this is always intended or not. But if it is, I think it has very beneficial effects and I would like to suggest in the future when we have representatives before us from the various departments like Housing and Urban Development, Treasury Department or the Federal Trade Commission that we also have representatives of other associations before us such as the Federal Retail Federation—the American Retail Associattion so we can have a little more meaningful discussion and develop the points a little more clearly.

I have been listening to this discussion today about interest on revolving charge accounts which I think more correctly could be called service charges or charge rates. Because obviously there is a lot of administrative work involved in charge accounts that are not necessarily in other types of credit transactions.

Father McEwen, you were referring earlier to a matter of litigation up in Massachusetts involving a department store and I believe over in the Senate they offered testimony where they claim they are being forced to disclose an incorrect interest rate when they say 18 percent.

They say that this statement of the statutory simple interest per annum rate misleads the consumer, including customers of the plaintiff, because the plaintiff's true finance charge rates to its customers are normally much less than the rate which is required to be stated and depend upon the kinds and amounts of the customers' purchases and payments.

You were here yesterday to hear Mr. Bingham's comments. I think you also heard my comments relative to testimony which had been referred to at this subcommittee yesterday morning where they are now charging 1½ percent a month on the unpaid balance but rather this interest or service charge is being placed on the balance on the first of the previous month and if at any time during that month that balance is paid off there is no charge.

So that in effect the interest or service charge which is being paid on the revolving charge account can only accurately be computed at the end of the year unlike other types of credit transactions.

What is your reaction to that?

Father McEwen. I did hear much of this testimony, Mr. Williams, and I took a look at the testimony of the retail representative, though I wasn't here.

I think there is a distinction between the actual, post-factum, to the decimal point, interest charge of a definite transaction such as was presented by that witness——

Mr. Williams. Dr. Wooley?

Father McEwen. I don't think that was his name. At any rate, that interest charge resulted from a combination of counting every second free of charge and every second and minute covered by the charge, but it also resulted, as Mr. Bingham was pointing out yesterday, when the time for the imposition of the charge came, that charge was levied at the rate of 1½ percent a month, which is one and a half cents on every dollar in the balance.

As Mr. Walker's statement says, if it is accurate at that point, that is the 1½ percent charge, multiplying by 12 gives you an accurate annual charge.

Mr. Williams. That is not the way it was applied.

Father McEwen. That is not true. It is actually levied, 1½ percent on the dollar, that is what is actually levied.

Is that not true, Mr. Walker? One and a half cents on the balance, for each dollar in there, is what is actually levied?

Mr. Walker. That may be—there may be no balance.

Father McEwen. I am presuming there is a balance.

Mr. Williams. Let me make this suggestion, please.

Dr. Wooley was the man who did make the presentation on this chart before us and he did explain the chart which is part of appendix A of the statement made by the American Retail Federation and their representatives here yesterday.

In addition to that, in the testimony before the Senate, on page 216, the company which is engaged in the litigation in Massachusetts has presented documentary evidence to the effect that the actual finance charge rate on the average charge account is 9.46 percent. They had some supporting evidence here.

I would like to have your comments on both the information we received yesterday from the American Retail Federation and the testimony before the Senate which reports the fact that the way they are applying this supposed 1½ percent is the balance from the first of the previous month and often it much less than 18 percent per year.

You can submit your comments for the record on that. I think that would be helpful.

Father McEwen. Well, Mr. Williams, there is no question in my mind but that they have worked out these cases truthfully and accurately, but the question comes in the number of days in which there is no interest, as Dr. Walker said. And he said sometimes his accounts actually bear no interest. If you lump these two together you come up with the actual result.

Mr. Williams. If we are looking for truth then we have got to take all these factors into consideration, and if on revolving credits or revolving charge accounts, you are not paying 18 percent interest annually, then I can't see why we should force the people to say that they are.

Father McEwen. Mr. Williams, the legislation asks that the creditor say not what you will be paying actually—because he can't know that in advance—but at what rate is he levying a charge when and if you incur a charge. And he is levying a charge at the rate of one and a half cents per dollar. And that one and a half cents per dollar is one and a half percent per month and 18 percent a year.

Mr. Williams. I have no quarrel with forcing a full and complete disclosure of the interest or service charges, and everything else, but if it is going to require a more likely statement on the invoice or wherever it appears, fine, but we have got to take the statement. And 18 percent per year, from the testimony we have heard here, is not an accurate statement.

Father McEwen. I beg to differ. And as a matter of fact, if you will look at the very same Senate hearings on page 118, you will find an ad from a most reputable firm in Boston, the First National Bank, which ad says:

If you have signed up for a credit card lately, take a look at the back of it. What does it say you must pay to use it? One and a half percent a month. In terms of simple annual interest, that is 18 percent.

Are you saying that the First National Bank is not telling the truth in this ad?

Mr. WILLIAMS. I will leave that up to the representatives of the American Banking Association.

Mr. WALKER. I never disagree with my friends.

Mr. MINISH. Let us hear from Mr. Walker on that.

Mr. WILLIAMS. I am asking you to put something in the statement which will reconcile the fact that a large department store company is complaining that they are actually getting 8.426 interest as against 18 percent.

