%, which is well worth anybody's effort.

"So get in the habit of figuring the percent gain from money-saving operations. Or set yourself a goal—see, for instance, how many expenses you could chop by at least 5%—and then watch the dollars and cents pile up."

you pass a bill that exempts this form of credit from the disclosure provisions pertaining to annual rates.

The following is a summary report given me by a graduate student who personally interviewed the owner, manager, or credit manager, of 19 representative firms in various lines of business.

(A) GENERAL SUMMARY

The results of the survey showed:

1. no problems exist in handling disclosure under the legislation.
2. no additional time is necessary to explain the credit side of the transaction.
3. the legislation is in no way a deterrent to sales.

(B) BREAKDOWN BY TYPE OF RETAIL OPERATION

(1) Automobile (New)—5 firms

Comments: Approximately 75% of customers do not read the installment contract. Those that do, ask no questions. Absolutely no problems as these dealers see it. Legislation has had no effect. Customer is concerned with what he can afford to pay back per month. No dealer in this group opposed this legislation.

(2) Automobile (Used)—one firm

Comments: No discussion of credit with the customer. After agreeing to buy, customer is sent to a finance company for credit arrangements. No customer comment one way or the other, with respect to finance charges at time of sale.

(3) Appliance—TV—4 firms

Comments: Majority of customers do not read the credit agreement. No problems encountered. Customer concerned only with dollar per month repayment.

(4) Specialty Shops—two firms

Comments: No problem. Bill has had no effect.

(5) Home Repair and Modernizing—one firm

Comments: No problem. No effect.

(6) Discount (Multi-Product) three firms

Comments: With the exception of * * * no problems encountered. Legislation has had no effect. Customer does not read credit agreement; is concerned only with what he can afford to repay per month.

At * * * was told the following:

- a. disclosure does represent a problem. Many customers do not understand (or do not believe) that the "new" method of disclosure does not represent a change in company lending arrangements.
- b. Time consuming at first, but now felt to involve no additional delays or expense.
- c. Deterrent: On installment sales, about 25% question the rate. Of this group, about 20% will go elsewhere for more favorable credit arrangements (e.g. banks)—then return and purchase. Approximately 1% of such sales in this group are estimated to be lost.

(7) Furniture—two firms

Comments:

1. *disclosure* Rarely does a customer question the retailer about the credit arrangements. When questioned, however, extremely difficult to explain legislation to the customer's satisfaction.
2. *problems*

(a) *Interest rates:* difficult to explain to customer what percentage of the finance charge he's entitled to when a loan is prepaid. Customer looks for a proportionate rebate.

(b) *conditional sales contracts:* since passage of the legislation, rates on such contracts sold to banks have increased from 7 to (maximum) 10%. Effect: Banks more willing—finance companies less willing to purchase such contracts.

(c) *deterrent:* no effect on sales.

3. *position:* both firms favor the legislation, admitting that unscrupulous elements in this industry have been guilty of defrauding the public.

(C) INTERVIEWERS' COMMENTS

A number of retailers are seemingly unaware of the nature or purpose of the credit legislation. Thus it is impossible for them to adequately explain this legislation to the buying public. This seems to apply especially to the smaller shops. There appears to be a need to educate not only the public, but the retailer as well.

Several House bills before you differ from S. 5 as it passed the Senate mainly by the expanded area in which they attempt to legislate. The Senate bill was a simple disclosure act which is, as it were, the first step on the road to consumer credit protection for the people. After all, the Senate bill, as was emphasized in the debate, is not a regulatory measure at all in the sense that it forces anyone to do anything except reveal the true interest rate being charged. Of course, if this initial step cannot be taken, very little can be accomplished. I think the House bill (H.R. 11601) emphasizes the point that much more needs to be done beyond this initial step of accurate truthful disclosure, and for that reason I welcome it.

The danger is that the public's surge of interest in credit problems would subside with the passage of a Truth in Lending Bill alone, under the mistaken notion that the credit problem had been solved. This is so far from the fact, that it would almost be better not to have any disclosure bill if its passage meant that we had to do without corrective legislation on other aspects of the credit problem.

Father McEWEN. I want to call attention to the last sentence because too much talk about the Massachusetts law speaks as if it were only a truth-in-lending bill.

In my humble judgment the strongest features and assets of the Massachusetts law are not just the truth-in-lending provisions but the comprehensive Retail Installment Sales Act. When you question people about the effect of Massachusetts legislation you should attempt to distinguish between the mere truth-in-lending disclosure, which in my estimation is the minor of the accomplishments and the features of the Retail Installment Sales Act. Of these I will say a few things later, but now I want to pay tribute to one man who is responsible for our success in this field more than any other single individual. He is the former deputy commissioner of banking, John P. Clair, whose last public appearance was before the Senate Banking and Currency Committee hearing on truth in lending. He died very suddenly after a brief illness; and 4 days before he died, I visited him in the hospital and he told me he first began to feel sick on the plane returning from the Washington hearing. We all know, in Massachusetts, that we have lost a truly great public servant, and I urge you to read his statement in the Senate hearings.

Now, to a new subject, slightly. I would like to say a word about consumer credit abuses and the recent riots.

Since the recent rioting, I have been pondering the connection between consumer abuses, particularly in the credit field, and the emergence of these irrational riots. Now, no one of us in this room, and certainly no one responsible in a consumer field condones the senseless pillage, looting, destruction, hatred, and the violation of individual rights to life and property that have emerged in these riots. I have personal knowledge of the unsettling effect these riots have had on people far distant from them and up to now totally dissociated from them. Elderly people are fearful for their families traveling outside of their home city. The elderly themselves are afraid to go out. I know in one instance a small businessman in an area near a previous riot

area has been unable to find a buyer for his grocery and liquor business partly because new buyers hesitate to set themselves up in these areas, and partly because banks are reluctant to lend to new owners of businesses in the central city danger areas. I am sure there are numerous instances of similar effects of the rioting on totally innocent people.

But, ladies and gentlemen, the more I think about it, the more I am convinced that there is a definite connection between the public inability or refusal to do anything about consumer abuses and the violence of these riots. Take the simple case of truth in lending legislation. The disclosure of true interest rates seems to be such an elementary demand of equity and fairness that the simple people find it difficult to understand why legislatures at the State and Federal level have balked for nearly 10 years at meeting this simple demand. Social peace and social harmony are best preserved by the timely elimination and correction of social, political, and economic abuses wherever or whenever they occur.