Father MCEWEN. Mr. Williams, there was one other factor in here that you mentioned but that I forgot to mention and that is the question of whether these charges are levied on the opening of the month balance, the middle of the month average balance, or the close of the month balance. And my information—and maybe Dr. Walker has something that he knows about this practice—I guess it is obvious that if you charge on the opening balance of the month you get more than if you charge on the average or the closing balance of the month—my information from Massachusetts is that some of the firms that had originally been charging on the closing balance have switched to charging on the opening balance, because there is nothing in the law that prohibits them from doing so.

Now, I don't really know whether Penney is on the opening or closing balance. And it may be that they are doing one practice that is different from some of the others. And that is part of why they are complaining about the uniform method of stating it, making them look worse than—or making them not look as good as they really are.

But I don't think you can get away from the fact that one and a half cents per month is levied when and if the period for charge arises. And that is as simple a statement of the fact as I think you can ever get. And that one and a half cents per dollar per month is an 18 percent annual rate of charge.

Mr. WILLIAMS. You are talking about certain adjustments which would eventually mean 18 percent a year—you say you have looked at this appendix A an actual customer account of a department store demonstrating the calculation of annual service charge rate, you say?

Father MCEWEN. I look at that.

Mr. WILLIAMS. And do you agree with this?

Father MCEWEN. I agree that that is an actual fact, that account actually took place. And when figured out with a slide rule that they have used for this, including every minute of free time and every minute of charged time, those figures are probably true.

Mr. WILLIAMS. So that at the end of the year the actual interest or charge rate was 11.49 percent?

Father MCEWEN. That is correct. Actually it is a result though, of charges when incurred being levied at a rate of one and a half percent a month or 18 percent a year.

Mr. WILLIAMS. Which resulted in an actual charge of 11.49 percent for the year.

Mrs. SULLIVAN. Would the gentleman yield for a moment?

Father, would you say that that is the way—maybe some of you other gentlemen could answer it—do you think that is the way every

department store account is figured—the way this one that he is talking about is figured?

Father McEwen. We can turn that question around and ask Mr. Williams if that company levies an 11.6 annual service charge. And it doesn't.

Mrs. Sullivan. On each month?

Father McEwen. On any month.

Mr. Williams. I don't quite get your answer. Mrs. Sullivan asked if you felt that this was the way this store, department store, actually computed this customer charge during the year.

Father McEwen. When they levied a service charge they did not levy an 11 percent annual charge.

Mr. Williams. They levied something else which resulted in 11.49 percent.

Father McEwen. Right. They levied an 18 percent charge which, counting all free periods and everything else, comes out to the figures you have got there.

Mr. Williams. Don't you agree that it would be an injustice to force the store to say that "We are going to charge 18 percent annually" when they are only charging, say, 11.49?

Father McEwen. Not a bit, because that includes all the free days. And I agree with Mr. Walker that we must and can devise a formula that can be applied to them all. And you should ask, excluding the number of free days of grace, and taking the time when and if the charge is levied, at what are you levying the charge?

Mr. Walker. I say it can be done. But let's not kid ourselves that this is what Paul Douglas was saying in 1960. We are all mixed up with semantics here whether you are talking about the charge you levy or the simple annual interest rate that the fellow who gets the credit pays. If you are asking if he pays 11.49 on the average, if you are asking the maximum rate you might pay, it is 18 percent. It is strictly semantics but I want to rise to the defense of the First National Bank of Boston. You said it is the finest business institution in the city. I will not disagree, except that all other banks up there are just as fine, too, the way I look at these things.

If they had not published this ad in this way—and particularly Mr. Minish wanted me to respond to this point—if this ad had not been published as 33⅓ percent off, 18 percent a year, the First National Bank would have been in violation of section 4 of the Massachusetts act, chapter 587, which requires them to advertise in precisely this way. And this is why the State is now being sued by a major retailer, because they say it is not true. They didn't have any choice.

Father McEwen. Do you mean that they deliberately published a false ad?

Mr. Walker. They published an ad which they could only publish under the law if they were trying to tell the rates you would pay on your bank credit card.

Father McEwen. That is the same question. They published a false ad.

Mr. Walker. What is false is what the State of Massachusetts says is false in all of its legislative rulings.

Father McEwen. I can't accept that. They know that that is accurate.

Mr. BAILEY. May I speak to Mr. Williams' question?

Mr. WILLIAMS. I would like to ask Mr. Walker one question before we exonerate the First National Bank.

Mr. MINISH. We are not going to exonerate it yet.

Mr. WILLIAMS. We exonerated the First National Bank in place of the Massachusetts Legislature temporarily.

Am I correct in my understanding that the U.S. Treasury Savings Bonds did not bear any interest to the holder for the first 6 months?

Mr. WALKER. Only if cashed in. They bear interest—you get interest retroactively by holding them beyond that period. You cannot cash them in without foregoing the interest you would have gotten—it is 60 days or 6 months.

Mr. WILLIAMS. Is that made clear in the Treasury Department?

Mr. WALKER. There have been some mumblings about that recently, Congressman, that Treasury's savings bond advertising is not fully up to truth in lending. I have not personally made that criticism, but I have heard it.

Mr. WILLIAMS. We should give some consideration to including the Treasury Department in this.

Mrs. SULLIVAN. We will, don't worry.