I have often asked myself why, since the consumer abuses are not new, and in fact even worse things may have happened in our past history, why suddenly do I see a connection between these abuses and riots? Maybe because of two things—and now I refer not to the hoodlums elements who are taking advantage of this situation but to the poor misguided slum dwellers who have been manipulated into being part of the mass that goes on a holiday spree. Why did older generations, why did the Irish, the Italians, the Jews, the Poles, and so forth work more or less within the law without resort to civil insurrection to correct inequities and abuses? I wonder if it's because European civilization has a long history of the people's slow fight for right, justice, and freedom. The European peoples know from their fathers and grandfathers that the achievement of a decent society is a slow and painful process and in most cases is able to be won through the civilized procedures of law and government.

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This is what I have preached right from the beginning of the consumer movement; namely, that government, legislatures, and courts had to convince the general public that they were on the side of fairness and equity to all and were not being manipulated by special interests to hold down, exploit, and deceive the people.

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sources I have been informed that the poor people are exploited by black owners and landlords just as much, if not more, than by any other seller. The main problem we are dealing with here is not one of color or race, but a problem of economic power and economic justice.

Therefore it is high time for the Government of this great country, through its legislature and courts, to set the balance right between consumers and sellers with particular reference to access to credit.

In addressing these words to you, gentlemen, I know I am echoing thoughts addressed by Cardinal O'Boyle in a letter read to the people of Washington on the National Day of Prayer proclaimed by President Johnson. The cardinal called the riots: "the frenzied cry of alienated people who are trying to tell us, out of a sense of enervating despair and utter hopelessness, that they want to be heard and want to participate as full-fledged American citizens in the economic, social, and cultural life of our cities and our Nation."

I might call your attention also to the words of the archbishop of Detroit after the recent, sorry spectacle. The archbishop urges us to ask, "Was there something I could have done to prevent this?" He says: "Each of us must begin to ask himself these questions: Have we ignored for too long the conditions of slum dwellings * * * the countenances and the rewards of American middle-class prosperity, but can attain neither."

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Finally, remember that Pope Paul in his profound "Letter on the Development of Peoples" treated of this general point in the following terms:

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We want to be clearly understood: the present situation must be faced with courage and the injustices linked with it must be fought against and overcome. Development demands bold transformations, innovations that go deep. Urgent reforms should be undertaken without delay.

I believe there is logic and reason in what I have said to you about this connection between consumer abuses and the riots, but is there also evidence? I believe there is more than enough evidence to fill a library, and current investigations at Federal and State levels will bring this out. California apparently thinks so, if the news account of the new color film produced by the California Attorney General's Office is any indication. A news dispatch on the film says:

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It also aims at easing racial tensions in Watts and other troubled Negro areas by eradicating a major cause of resentment: the exploitation of the Negroes by unscrupulous whites.

The next sentence describes the actions depicted in the film.

The commodities are generally legitimate, the swindle comes in the conditional sales contracts the buyers are talked into signing.

Attorney General Lynch is then quoted as saying: "We found that the resulting resentments are a significant factor in the chronic hostile feelings in minority group areas."

I have no intention of repeating for this hearing the long and detailed statements of my position that can be found in the previous Senate hearings.

At this point I will desist from the prepared statement in order to entertain discussion of the economic and moral issues involved. I do feel very strongly about the social matter of the connection between consumer abuses and the disturbances that we have seen. I think it puts into focus the importance of the work that your committee has undertaken. The stakes are high, in my judgment, and we must fashion a proper, fair, equitable solution that will treat the financial and business interests fairly but will also immediately start to correct these sources of discontent that have too long been left alone.

Mrs. SULLIVAN. Thank you very much, Father McEwen. We appreciate you bringing out this thought. You may have been here when Secretary Weaver started his testimony this morning and he cited the fact also that abuses in the financing of goods have been a partial cause, at least, of some disturbances and riots.

Before we start to question the witnesses, I would like to say to you gentlemen representing the American Bankers Association, as well as to you, Father: you are all reasonable men—you men from the banking business represent one of the most important groups in this country, and Father McEwen is a distinguished educator and economist as well as being a spiritual leader. In coming here to discuss this legislation I am sure you all realize there are ways of finding corrections for abuses that will not hurt legitimate business, but at the same time will stop these unscrupulous practices that we see. I know that you have not closed your eyes to these things. I have sat on committees in the Congress for 15 years and when opposition comes in, it often comes in just to cast aside everything we are trying to do in a piece of legislation—instead of contributing ideas and suggestions on what we can do to make it work. It can work if there is a will to make it work. There is not anybody on this committee or in the entire Congress who wants to hurt legitimate business. I think all of you know that.

But we up here, are in a limited capacity, not having the full knowledge—the working knowledge—of every business that gives credit. We have a general knowledge of its results, of course—the good results and the bad results. All we are trying to do is to find a way to help people understand what they are doing when they are using someone else's money to obtain and enjoy the necessities and pleasures of today when they cannot afford to go out and pay for them outright.

I know that in H.R. 11601 I have introduced a tough bill. I expected everybody in the credit field to be up here trying to cut my throat, and some of that has happened, but I do not care. I know

that we are not going to get the bill through in the form in which it was introduced. But if we do not introduce legislation sufficiently broad to cover the entire subject, and thus see what happens when bad credit practices are used on people—these problems will never be solved. We need to appeal to the national conscience. The people we are trying to help, in many cases, do not know any better, and some could not care less. I know that we are going to have to cut down on many of the provisions in the bill. When you speak of garnishments, I do not know if it is good or bad to ban them entirely. But I certainly want to examine the argument that if such a ban would give pause to a man who carelessly gives credit to people who are not reliable—and I know that many of them need credit desperately and get credit when they are not good credit risks. If we can work out some way to protect these people from themselves—not to stop all credit; we do not want to do that, because we all recognize that credit has made this country what it is—but I think many of us have seen a picture in the indiscriminate use of garnishments that is a horrifying spectacle. Tomorrow, we are going to have a panel of referees in bankruptcy from all over the country come up here and tell us about garnishment from the standpoint of its effect upon bankruptcy. They see it everyday. We seldom see it unless we go and search the court cases, which we have done in this subcommittee to a limited extent only. But I think all of this is a reflection of what happens when credit is used in the wrong way.

This is why garnishment and many of these other things are in H.R. 11601. I doubt if 18 percent is a realistic figure for a ceiling on credit charges. But we have to discuss this from some base. What should it be? When some people see 18 percent expressed as an annual rate of interest that they have to pay, they say, "Why, I would not think of paying it," and yet they pay it every day, and often they pay a great deal more. When we are talking about the revolving credit charges of the department stores, if every department store that charges one and a half percent a month had to show the overall annual rate as 18 percent—or if they charge 2 percent the annual rate is 24 percent—people who want this kind of credit service are probably still going to pay it. But they would have a better understanding of what credit costs them, and perhaps would use credit more selectively.

I will end my speech with a question to Mr. Walker. You said on page 6 of your statement, "In order to achieve comparability, we recommend that all finance charges be stated on a monthly basis."

Would you be willing to have all interest paid by the banks on savings accounts or on certificates of deposit handled the same way?