Mr. WALKER. Also we might ask them how much tax revenue they are going to forgo if this so-called independent charge is ratified by the Congress of the Internal Revenue Service on $90 billion worth of consumer loans on which they now allow a 6-percent-interest deduction as maximum, as I understand it, under Internal Revenue provisions. If I have got a 12-percent-automobile loan, for interest deductible purposes on income tax I can't take more than 6 percent. Now, on the $90 billion, 6 percent of $90 billion is $5.4 billion a year. And if you are in a 20-percent-average-tax bracket, that is a billion dollars or so a year. If the actual true rate on these consumer loans is in the neighborhood of 12 percent, this will automatically increase the deductibility of the interest to $10 billion. It is a pretty good hunk in a situation where we are asking for a tax increase to pay for——

Mrs. SULLIVAN. You are not talking about individual returns, are you?

Mr. WALKER. Yes, ma'am, that is exactly what I am talking about.

Mrs. SULLIVAN. Unfortunately, I don't have anything to deduct on interest paid out, because I am one of these Dutchmen who believe in paying as you go.

But haven't you shown on your return how much money, how much interest is actually paid on your loan, and can't you deduct——

Mr. WALKER. Not if it is over 6 percent of the item. That is an arbitrary ruling. This is 6 percent—the Internal Revenue thinks everybody borrows money at 6 percent interest.

Mrs. SULLIVAN. I heard the Secretary say to us that he was going to change that if this bill passes.

Mr. WALKER. He checked with his counsel and they had some other thoughts on it.

Mrs. SULLIVAN. Mr. Annunzio.

Mr. ANNUNZIO. Thank you, Madame chairlady.

I just want to comment briefly that it is a sad commentary on our civilization to observe as I have since coming to Congress that the only way you can get legislation passed is for great numbers of disasters

to happen and great numbers of people to be killed. We had before us in the Congress a rat bill. That rat bill was treated badly. It was one of the few times that a bill such as this came out of the Rules Committee and the greatest deliberative body in the world refused to debate the merits of the legislation. Had the Newark and the Detroit riots taken place before the death of the rat bill we would have had a rat bill enacted into law. So the Newark riots took place and the Detroit riots took place, and we have a truth in lending bill, S. 5 in the Senate by a vote of 92 to 0.

I want to ask you, Mr. Walker, does the ABA endorse S. 5—I just want to get the record straight—does the ABA endorse now, the truth-in-lending bill? Paul Douglas has been trying since 1960 to get the truth-in-lending bill passed, but as I stated, the country wasn't ready for it, and I don't think times have changed that much. I have only lived a little more than half a century and I remember the days when the country was ready to recognize the right of the people to join unions. But each time in history there has to be a catastrophe of some sort before positive, constructive action is taken.

We have a bill, H.R. 11601. Just for my own purposes, Mr. Walker, what would you take out of H.R. 11601?

Mr. WALKER. All the items—all of our positions on 11601 are detailed in broad terms in our written statements.

Mr. ANNUNZIO. I am assuming, Mr. Walker, that you are in favor of some truth-in-lending legislation.

Mr. WALKER. Yes. And I will be specific. I just wanted to point out that all of our points in regard to H.R. 11601 are given in broad terms of pages 7 to 10 of the short statement, and pages 18 to 28 of the supplementary statement—you don't want me to go through all of those, do you, simply to say in general terms——

Mr. ANNUNZIO. In general terms on the 18 percent——

Mr. WALKER. We oppose that.

Mr. ANNUNZIO. You are opposed to the 18 percent and you have stated your reasons.

Mr. WALKER. Yes.

Mr. ANNUNZIO. On the $10 exemption that is in S. 5——.

Mr. WALKER. We would retain that.

Mr. ANNUNZIO. You would retain the $10 exemption?

Mr. WALKER. We would retain the S. 5 provision on first mortgages. We would retain the S. 5 provision divorcing insurance charges of any type from the finance charge. We would prefer that S. 5 be amended to allow the optional dollars per hundred or percent per annum to be on a permanent basis rather than expiring in 1972. We prefer the monthly method of disclosure which we think is best and solves all problems.

We would recommend changes in the advertising provisions, which we think are ambiguous. We have positive recommendations in our detailed statement. We would drop all parts of the bill which do not relate to disclosure, and urge further study of these items. That includes the 18-percent-usury charge, it includes the garnishment provision, it includes the standby regulation W, it includes the credit margins on commodity exchanges.

And finally, we would not endorse the National Commission approach in H.R. 11601. We think that this committee and other

congressional committees are fully capable of doing a topnotch job in these studies.

We would also recommend that the effective date of the bill be delayed until 1970.

Mr. ANNUNZIO. Is there anything in H.R. 11601, if we attempted in our judgment to strengthen S. 5, that you would accept so that we could strengthen S. 5?

Mr. WALKER. Yes. I would take the advertising provision if recast to get rid of the ambiguity and the problems which we pointed out in our statement. If you have got to do certain things over the counter, there is no reason at all why your advertisement should not be fully consistent with that. That is constructive information. But the wording gives us a great deal of difficulty.

The question is, who is going to administer the advertising requirements? And the Fed wants the FTC to administer it. The more administrators you get into a given piece of legislation, as we have seen in the banking area, the more administrators you get the more chances we have for disagreement, and so on. And even though I sympathize with the Federal Reserve's idea not to get involved in administering the advertising provision, I think that since it is a credit and financial matter that it would be better to keep it in the Fed, and in fact keep all the regulations of the bill in the Fed.

Also I didn't mention administrative enforcement. We very much prefer S. 5's provision rather than the enforcement provisions of H.R. 11601.

We would also request—and we think it is very important to give the uniform law commissioners time to bring their project to fruition. And believe me, we will push this very, very strongly in State legislatures throughout the country. But please give us until 1970. Our next major legislative year is 1969. The uniform law commissioners approach is to repeal general usury statutes which give you so much trouble and to provide specific ceilings depending on the type of credit, which is a much more viable sort of situation. But if you force us to go in and try to promote this before the uniform law is ready, I think it can set back a valuable project, and might even kill it.

Mr. ANNUNZIO. Do you feel that this legislation, Mr. Walker, after conducting very, very intensive and extensive hearings, will serve to narrow the gap between the middle class and poor people? This is what is causing our trouble, the gap is too great.

Mr. WALKER. Not significantly. I just think—if you are talking about this particular bill—if you are talking about the uniform law commissioners' consumer credit code—this is another ambit—anything you can do to keep these people away from the loan sharks and into legitimate lenders is going to help and this specific usury ceiling approach by type of credit, you are not doing a poor person any good to say that usury is 6 percent. He can't borrow on that basis for an automobile. It is much better to say that he can pay up to 18 percent for an automobile if you really want him to get the credit.

Yes, I think that could help significantly.

Mr. ANNUNZIO. Father McEwen, I wholeheartedly agree with your statement. And I do appreciate your coming before the committee. I feel that a lot of the problems that are caused in large cities, and I

had a riot in my district last year, are caused because, as all of us know, the poor pay first-grade prices for fifth-grade merchandise. And it is the history of man that the poorer you are the more you are exploited; consequently we are under pressure here in Congress, and we must do something about it. In fact, Father, I feel that if the rat bill came up we would pass that, too, now.

Father McEwen. Mr. Annunzio, may I take this opportunity to say that I have been tremendously impressed by the effort of the subcommittee in this matter. And I have been tremendously impressed by the attention and the devotion that the members have displayed.

In that connection I want to emphasize something to you ladies, and gentlemen. There is an education function in these hearings that have gone on in the Senate and the House that you should not underestimate—I think you are doing a tremendous educational service to the country by the hearings and the coverage and the debate.

And I can give you an example of the opposite of that. A few years ago in Massachusetts we passed an abridgement of the holder-in-due-course privilege pertaining to consumer notes. It was passed almost without debate, and almost without even knowing that it was passed. The effect of that for several years was practically zero because of the lack of education about it. Even the lawyers didn't know that this was on the books, and they couldn't invoke it. I would urge—I agree with the provisions of the American Bankers' statement about insurance, but I disagree on the National Commission. I think there are so many facets of this whole area of credit that you haven't mentioned, such as the practices of collection agencies, the practices of credit bureaus, that I think the Commission could spend a lot of time going into. So I encourage the committee to push the commission idea.

On the insurance, I think logic is with Dr. Walker on this one. If we are logical and consistent, the items in the finance charge for all lenders, and for all types of borrowing and lending, should be as similar as possible.

I would recommend that you take charges like credit life and accident and health insurance pull them out of the finance charge, and impose specific ceilings on their rates. And I would suggest the Massachusetts rate of 50 cents a hundred on credit life.

Mrs. Sullivan. We will certainly go into that, Father.

The bells have rung for a vote.

And again Mr. Bingham is last.

But I think that we will have time to get your questions in, Mr. Bingham, before we have to leave.

Mr. Annunzio. Thank you, Father. I am sure that the others on the committee and myself appreciate your observations.

One thing that we have done is that we have been able to bring this problem to the attention of many, many people. And I appreciate your contribution.

And I appreciate the contribution of Mr. Walker of the American Bankers Association.

Mr. Walker. Thank you.

Mr. Bingham. Thank you, Madam Chairman.

I would certainly like to agree that these have been wonderful witnesses and very helpful, even though they don't agree on everything.

I would first like to ask two questions about the mortgage situation and the point system.

I believe you said before, Mr. Walker, that in the normal situation on a mortgage there are no points.

Mr. WALKER. On conventional mortgages. There is a rate ceiling fixed on FHA mortgages which, if either the Administrator—if Mr. Brownstein does not move quickly enough, or if he reaches the congressional ceiling which is set, he can move no further. And if you want money to come into FHA mortgages, which tend to go into Government loans or other sources, the only way they can be objective is for the mortgage to fall to a discount and sell at 99, 98, 97 and last year 92, 91, and so on. This is because of the fixed rate on FHA mortgages. Conventional mortgages are not Government regulated, they have no ceiling, and the rate is free to go up and down, and therefore points do not come in—they do occasionally, but not like the FHA's.

Mr. BINGHAM. Father McEwen, you stated in a part of your statement, which I don't think you read, that you understand the inclusion of the first mortgages in the Massachusetts law has resulted in the complete elimination of the obnoxious point system. Would you comment further on that?

Mr. Walker is shaking his head.

Mr. WALKER. He can't eliminate them on FHA and get any loans made.

Father MCEWEN. I was told this by some Massachusetts banks that I queried about the effect of the law on the mortgage market. And technically if anyone gave points in Massachusetts it would revise the statement of an interest rate, wouldn't it?

Mr. WALKER. As I understand the statute—which could be done.

Father MCEWEN. It could be done, sure.