Mr. WALKER. I would not object.

Mrs. SULLIVAN. That is, put on a monthly yield basis?

Mr. WALKER. I would do it two ways. I would say to the person, "Take a 4-percent passbook savings, say the rate is one-twelfth of that a month"—this doesn't bother me, this interchangeability. It is simple multiplication and division factor. Speaking as an economist, our point is that the closer you can cycle in your regulatory framework to the way the economy is cycled in, the less technical problems you have.

Mrs. SULLIVAN. I agree with you that we want to put these things, as far as possible, into familiar terms and settings.

Mr. WALKER. The economy is more closely cycled to a monthly basis and the smaller you can get the time period, the less problems you will have with the regular payment, skipped payments, and all of these various things that have been brought up and for which we have had to have a very complicated set of tables to work out. The monthly approach gets around all of these difficulties.

Mrs. SULLIVAN. What is one-twelfth of 4 percent? It is one-third of 1 percent a month. I would like to quote that to the woman who is willing to pay one and a half percent a month on anything she buys on credit, and say, "Can you make that much money when you put your \$20 in the bank?"

Mr. WALKER. I have no objection to this. Relatively, it is all the same, whether you can compare 4 percent a year with 18 percent a year on this other figure on a monthly basis. The advantage of the monthly approach is to get around all the technical difficulties and quite frankly I can see no disadvantages to a monthly approach. A consumer can still shop, he can go from place to place.

Mrs. SULLIVAN. We have people coming in who represent the financial community and object that any proposed legislation would force expensive changes for every bank and credit union.

Mr. WALKER. Credit unions are on a monthly basis. Banks ought to quote both rates and say a savings account is 4 percent a year or one-third of 1 percent a month.

Mrs. SULLIVAN. That is all we want the other people to do—the stores. We want them to show it yearly as well as monthly.

Mr. WALKER. May I respond just very, very briefly to your general statement and say that we subscribe 100 percent to the objectives which you state and we have a number of programs underway that I think could demonstrate our subscription to this—not just because we think it is important to citizens because also the success of a commercial bank is very much tied up with the community itself. In general a national corporation, the national corporation located in Pittsburgh or a city like that, it is concerned with the city but they can shift offices. But the bank in Pittsburgh is very much dependent upon Pittsburgh's success and for this reason bankers have always been in the forefront in the community programs which have been successful and I take Pittsburgh as an example and Philadelphia as an example in urban renewal, slum clearance, and things of that type. So we share your concern 100 percent because we know that these situations which Father McEwen so vividly describes not only hurt the community, but hurt the banks, too. There are many banks that were broken into and pillaged, branch banks, in Detroit. However, I think that with all due respect, I must object to the inference that ours is a negative statement. We have worked on this problem for 6 years and we have supported the principle of disclosure strongly all along, particularly in the 28-page statement you will find many positive statements and recommendations as to how we think this can be more effectively done.

The final point that I would like to make, and to agree with Father McEwen, is that disclosure is only one part, and perhaps a small part

of this whole problem. This is precisely why we have spent over \$60,000 with the National Conference of Commissioners on Uniform State Laws dealing with the whole area of consumer credit, and we devoutly hope that nothing is done in the Congress which will impede or impair the effectiveness of this other approach which we think in the long run will help the consumer more. We would work with you to the maximum extent, Madam Chairman, to help the consumer.

Mrs. SULLIVAN. Thank you.

Father McEWEN. Madam Chairman, is it permitted to comment on something Mr. Walker just said?

I agree, the bankers association has been working on this for years, as he said.

I also want to have it clear that I stopped reading my prepared statement at the point I did not because I don't subscribe to what I wrote about the American Bankers Association position in this statement, but for the sole purpose of allowing the hearing to proceed.

Mr. Walker, in case you don't know what I am referring to, let me give you a prepared copy. I did refer in the present statement to something I quoted from Banking magazine, where Mr. Conn was quoted as saying he supported full disclosure as an official position. Then I went on to say that from my Massachusetts experience I recall the Massachusetts bankers coming before our State committees and for two contradictory reasons telling the committee they should not pass a truth-in-lending and retail-credit bill. First, because the U.S. Senate was considering such a matter and the State should not act while the U.S. Senate was considering it.

The second contradictory reason to the first was that the U.S. Senate had considered it for so many years and had done nothing and therefore found it unacceptable and therefore the State should do nothing.

And I did say, I view with a little dismay your insistence on State action in this field, when at the State level the bankers, the Massachusetts bankers, or their representatives, come before the committee and say, "Don't do anything at the State level because all the 50 States should be covered by a national law and you should wait for Congress to do something."

Mr. WALKER. I am not familiar with their specific testimony to this effect, but I do know this and I will say this, that the thing that interested me 4 years ago in trying to sell ABA leadership, and there was no problem there, on joining in the conference in support of the National Conference of Commissioners, on Uniform State Laws was at the urging of the executive vice president of the Massachusetts Bankers Association and the commissioner who is most active in this area, Mr. Walter Malcolm, who is a lawyer in Boston. I think the basic point favors the State approach—and this is why we are so happy that the Senate bill was amended and that your bill also, Madam Chairman, provides that the States, if they do the job correctly, will not be preempted by Federal legislation. We are so happy that the States will be given the opportunity to get their own houses in order.

I will have to admit, if you pass legislation, S. 5 or H.R. 11601 or a meld of the two, it will be a stimulation to State action and adop-

tion of the uniform code. I just hope you give them enough time so they don't have to rush at breakneck speed. Many legislatures don't meet next winter.

Mrs. SULLIVAN. I have one other question before passing to other members for questioning.

Either Dr. Walker or one of his associates may want to answer this: I do not understand your strong support for a provision of the Senate bill which seems to be redundant or meaningless. If dollars per hundred per year on the average unpaid balance means the same thing exactly as an annual percentage rate, what is gained by permitting creditors to use the dollars per hundred term for 5 years before having to express the rate as an annual percentage rate?

Mr. WALKER. What is gained is that there are two different parts of this problem which crop up in testimony all the time, is reference to the figure in S. 5 and in your bill as an interest rate. The Senate committee knows it is not an interest rate. I think you people know it is not an interest rate. It is a finance charge and when you start comparing the finance charge, and the many things in it beside interest, with the usury rates in the States which are normally on a simple interest basis, then we think you can have a great deal of trouble, indeed. This can be avoided by the use of the dollars-per-hundred rate, even though the figures will be the same. In one instance you put a dollar sign in front and in the other instance you put a percent sign in the back but by Congress saying that dollars per year is adequate and full disclosure, which it would be, you are then saying more forcefully that this is not an interest rate for the purpose of State usury laws.

Father McEWEN. Madam Chairman, may I say something at this point?