Mr. WALKER. You mean they made the loans, instead of saying that this is—using the chairlady's figures this morning, instead of saying that this is a 6-percent loan at how many points discount, 5, 6, 7, or whatever you said, this is a 6.55-percent loan.

Father MCEWEN. In other words it has to be an accurate expression of the interest rate.

Mr. WALKER. But it still has the points, it is just expressed another way.

Mr. BINGHAM. I would like to turn to the matter of revolving credit. I would like to say, Mr. Walker, that I am entirely in agreement with your position that there should not be discrimination between the types of revolving credit. They should all be treated alike. You make an excellent point there. Could you tell us a little bit briefly about the manner in which the banks operate these accounts and how they compare to the department store revolving credit accounts.

And before you answer that, may I just say this for the record. And I am sorry Mr. Williams isn't here any longer, because I think that the witnesses yesterday left the impression that the actual interest rate which is earned over a period of time is always less than the 18 percent. The fact is that it can also be a lot more than the 18 percent. I am sure you will agree with me.

Mr. WALKER. I know that.

Mr. BINGHAM. I have a simple example here. The way they use these things, if your balance on the 1st of March is $100, and on the 5th of March you make a payment of $50, and on the 25th of March you make a purchase of $50, on April 1 your balance is again $100, so you are going to pay a dollar and a half on that one but the average, balance for that period is only $66, so you have been actually paying at an annual rate of 27 percent.

If that is not right I would like to be corrected. But that is the way I understand their plan.

Mr. WALKER. Now, I am going to ask Mr. Bailey to comment on that. I think it is the method which does vary.

Mr. BAILEY. Yes. I am not familiar with precisely how that company does it.

We levy the charge on the opening balance less any payments that have been received during that month.

Mr. BINGHAM. But that is not what the department stores do. You see, they levy that charge on the opening balance regardless of any transactions during the month, unless the account is wiped out, and then they don't charge anything. We are going to have testimony next week showing that because of this practice in some cases, the credit charges can run as high as 75 percent per annum.

Mr. WALKER. On S. 5 they can say their monthly rates are 1½ percent and we have to say our annual rate is 18 percent.

Mr. BINGHAM. I agree with you on that.

As far as the banks are concerned, how does it actually operate?

Mr. BAILEY. As I stated, if you purchase something this particular month of, say, $100, the first of next month we would bill you for your monthly payment, but include no service charge, because from the time of purchase until billing would be free, there would be no charge to you. And at the end of the following month—let's assume that you have made no purchases at all, and you paid $10 during the second month—on the second billing we would bill you again for the monthly payment. And at that time we would charge one and a half percent on $90. That was the balance that was left after you had made the payment.

Is that clear?

Mr. BINGHAM. So far. But what if you had also made a purchase during the second month?

Mr. BAILEY. That would not be service charged until the second billing after that purchase is made. The same procedure follows through.

Mr. BINGHAM. But you do give credit for the payment made during the month.

Mr. BAILEY. Yes, we do.

Mr. BINGHAM. You deduct that from the balance at the beginning of the preceding month?

Mr. BAILEY. Yes.

And I would like to comment on what Mr. Williams and Father McEwen were talking about. If the effective rate on the money that was actually used in the example that was quoted was less than 12 percent, 11 point something—this is what the person actually paid for the use of that money during the life of that contract, a year's

time—I think we misinform him if we tell him it is going to be 18 percent, and he goes, then, and borrows cash somewhere for 12.

Mr. BINGHAM. Yes. But my point is that the figure could also be much higher than 18 percent per annum, depending on the timing of the various transactions. For instance, if he hadn't cleared his accounts a couple of times, which helps very substantially in the total calculation—because if he clears his accounts one month he doesn't pay any service charge for that month or the following month—and if he made his payments generally before he made his purchases, he could end up paying substantially more than 18 percent, per annum.

I am not saying that is true of the banking system but I think it is true of the type of account that was presented to us yesterday by the department stores.

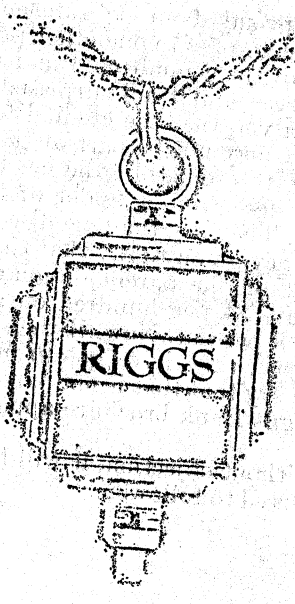
Mr. WALKER. We are proud of our low-rate lending.

Mr. BINGHAM. I want to pass to one other point. And I don't want to impose on the time of the committee. But I must say, Mr. Walker, I just simply can't agree—and I am surprised that Father McEwen apparently agrees with you that the credit life insurance is not part of the cost of credit. It may not be part of the cost of money, if you will, but the borrower it is something he has to pay. And I can give you an example right here from a folder of the Riggs Bank on the educational loan fund. They say that the discount rate is 3½ percent per annum, but then they go on to say that the bank does require life insurance, in this case on the parent or guardian, so that the total charges on the loan are $4 per hundred on a discount basis, which means actually about 8 percent. Now, if the students want that loan, if they want to borrow, they have got to get the life insurance. I don't see how you can say that that is not part of the cost of the credit. I request that the Riggs Bank brochure appear in the record at this point.