I listened to Mr. Bingham yesterday and I made a note that I thought he had accurately and succinctly expressed the point of monthly versus annual rates. If, as he said, anyone can express an accurate monthly rate he can also, as Mr. Walker said, by multiplying by 12 produce the accurate annual rate. I fully agree.

There are two points of dissent that I have to take with Mr. Walker's present position. The annual rate is the normal rate for almost every other business transaction.

Mr. WALKER. Interest rate or finance charge?

Father McEWEN. Percentage rates are quoted in almost every other type of financial calculation on an annual rate—savings banks, commercial banks and everyone else quotes to customers annual rates.

Now, while you may be right about the small transaction you dealt with, a monthly rate would make it almost impossible, or very difficult for instant comparison by a customer with other rates quoted annually and these rates quoted monthly. To that extent I don't think it gives full disclosure that we are after. In the revolving credit question that you brought up, I am convinced that the committee's confusion and dispute on this subject comes from including the free period, the free grace periods, in with the period in which an interest rate is charged. I think the simple solution is to say: "After a certain number of free grace days, a charge at the rate of x percent a year will be levied."

A retailer I spoke to the day before I came down says he still runs a 90-day credit. He says to them, "If you pay this off in 90 days there is no charge, no interest charge. If you go over 90 days there is a charge of so much levied."

Now, I don't see why competition among lenders can't be just as effective if you specifically express the number of free days—tell the people how many free days you give them before you start to run charges and then at what rate do you levy an interest or service charge? And I think that will keep the competitive truthfulness in existence so we will get both, we will get truth and competition.

I couldn't agree more with the American Bankers' position expressed in these two statements that the prime requisite is a single uniform standard imposed on all grantors of credit on all transactions. I must say I do fully agree with that and I think it is a mistake to let anything out. And I am happy to say the Massachusetts legislators rejected these pleas to let things out and as you will get testimony and as I can attest—and I have sent students all around the city and the State looking for evidence of this—there is no problem as a result of the total inclusion of everybody in the laws.

Mr. WALKER. May I ask a question there? I understand one major retailer had sued the State because the provisions of the Massachusetts law required it to disclose its revolving credit at a rate of, say—this may be the wrong figure—but I think 18 percent a year which was in view of the grace period it allowed and it claimed its rate was actually a smaller rate. I heard this and I don't have an actual fact of it. Is that correct? It seems to me if it is, you have a problem.

Father McEWEN. That is a court case that is going to be adjudicated, I trust, soon. But you are right in the way you expressed it. It is exactly that position by the company. But I think, as Mr. Bingham started to bring out yesterday, that this confuses the issue. When they do start to levy a charge they levy it at the same rate as everybody else and it only differs—the only difference is in the number of their free days.

Mr. WALKER. Don't free days make a difference? If I go into the store and on the one hand I buy a piece of goods on credit and the interest charge doesn't start for 30 days—am I not getting credit? I got the goods. I could have gone to a finance company or bank and borrowed the money and bought the goods with the money and certainly I would have been paying interest over that period. Don't I have credit when I get the goods? That is how I define it in my economics classes.

Mrs. SULLIVAN. Is there is any reason why, in the original contract the person signs when they contract for the credit, that all of this could not be explained, including the number of days of grace?

Mr. WALKER. Yes; it can. I think the argument people make, particularly some of these retailers, is the truth-in-lending provision—is it truth in lending to say the rate is 18 percent a year when the average on these accounts is actually 7, 8, 9, 10 percent a year?

I have a revolving credit. What rate do I pay? I use it zero. I use it like an open account and pay it off during the grace period. So they say, "Is this truth in lending in the objective you make?"

Uniformity is the key because there is no question but what the Penney amendment—let us call it by that name—that the Penney

amendment adopted in the Senate discriminates against bank revolving credit cards, because we cannot qualify under the 60-percent rule. Most bank credit cards are on a 1- or a 1½-percent-per-month basis, but we will have to disclose 12 or 18 percent a year while the major retailers disclose 1 or 1½ percent a month. We do not think that is truth in lending.

Mrs. SULLIVAN. Let us take the Penney amendment, as you call it. If they figure all of their revolving charges on the same basis and they find that the rate that they charge—1½ percent a month—comes out, on the basis of the free or grace period they get for so many days, to a lower actual figure, can't they say on their contract that by doing such and such—paying before a certain date—the 1½ percent monthly or 18 percent annual charge comes to only 14 percent or whatever it is?

Mr. WALKER. We say in our statement that these objections which have been raised are not insurmountable. Both S. 5 and H.R. 11601 permit other information, such as average rates, to be stated. If you will not take our monthly approach, which we think has a lot of advantages—particularly because it takes care of this revolving credit problem—we would favor complete annual disclosure across the board with this sort of revelation to indicate the compliance and the compliations of the grace periods. But let us not say that we are being absolutely truthful in lending in stating an annual rate in revolving credit or with the Penney amendment because we are not.

Mrs. SULLIVAN. These are the things that, in my own mind, can be ironed out, if 1½ times 12 does not equal 18, because of certain conditions or circumstances in a particular situation.

I have held this too long. Let me pass this on to others.

Mrs. Dwyer?

Mrs. DWYER. I would like to ask Mr. Walker does ABA desire the retention of annualized interest charges on credit resulting in finance charges of \$10 or less because the cost to place on the books a \$100 loan resulting in perhaps \$9 interest is generally the same as the cost to place on your books a \$1,000 loan?

Mr. WALKER. Yes, ma'am, that is very much the case. Commercial banks and other lenders do make accommodation loans. Sometimes they are in installments. More frequently they might be single payment loans. They are very important to schoolteachers, farmers, and others on a seasonal or irregular income basis.

Just this morning, early this morning I made a little computation. Take a very simple case of a \$50 loan for someone for 1 month. The interest is \$5. Now, it normally costs above \$10 to put a consumer loan on the books with the most efficient lenders. I think Mr. Bailey can give you some figures. I had a banker testifying with me in the Senate—his figure for \$100 loans—it is no different than the \$50 loan—is between \$13 and \$14. Banks make these loans for accommodation purposes.

Now, I don't think many people would say, these are unreasonable dollar charges. I do not think many people would say the \$5 is unreasonable finance charge but that is an interest rate of 120 percent a year—\$5 on \$50 is 120 percent a year. Let us suppose, however, that the charge was \$5.50. Is that much more than \$5? I don't think any reasonable person would say there is a great deal of difference. You

might shop around and take the \$5 if you would get it. You wouldn't go very far on the bus to find that little bit cheaper. But lo and behold, what happens to the rate? It jumps from 120 percent a year to 132 percent a year. You are going to find a lot of institutions that make these loans on an accommodation basis saying that "We are not going to advertise that we are charging 120 percent a year. We just don't want to do that as reputable financial institutions." So where does a person go? To the illegal loan shark and he pays a thousand percent a year.

Mrs. DWYER. Would you make that loan if you had to reveal the high interest rate?

Mr. WALKER. Speaking for a banker who testified with me who is with the biggest bank in the United States, he said he did not think the bank would make the loan. They would not want the unhappiness, the public relations situation of disclosing this tremendously high interest rate and they were losing money at the same time. I think Mr. Bailey might make some comments on this point if he would like.

Mr. BAILEY. I would agree with what Mr. Walker has said in this regard. The cost of making the loan doesn't vary with the dollar amount, and if you attempt to reduce it to an annual interest rate the figures would become astronomical and people pick those things up quickly and start talking about an institution that is charging 120 percent and just don't agree with it.

Mrs. DWYER. Would you not agree insofar as monthly interest rates that 18 percent stamped on the statement is as inaccurate to reflect the interest charge as $1\frac{1}{2}$ percent a month and as confusing to the consumer?

Mr. WALKER. I am not sure I quite understand. Is it as confusing as $1\frac{1}{2}$ percent per month?

Mrs. DWYER. Yes.

Mr. WALKER. I don't think $1\frac{1}{2}$ percent a month is confusing.

Mrs. DWYER. Is not confusing?

Mr. WALKER. It is scary.

Mrs. DWYER. Is one as accurate as the other?

Mr. WALKER. I am not quite sure I know how to answer that. I read earlier testimony and I saw Betty Furness was shocked at the figure 18-percent interest rate which was referred to as a normal revolving credit rate. I am rather surprised, as an economist and a banker of sorts we tend to forget that that does sound like a very high rate. It isn't when you figure the cost of this credit and all the paperwork. I am not being responsive because I don't really quite understand.

Mrs. DWYER. Does not $1\frac{1}{2}$ percent sound low?

Mr. WALKER. Yes.

Mrs. DWYER. As compared to the figure 18-percent annual rate?

Mr. WALKER. Yes, I would agree it does sound low. But it sounds more reasonable to the person—when you get back here—this goes way back in history, you get back to the myth of 6-percent interest. Six percent is the top legal rate of interest in a few cases, such as in mortgage loans. This idea that anything above 6 or 8 percent is an unconscionable rate of interest is simply not true. When you get into the small loan transactions, into the paperwork, you get into revolving credit which is just not credit. This is a convenience operation. This

is something where you can pull everything together and just write one bill a month—don't even write a check a month—it is handled in the bank and you automatically are debited. It is not just the cost of money, it is all the convenience involved.

Whether a rate is unconscionable largely depends upon the level of rates permitted under State laws which are express exceptions to the usury laws. Maximum permissible statutory interest rates on closed-end loans may range from 18 percent on loans of larger amounts to 36 or 40 percent on loans of smaller amounts. Also, statutory rates on revolving credit transactions range as high as 1½ percent per month or 18 percent per year or higher in some cases.

I think the average consumer, if you say, you know that that is 18 percent a year, he might blanch for a minute, but I am willing to pay a point and a half a month for this convenience, establish credit, and get the television set.

Mrs. SULLIVAN. This is what the gals have been paying for in food purchases—convenience. Instead of hiring a maid they get built-in maid service in the processed convenience foods for which they pay a great deal more.

Mr. BINGHAM. Before we get too far away, I wonder if Mr. Walker would explain how he arrived at the figure of 120 percent for a \$50 loan, \$5 charge?

Mr. WALKER. Pay it off in 1 month.

Mr. BINGHAM. Paid off in 1 month? I didn't hear that.

Mr. WALKER. And 2 months would be 60 percent and so on.

Mrs. DWYER. You refer to this 6 percent myth. Do not the bills before us threaten to create brand new myths, either an 18 percent myth or a 1½ percent myth?

Mr. WALKER. I think H.R. 11601—I think there is something in what Governor Robertson said, and to some extent some of the points brought up today about ceilings tending to become floors. As a market economist I resist this to a considerable extent because I think market forces are sufficiently strong to keep interest rates down except if the Congress enacts legislation and stamps 18 percent as a rate that the Congress has said is some sort of rate that has your imprimature, and I think some consumers are going to think, "Well, yes, the 18 percent is quite logical and this is only one objection to a Federal usury statute. There are much more.

Mrs. DWYER. Will the ABA have exhibits and the Senate testimony—will that be included in the record here?

Mr. WALKER. We would be glad to furnish our Senate testimony which is very comprehensive.

Mrs. SULLIVAN. I do not know that it would have to be included in our printed hearings as long as we have access to it.

Mrs. SULLIVAN. Mr. Gonzalez?

Mr. GONZALEZ. Thank you, Madam Chairman.

First, a comment, both with respect to Father McEwen and what he said very eloquently, and some aspects of your testimony, Mr. Walker. There is no question in my mind that one index as to the well-being of a civilization is the interest rates chargeable in that society. I know societies where if an ordinary citizen for my purpose, business or otherwise, can make a loan on which he can pay as little as 15

percent, he considers himself very, very lucky. I have been very much preoccupied and concerned since my State senate days, in the State of Texas, with respect to this very important aspect of American life, because more and more, with the type of society that has developed in our country, with its complete dependence on the mechanisms of credit, mass production, premised on mass consumption, the installment purchase techniques and the lack of availability of credit will make or ruin an average family.

I have some mixed emotions about regulations, because I must confess to you that just a few years ago I found it necessary to go to finance companies in my State. I know what it is to be awakened at midnight by somebody knocking at the door saying that he represents a finance company and I was behind two payments, where was my payment? Of course, I took a more direct action than the average. He claimed that I threatened to kill him.

Mr. WALKER. You may have been justified.

Mr. GONZALEZ. I felt justified, although I never did plead guilty one way or the other to the threats made. But he did not enter the house to repossess the furniture I had at that time. I finally worked it out.

My situation was perhaps quite different from the average family that will perennially find itself in that situation. I have also discovered that you may find yourself compelled to go to the only available resource. If you do not know of such a thing as a credit union—where would you go?

I have reference to a statement you made in which you said that the success of the commercial bank is tied up with the community. How much of that community? Is it really all the community in its totality or just segments of it?

I was asked by a reporter back home when, if at any time I felt there would not be any such things as rioting? I said, "I think that that will be when the banks make loans in the ghettos" and he was confused. But what I meant was when we have the cohesiveness in our social structure where we do have this interdependence and communication, and I want to ask you in that connection, what are the banks generally, as either through their organizations, either State or national, what are they really doing to reach the lowest economic rungs of our social ladder? Do you have any programs developed or contemplated?