Mrs. SULLIVAN. Without objection, it will be included at this point.

(The brochure referred to follows:)

EDUCATION
LOAN PROGRAM



The
RIGGS
NATIONAL BANK
WASHINGTON, D. C.

A COMPLETE PROGRAM

The Riggs Education Loan Program is unique, timely and complete. It will assist those parents or guardians faced with the problems of cost connected with the education of their children.

The program provides money to cover tuition, room, board, books and other expenses closely related to the student's education.

Loans may be made to cover Primary, Secondary, Preparatory, University or Post-graduate work. The plan is tailored to meet the individual needs of each applicant.

Arrangements can be made to accommodate one child or all of your children. Riggs Bank, being well aware of the ever increasing costs incidental to higher education, has designed its plan to be a custom-made means to meet the family financial needs.

THE COST. 3½% PER ANNUM DISCOUNTED

The Riggs Plan discounts the amount needed by the borrower at 3½% per annum. In other words $3.50 per hundred dollars is charged on the money advanced, enabling parents or guardians to enjoy the minimum cost.

The bank does require life insurance on the parent or guardian with the primary financial responsibility; therefore, the total charges on a loan are $4.00 per hundred dollars per year on moneys advanced and this includes credit life insurance. The following examples would illustrate the total charges.

MONEY ADVANCED	TOTAL CHARGES	TOTAL NOTE	NUMBER PAYMENTS	MONTHLY PAYMENTS
$1,000	$27	$1,027	8	$128.37
1,000	33	1,033	10	103.30
1,000	40	1,040	12	86.66

Life Insurance has been included.

It is advisable that you negotiate your loan at an early date, preferably as soon as possible after acceptance to the school. This will allow you to take advantage of our twelve month repayment schedule. Since Riggs Bank is most interested in providing education loans which best suit all of the family needs, a variation of plans may be arranged.

The Riggs National Bank of Washington, D.C. invites parents and guardians to consult with the Family Bank at any time for additional information and financial aid at all levels of schooling.

FOR ADDITIONAL INFORMATION

Telephone 783-5600 . . . or write to
THE RIGGS NATIONAL BANK
Education Loan Division
1913 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Statistics show that college graduates earn many thousands of dollars more during their lifetime than non-graduates. The financial advantage alone makes a college degree a good investment, but higher education also carries with it such additional values as added prestige, job and community opportunities, personal satisfaction, and self-confidence.

With college costs rising annually, there are few families who can finance a college education without assistance. However, scholarships, loans and other sources make it possible for almost every ambitious and deserving young person to earn a college degree.

As a Full Service bank, Education Loans are only one of the many ways in which we can be of assistance. A visit to one of our branches would enable us to discuss the possibilities of serving all of your financial requirements.

The RIGGS NATIONAL BANK
Washington, D.C. Founded 1836
STerling 3-5600

MAIN OFFICE 1503 Pennsylvania Avenue, N.W.
INSTALLMENT CREDIT DEPARTMENT
Education Loan Division
1913 Massachusetts Avenue, N.W.

BRANCH OFFICES

DUPONT CIRCLE
1913 Massachusetts Avenue, N.W.

PARK ROAD
14th Street and Park Road, N.W.

CHEVY CHASE
Connecticut Avenue and Morrison Street, N.W.

WASHINGTON LOAN AND TRUST
F Street at 9th, N.W.

FRIENDSHIP
Wisconsin Avenue and Warren Street, N.W.

FARMERS AND MECHANICS
Wisconsin Avenue and M Street, N.W.

NORTHEAST
1348—4th Street, N.E.

LINCOLN
17th and H Streets, N.W.

SEVENTH STREET
7th and Eye Streets, N.W.

NORTHWEST
1779 Columbia Road, N.W.

FEDERAL
1750 Pennsylvania Avenue, N.W.

SEVENTH AND D STREET
318—7th Street, N.W.

SOUTHEAST
South Capitol and Brandywine Streets, S.E.

UNIVERSAL
Connecticut Avenue and T Street, N.W.

WALTER REED MEDICAL CENTER FACILITY
Army Medical Center

WATERGATE OFFICE
Virginia and New Hampshire Avenues, N.W.

Member—Federal Deposit Insurance Corporation
Member—Federal Reserve System

Mrs. SULLIVAN. May I ask that you both comment on this matter in your transcripts when you get them to correct, because I think you want to answer in some detail, and you should have a chance.

Is that all right with you?

Mr. BINGHAM. Thank you very much.

Mrs. SULLIVAN. And Father, when you correct your copy of the transcript, enlarge upon the Massachusetts allowance of a fixed insurance charge.

Father MCEWEN. I see what you mean, Madam Chairman.

Mrs. SULLIVAN. Will you explain that?

Father MCEWEN. Yes.

(The information requested follows:)

SUPPLEMENTARY STATEMENT BY FATHER ROBERT J. MCEWEN, S.J., ON CREDIT LIFE INSURANCE

It has been the philosophy of the Massachusetts' Banking Department, for a long time, that insurance charges should be separated from the interest rate calculation, and this has been done for 10 years on all small loans. In the new bill on retail installment sales, credit life insurance may be included in the finance charge or expressed as a separate charge at 50 cents per $100. I am informed the same provision will be applied to the sale of automobiles under a bill presently in the Massachusetts Legislature.