Mr. WALKER. Yes. Let me say first of all that your State and my former State, and I was on the faculty at the University of Texas, and I think when you were in the State Senate and that has been until just a few months ago—perhaps the most if not among the most—if not the most backward State in the country with respect to its consumer credit situation and legislation. I say until a few months ago because the State legislature adopted the most comprehensive consumer credit code that now exists in any State in the Union, according to the information that has come to me. That information indicates high hopes that the loan sharkism and these other abuses which not only has especially hit minority groups hard, but any poor people, and this will be corrected.

How much, you ask, of the community is a commercial bank tied up with? There is no doubt in my mind that it is tied up with the total community. If there is any banker who thought, 2 months ago, that this was not the case, I know that he thinks that it is tied up with the total community today as a result of the situation in Detroit and many other cities.

In the cities in which you have had significant and measurable progress and success in a very spotty program of urban renewal and urban redevelopment there have been some very bad experiences and there have been very good experiences.

I mentioned Philadelphia and Pittsburgh and I know the bankers personally that took leading roles in making these programs work. I have discussed with White House officials within the last few days ways and means for the American Bankers Association to pull the talent and know-how of these bankers from the city and from smaller communities where development has been pushed and discrimination has been reduced—how we can bring the ABA and the banking community more into this role. We have a number of things in mind.

We try to cooperate as best we can with such groups—they are in New York, they are in Watts, and other places where prosperous non-minority business people will work with minority groups, particularly small businessmen to try to get them on the right track and to get them credit worthy, which leads to the next point.

You say there will not be a problem when loans are made by the banks and others in the ghetto. This is correct. But let us not get cause and effect mixed up or the cart before the horse. The loans can be made in the ghetto only when the businessmen and the workers have the skill and the training and the work habits necessary to provide basically what we call a bankable type loan or a credit worthy type operation. So pulling together here, it is not just going down and making a bunch of loans. That is the worst thing you could do if people are not qualified to use the money. It is the total operation of improvement.

Now, Mr. Bailey has some personal experience as to what can and has been done, I presume, in his own area.

Mr. BAILEY. Two things that I would like to mention that the industry is doing in an effort to help people that are affected in this work.

Consumer counseling centers have been established in a number of cities around the country. Buffalo is one. There are several in California and throughout the Midwest. These are supported by the local lenders and department stores in their areas. Office space is rented and a professional counselor is hired and people are asked to come there that have financial problems and an effort is made to help them work it out for their budget.

In addition to that Columbia University conducted a consumer credit management program—they do this once a year and people who have been through that program have formed together in a committee called the Arden House Consumer Credit Committee which presently is working with Sargent Shriver in an effort to determine how we as an industry can be most helpful in areas with people who aren't sophisticated in the use of credit—who may not have the ability to even pay. The government in some way can help industry to provide credit to such people and teach them what to do with it once they have it.

I think this particular approach should have fruit in the area.

While I have the opportunity I would like to comment on Madam Chairman's remarks about garnishment, if I may, with one thought.

Many of the people have become bankrupt at the time the loan was made with good credit risks. Their past credit history was good, their ability to pay was satisfactory. Frequently marital difficulties would come along, the family separates and the sense of responsibility for that loan suddenly disappears and this is a strong contributing factor to bankruptcy. Without recourse to the individual's assets, without recourse to his income I don't know how we could collect. There must be some way to effect collection in those instances, as well as others where credit was granted on a legitimate basis.

Thank you.

Mr. GONZALEZ. Thank you very much. I did not have in mind a willy-nilly doling out of loans by banks—of course not. But, for instance, we still do not know what, if any net result has come about from the announced intention on the part of the administration to have equal employment opportunity compliance officers in the banking section. I know that very little if any identification has been had by the established banks in some of the communities that I am very well acquainted with with so-called minority groups even as to employment within the bank. If a family does not have economic means it cannot get the education. If it cannot get the education it cannot get the economic means. We have to find a way to break that. I personally feel if we could somehow marshal and galvanize the private sector of the community, not let the governmental responsibility go, necessarily, but galvanize the private sectors and I mean banks and everything else, then perhaps you really would have a stake in the full community and perhaps we would not have to sit by and wait until the thing is destroyed to realize that we have to do something.

In that connection, the Comptroller, for instance, the year before last ruled that the national banks in his opinion, and in his interpretation of the Federal law, were entitled to charge the highest permissible rates of interest even with small loans that are allowable by State law. Well, in States such as ours, even with the adoption of this Consumer Protection Law, it is still legal—and ironically enough in those areas in which high interest rates should be less—to charge as much as 230 percent. He would say that a national bank would be entitled to compete with the small lending institutions, loan companies defined by the small loan act of that State which means that the banks could charge conceivably up to 200 or so odd interest percentage charges.

I did not hear anybody from the national banking segment disagree or criticize the Comptroller's opinion. And I would think that there is a responsibility there on the part of your organization as well as other spokesmen for the banking industry to say:

Look, Mr. Comptroller, it is all right for you to look out for the bankers' interests that are legitimate and should be protected, but for you to say that the national banks have reached the point where, in order to stay in the swim they have to go in and compete with the specially regulated small loan companies is ridiculous and besides, unconscionable. It is legalizing what for centuries has been defined as usurious.

Mr. WALKER. How many loans did they make, Mr. Gonzalez?

Mr. GONZALEZ. It depends.

Mr. WALKER. No, sir. I remember this ruling, and I did not agree with the ruling. The great majority of the national bankers looked upon it as we call it, a bottom drawer ruling. You take and look at it and put it in the bottom drawer.

Mr. GONZALEZ. Did you ever disagree? Did you ever tell the Comptroller he was wrong?

Mr. WALKER. That particular Comptroller and I had a communications problem. This is not the significant point.

Mr. GONZALEZ. Yes, it is.

Mr. WALKER. Take the banks in Massachusetts. There is no usury law in Massachusetts, the banks in Massachusetts can charge consumers 10,000 percent a year. They don't. Competition—banks are not going out and charging that kind of rates. Mr. Saxon made this ruling which we thought had dubious legal status. I am not even sure the ruling is still in effect. It got a very big scream from the State bankers in Texas because of discrimination between the State and national banks.

I would like to see evidence that one loan was made by one national bank anywhere in Texas at anything other than the regular normal rates under that particular authority.

Mr. GONZALEZ. You may check with the banking officials in the State of Wisconsin. In the State of Texas, why did the banking industry insist on the legislature's approval of the bill that the Governor vetoed after a lot of protest, that was reintroduced in this session and vetoed in the session before last that would allow the banks to enter this area even up to loans in the amount of \$1,500.

Mr. WALKER. If you have got efficient lenders—not the banks—but if you have got inefficient lenders that are allowed to charge rates on these particular types of loans, would you rather not have efficient lenders coming in and compete with them? This is the way you get rates down, through the competitive process. Or you can pass a law and say you can't charge over 5 percent. So what happens? You don't get any loans. That is the danger of a Federal usury statute.

Mr. GONZALEZ. I would like to continue with that, but I have just been advised that my time has long expired.

Mr. WALKER. On equal employment, we have worked very hard on this with the Assistant Secretary of the Treasury Wallace. If you know of any abuses in commercial banks I would like for you to communicate with me and Assistant Secretary Wallace immediately. We are working with various groups. We are having a panel discussion on how to promote equal employment opportunity in our convention in New York next month. The chairman of the panel is the head of the Chase Manhattan Bank. The participants are Whitney Young, Morris Abrams—Whitney Young is the head of the Urban League and Morris Abrams is head of the American Jewish Committee and Robert Wallace is the Assistant Secretary of the Treasury.

On the question of what is the banking community doing for social progress, the main point that I would state is the guaranteed students' loan program. Banks made almost \$400 million in loans to 480,000 students last year on a loss basis.

The President yesterday after consultation with us announced a new program and we are going to push it even more strongly in the future.

Mrs. SULLIVAN. Mr. Halpern?

Mr. HALPERN. Thank you, Madam Chairman.

I want to compliment our distinguished panel for its valuable contribution to the deliberations of this committee on this very important legislation and I am sure that their contributions will help us come up with a meaningful and effective bill.

Mr. WALKER, I wonder if you could clear something up for me about the annual interest rates. If you put \$100 in a savings bank with an interest rate of 4 percent, and at the end of the year you will have \$4, is that not right?

Mr. WALKER. \$104, yes.

Mr. HALPERN. If you had \$100 in the bank.

Mr. WALKER. They compound more often, but if there were no compounding within the year you would get \$4.

Mr. HALPERN. Now, if you instead withdraw the money after 3 months, you will receive 1 percent interest or \$1 and if you withdraw the money after 1 month you will receive one-third of 1 percent or about 33 cents as mentioned in your colloquy with Mrs. Sullivan, is that correct?

Mr. WALKER. Yes, depending on the rules of the institution. The principle is correct.

Mr. HALPERN. I would like to press this a bit further. Do you feel that people with savings accounts are being misled by the annual rate into thinking that they will get 4 percent interest or \$4 after 1 month?

Mr. WALKER. No, sir, I don't think so.

Mr. HALPERN. You do not think so?

Mr. WALKER. I think most people recognize what it is.

Mr. HALPERN. In favoring uniform disclosure of credit charges on a monthly basis for purposes of comparison, are you not also logically compelled to favor disclosure of monthly rates on savings accounts, bank loans and savings bonds and so forth?

Mr. WALKER. The point that I made earlier—

Mr. HALPERN. In fact on every financial instrument which might conceivably be used as a substitute for consumer credit?

Mr. WALKER. I would have no great objection to this. What the bankers would do is to state both the annual and monthly rate. But in that connection I would emphasize that the great value—I know the Treasury makes the argument that what you want is something so the consumer can say, "Should I borrow or should I take money out of my savings account?" I don't think many of them are going to look at it in that way. I think surveys have shown that a great majority of the people who borrow on consumer credit do maintain savings accounts as liquid reserve at the same time. The big advantage of legislation of this type, if it can be properly shaped, is that it gives the consumer a shopping comparison for the credit among different vendors and lenders and he can decide, shall I buy from the retailer? Shall I borrow from the bank and buy the TV set? How shall I do it—and the automobile particularly—exactly how much it costs. I do not give any great value to the ability to compare the income on a savings account and what it costs on a consumer loan. This is desirable but I don't think this is of very great social significance.

Mr. HALPERN. As to whether 18 percent is or is not accurate, it seems to me that one can only emphasize again that 18 percent is the rate at which the finance charge is calculated and 18 percent per year is no more inaccurate than one and a half percent per month. If you want to include 30-day grace period to which the finance charge refers and if payment is being made after 60 days, it is my—it is by this calculation that you are only paying 9 percent per year. But by the same token you are only paying three-quarters percent per month, is that not so?

Mr. WALKER. It is correct, but if you remember the original purpose of the legislation, it was to provide truth in lending on the basis of a simple annual interest rate to every borrower. You cannot do this on revolving credit with a grace period operation. As I said before you came in, I have a revolving account. What rate do I pay? Nothing. I pay it off every month. Yet, they have got to tell me the rate is 18 percent a year. I don't think this is insurmountable or a big problem. But it is not truth in lending as Paul Douglas originally envisioned it and the way I talked to him about it in the years gone by.

Mr. HALPERN. Is not the figure one and a half percent equally inadequate?

Mr. WALKER. Inadequate for what? If you want to know the yearly basis just multiply by 12.

Mr. HALPERN. As you pointed out earlier, and I cited an instance where you would only be paying three-quarters percent per month and yet you say $1\frac{1}{2}$ percent.

Mr. WALKER. You have this ambiguity either way. If you go the monthly rate you avoid a lot of disadvantages. The ambiguity is there as long as you have grace periods.

Mr. HALPERN. With regard to the problem of including the free periods of the revolving accounts, it has been suggested that some people tend to look only at the interest rate and not notice the benefit of the free period.

Now, if I am buying a TV set and I go to two stores and I see one TV set for \$150 and one in the other store for \$250, is that all I look at?

Do I not look to see that one is a color set and one is a black and white, one has remote control and the other does not, and so forth?

Therefore if I am applying for credit would I not check if one store gives 30 days' grace period and the other gives 60 days and would I not therefore take this extra benefit into account?

Mr. WALKER. The rational consumer would. I have a feeling that the large portion of borrowers will not. I do not think they shop that much. I wish they would because quite frankly we have the lowest rate lenders in the business and we will get a lot more business if they will.

Mr. HALPERN. Farther, in considering the credit problems of the poor one runs into a paradox. On the one hand these people need credit badly and to prevent them from getting it seems in some instances to be inhumane.

On the other hand we have to come to realize that the more often credit is given without proper investigation of the backgrounds, the more important it becomes and the more deeply the borrower gets into debt.

How do you feel about this problem of extending or withholding credit, the ease or stringency of background investigations and the availability of credit relative to the risk of the borrower?

Should the poor person be offered extensive credit if he simply cannot pay for it?

Father McEWEN. No, sir. Banks I don't believe have been the worst—or even high on the list of offenders in this matter. But I believe that loose granting of credit does a service to nobody and I think a lot of the resentment in this field has grown up from an unwise extension of credit by some lender who is taking too many chances from a financial and business point of view.

I agree with you, we will all be better off if the soundness of the extension were examined more closely. I think if the sound business probability of repayment cannot be seen, that type of borrower has to be taken care of by other instrumentalities—maybe not commercial.

Mr. HALPERN. Thank you very much, Madam Chairman.

Mrs. SULLIVAN. Mr. Minish?

Mr. MINISH. Thank you, Madam Chairman.

Mr. Walker, why does the American Bankers Association oppose the mortgage section in the bill?