However, a ceiling fixed charge of 50 cents per $100 of insurance is written into our law for all these categories of loans and new bills will establish the same limit for accident and health. In as much as most companies can purchase credit life insurance, for instance, for somewhere between 33 cents and 39 cents a $100 the permitted charge of 50 cents appears adequate.

This whole area of credit life insurance and accident and health insurance associated with lending operations is one that has been under constant study by the Senate Anti-trust and Monopoly Subcommittee. Their latest hearing record, soon to be published, and their files contain startling testimony to the relatively exorbitant profits made by financing firms out of the insurance they sell to customers on their loans. Again it is the case of the tail wagging the dog, and it almost appears as if they are now making loans in order to get the profits from the insurance they sell associated with those loans.

The Senate Committees' material documents the close interconnection between finance companies and insurance companies. In fact, in many cases, finance companies have opened up their loan insurance subsidiaries in order, as one of them put it, to make a double profit on the same transaction.

An examination of financial reports from several of these finance companies will show a very substantial fraction of their net income as derived from their insurance operation. I am told that hearings on this subject will be held by the Senate Anti-trust Subcommittee in this coming fall and this should highlight the importance of these issues.

The important consideration is that the House Truth in Lending Bill should contain either the requirement that the credit life insurance charge be included in the total financing rate or the provision that a ceiling of 50 cents a $100 be established for a credit life insurance charge separated from the finance charge. I realize that this may be a revision of the McCarran Act, but I believe it is something that Congress is fully justified in doing at this juncture in the economic development of the lending and insurance industries.

May I quote from a "Report on Credit Insurance" by the Department of Insurance of the Commonwealth of Kentucky bearing a date of April, 1967. On page 26 of this document, I read:

"As reported by a leading investment advisory service, two of the largest independent companies in the consumer credit field, Commercial Credit Corporation and Associates Investment Company, derive substantial income

from their insurance operations. The percent of 1966 income from each source of these companies' operations is shown as follows:

"[In percent]

	"Net income from operations involving—		
	Financing	Insurance	All other
Commercial Credit Corp	47	52	1
Associates Investment Co	41	50	9"

Let me read to you from the annual report for 1966 of General Acceptance Corporation of Allentown, Pennsylvania under the heading, Life Insurance. On page 14 of this annual report we may read:

ADVANTAGES TO GAC

Our life insurance operations have consistently produced substantial earnings over the years. This is a good example in our company of the reaping of a second profit from essentially the same source of business.

From the CIT Financial Corporation Annual Report for 1966 we read under the heading, Insurance Division, page 11:

Net income derived from all insurance activities totalled $14.8 million in 1966, or slightly more than the $14.7 million earned in 1965. Automotive insurance operations, conducted by the Service Insurance Companies, contributed $7.3 million to the 1966 profit picture, equaling the 1965 figure. Income of the North American Company for Life, Accident and Health Insurance was higher in 1966. Life insurance added $7.5 million to our consolidated income last year, compared with $7.4 million in 1965.

The annual report of another large firm, Associates Investment Company, shows a net income of $19.3 million for the year, 1966, while the net income of their life insurance operations was $5.5 million. From Best's Life Insurance Report for 1966, page 234, we may see that this life insurance company in 1965 had $1.2 billion of credit life insurance out of a total life insurance in force of $2 billion. New business written shows $919 million life insurance as a total out of which $670 million was credit life.

These examples, I think, show very dramatically the point that we are making, that credit life and accident and health insurance have become both very substantial and very lucrative parts of the operations of lending firms.

May I close with a quotation from John P. Clair, our late Deputy Commissioner of Banks in Massachusetts, in his testimony before Senator Hart and the Antitrust Subcommittee in what was his last public appearance before his untimely death. He said:

> But I will say this, that I think it is time in this country that we called a halt to the situation which exists where the seller of money is making more money selling insurance than he is selling money. Now this is basically wrong. I think that certainly from the point of view of monopoly, the relationship which exists between lenders and insurance companies where they are owned completely brings about a situation, I think, which is inimical . . .

From the Thursday, May 18, 1967 hearing on Consumer Credit Insurance.

RESPONSE OF AMERICAN BANKERS ASSOCIATION OF CREDIT LIFE INSURANCE

In response to Congressman Bingham's question regarding credit life insurance, it is my view that charges for insurance coverage generally are not a part of the cost of credit.

It is to be noted that commercial bank educational loans are not really typical of the great volume of consumer installment loans made by banks. Educational loans to parents or guardians are usually considerably larger in dollar amounts and longer in terms that typical consumer installment loans. Also, educational loans are generally made at substantially lower rates of interest, e.g., 6.5 percent simple interest in the case of Riggs National Bank, than typical new car loans which are made at rates ranging from 9.5 to 10.5 percent. These loans may range from $5000 to $10,000 and may have terms ranging from five to ten years.

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

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

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

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

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

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

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

Mr. WALKER. Correct.

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

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

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

Mr. WALKER. The advertising has great promise.

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

Do you agree with me in my concept of the new "revolving math," that no matter how you slice it, or with what grace or grace period, that 1½ percent service charge made by the stores is for a specific 30 or 31 days, one-twelfth of a year, that is 18 percent on an annual percentage basis?

Mr. WALKER. Yes, but the customer may not be paying 18 percent in interest, but 18 percent is the rate.

Mrs. SULLIVAN. Because it is assessed for a particular segment of the calendar consisting of 1 month, no more and no less.