Mr. WALKER. We agree with the position of the Senate and the Federal Reserve Board as enunciated by Governor Robertson in his testimony earlier this week that there is no really substantial abuse in this area, and I would add to that that if there are problems they tend to be in the area of Government guaranteed insured mortgages where you have the ceiling rates which give rise to the points and discounts.

It seems to me that the answer to that is to get rid of the ceilings which give rise to the points and the discounts. This was recommended by Treasury Under Secretary Barr.

Another thought occurred to me this morning listening to Mr. Brownstein—I am not totally familiar with the FHA legislation—I am generally familiar with it—why could not the FHA, if this is the big area administratively, then issue regulations having to do with disclosure of costs, rights, et cetera, in closing out any transaction?

Mr. MINISH. They can. However, we are talking about the total mortgage market. FHA does not represent all of that.

Mr. WALKER. But everybody agrees there is practically no abuse, no problem in the conventional area because you don't have points. The rate can go up and down.

Mr. MINISH. What is wrong with the man who wants to buy a home knowing what it is going to cost him?

The banks can take care of themselves because they are working in this field all the time. But the little fellow may be working in the factory on an assembly line and he would like to know what the charges are going to be in dollars and cents. Maybe he can afford a larger downpayment to cut down the cost of the mortgage. Why do you oppose that?

Mr. WALKER. I think he should know what it will cost. He finds out what it will cost. But I don't see any real problem in connection with the simple interest rate portion on first mortgages.

Now, you get into the problem of the very long term situation where as Governor Robertson pointed out, you have the question of whether it is desirable to disclose initially such very large amounts of interest payments when it can be demonstrated that these loans on the

average are not going to maturity. There again you have a question of whether this is truth in lending or not. You scare the dickens out of this guy on a \$20,000 home by telling him he is going to pay more in interest on the home costs on a 30-year mortgage when he is not going to do it. He will be out of that house and pay it off and be out of the situation in 5 to 10 years.

Mr. MINISH. Do you want to keep them in the dark? There is nothing wrong in the buyer knowing exactly what the costs will be. There is no reason to believe the truth will scare him.

Mr. WALKER. You said that. I do not think it is necessary in the first mortgage field. I haven't seen it demonstrated that it is and the problem is in FHA and I think administratively they can handle that problem.

Mrs. SULLIVAN. Would the gentleman yield?

Mr. MINISH. Yes, I yield.

Mrs. SULLIVAN. When you say there are no abuses in this area of \$230 billion in mortgages by the private lenders, I think you should ride out to St. Louis and look into what is a national scandal. People are paying 12 to 17 percent on first mortgages, and they have second and third mortgages, besides, on houses that were sold to them at inflated prices by unscrupulous real estate men.

Mr. WALKER. Does Missouri have a usury statute?

Mrs. SULLIVAN. No, I don't think so.

Mr. WALKER. This is an abuse and the State legislature in Missouri ought to do something about it.

Mrs. SULLIVAN. We tried to work this out with the real estate board and we got nowhere. We are trying to help these people refinance, but when they get their property appraised, they find it is worth less than half of what they paid for it about 8 years ago, because the house has been used and misused and of course the value was never there.

Mr. WALKER. There is some misunderstanding. Mr. Rolph tells me that there is an 8 percent usury statute in Missouri.

Mrs. SULLIVAN. I do not know enough about the statutes in Missouri to argue the legality of these high rates, but I have seen instances of people paying them. I can show you where we have tried to help these people to refinance—it is now a rehabilitation area where they are eligible for financing assistance from the Federal Government.

But when they come to have the property refinanced the house is only valued at one-half of what they paid for it 8 or 10 years ago. Often it has not been kept up, that is true. But we have proof of these awful mortgage charges, too. These are the things we are trying to find the answer to—trying to stop—and our real estate board in that area has not done a thing about it.

Mr. WALKER. I wouldn't mess with them. It is an enforcement problem.

Mrs. SULLIVAN. I wish I had the authority to do something about it.

Mr. WILLIAMS. Will you yield, Madam Chairman?

You were citing an illustration where somebody purchased a home 8 years ago and as I understand your comment that home is worth half as much today because it has not been kept up?

Mrs. SULLIVAN. Right.

Mr. WILLIAMS. Is that not due to negligence or neglect on the part of the owner?

Mrs. SULLIVAN. Absolutely.

Mr. WILLIAMS. It has nothing to do with the people who gave them the mortgage in the first place.

Mrs. SULLIVAN. It does, because, in the first place, the house should never have been sold to the person because he could not afford it.

Mr. WILLIAMS. That has nothing to do with the value because it is not kept up.

Mrs. SULLIVAN. It is part of the whole problem. They could not afford to buy this house but they had to have a place to live. So, in a place that is zoned for single-family homes the unscrupulous real estate man goes in and says, "Look, you can pay this off in 5 or 6 years. Get some roomers or get some additional families." And soon you have a family in each room, and before you know it the house is ruined. And because of this sort of thing, and because they did not enforce the restrictions on occupancy—and I blame my own city for not enforcing the zoning code—this neighborhood of some 1,800 houses is one of the worst slums in the whole wide world.

Mr. WALKER. These were conventional mortgages?

Mrs. SULLIVAN. Conventional mortgages.

Mr. WALKER. I can't say I doubt it, but I will have to be convinced that disclosure would solve this sort of sharp operation.

These men, if they are that sharp are sharp enough to get around the disclosure provision. This is a law enforcement problem, because it is plain out-and-out usury.

Mrs. SULLIVAN. If they do not have to disclose the finance charges, how can they be pulled in faster? Letters are in the hands of Secretary Weaver, and in the hands, too, of the FHA and the rehabilitation authority in St. Louis to try to find some way to help solve this awful problem. The people involved were often ignorant of the costs; they had never owned a home before and they did not know what it costs to buy one. This is what we have to correct with effective laws if we cannot correct it any other way.

I am sorry to have taken your time, Mr. Minish.

Mr. MINISH. Thank you. I am sorry to see the position you take, but I am pleased to say that members of your association in New Jersey do not entirely agree with you.

Mr. WALKER. I have to respectfully say that you say you are pleased with the position I take?

Mr. MINISH. No, I said I am sorry about the position you take, but I am pleased to say members of your organization in New Jersey do not entirely agree with the position you take on first mortgages.

Mr. WALKER. The position that we take is that we are for full and adequate disclosure on every credit transaction.

Mr. MINISH. That is all.

Mrs. SULLIVAN. Mr. Williams?

Mr. WILLIAMS. Thank you, Madam Chairman.

I see what I believe to be a panel consisting of the representatives of the American Bankers Association, headed by Mr. Walker, and an eminent economist, Reverend McEwen. I will say that it has been my first experience with a panel of this type. I do not know whether