I want to thank you very much. You may not agree with everything in this legislation, but you have been helpful in sharpening up the issues, and you have made some good points which we will certainly consider. You seem to be under a misapprehension that the provisions of H.R. 11601 which are not restricted merely to disclosure of interest or finance charges are "outside of the scope of the accepted legislative intent of the bills before this committee," as your statement put it.

Let me make clear that those of us who have sponsored H.R. 11601—the six of us on this subcommittee and some 22 other Members of the House—believe we need far more than mere disclosure to correct inequities and abuses and misuse of credit by both lenders and borrowers.

Nearly all of our witnesses so far have gone out of their way to avoid grappling with the issues which we raise in H.R. 11601 which go beyond disclosure, as if we really didn't mean any of them. Well, we may not win them all, but we mean them. Don't be surprised if all these ideas eventually become Federal law in some form, because they are directed at balancing the economic scales, which is a traditional Federal role.

And my last comment, in thanking you gentlemen from the ABA for your testimony, is to assure you that we have no thought, idea, or intention of proposing standby controls for use now or in the foreseeable future "to meet current inflationary pressures," as you put it. I am sure the ABA would be the last organization in the country to imply that the Federal Reserve Board would use a war club like standby credit controls in order to combat a 5-cents-a-pound increase in hotdogs in August.

We appreciate your being here. And I thank you for your patience. When you correct your transcripts, you are free to add or correct anything that you wish and to send it back to us and let us have it as quickly as possible.

Thank you very much, also, Father McEwen. You have put this issue on a basis which is often ignored, but is indeed vital, and that is the essential decency of bringing about long overdue reforms of credit abuses as a spiritual obligation. Your service to the consumer cause in this country has been further demonstrated in your testimony today.

We will adjourn until 10 o'clock Friday morning, when we will hear a panel of outstanding Federal bankruptcy referees who have amassed great experience and knowledge about the tragic misuse of consumer credit leading to the wiping out of billions of dollars of obligations through the drastic remedy of bankruptcy.

(Whereupon, at 3:45 p.m., the subcommittee adjourned, to reconvene at 10 a.m., Friday, August 11, 1967.)

CONSUMER CREDIT PROTECTION ACT

FRIDAY, AUGUST 11, 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, Gonzalez, Hanna, Annunzio, Bingham, and Dwyer.

Mrs. SULLIVAN. The Subcommittee on Consumer Affairs will come to order.

I would like to just make a brief opening statement before we start this morning's hearing.

The Subcommittee on Consumer Affairs has held seven sessions during the past 4 days on the consumer credit legislation now before us—every morning and every afternoon except Tuesday when we could not obtain House permission to sit. We have begun as early as 9 o'clock in the morning and worked late into the afternoons. And we still have much ground to cover.

I want to express my appreciation to the members of the subcommittee who have been so conscientious in attending the hearing and participating in the questioning. With so much work in our own offices, plus our responsibilities on legislation before the House, it is a real sacrifice to carve out so large a part of each day for so many days in a row for hearings on a specific piece of legislation.

On the other hand, this legislation does indeed deserve such attention. Even the mildest bill before us on "truth in lending" would require a great deal of change in methodology and even in the language of the consumer credit industry, which now has loans outstanding amounting almost to the size of the Federal budget, in the neighborhood of $100 billion. And this, of course, does not include the hundreds of billions in real estate consumer credit.

So we are dealing with a subject which affects nearly every business in the country, directly or indirectly, and every consumer, whether he pays cash for his purchases or defers payment through one or another of a great variety of devices for enjoying today what you possibly cannot afford today to pay for. We have heard from Cabinet officers, agency administrators, consumer representatives, and spokesmen for the merchants and bankers covered by the legislation.

This morning we are fortunate in having with us four men who daily confront the problems of those consumers who have used too

much credit, and of the unlucky creditors who provided that credit and then face having to write off part or all of it under bankruptcy proceedings.

The truly fantastic increase in personal bankruptcies in this country in recent years reflects the ease with which almost anyone can charge today's wants and purchases to tomorrow's or next year's earnings, and it also reflects the agonies of repaying debts they could not handle.

Our four witnesses this morning are among the foremost Federal referees in bankruptcy. They see the often tragic consequences of overuse of credit, and then it is up to them to try to pick up the pieces. Bankruptcy formerly was a way primarily to settle and resolve business debts, but today the vast and overwhelming majority of cases involves consumers filing because of personal or family debts unrelated to business ventures.

As the testimony this morning will develop, many of those who seek bankruptcy as a way out of their financial troubles have found themselves in a position where their earnings are being garnished, depriving them of income needed for daily family living expenses and causing their employers great inconvenience and expense. Often this leads to the discharge of the employee, who then cannot get another job because of the garnishments which complicate the payroll and raise employers' costs. H.R. 11601, among other things, would prohibit garnishment of wages to satisfy debts. Our witnesses this morning are here to give us information on this issue and on other aspects of the legislation—based on their exposure each day to the problems we have been discussing in our hearings.

First I want to ask Mr. Royal Jackson, Chief of the Bankruptcy Division of the Administrative Office of the U.S. Courts, to introduce our four witnesses and then tell us briefly what the national picture reflects in personal bankruptcies so that we will have the setting in which these four district court referees have been developing the experiences they will share with us.

Mr. Jackson, we appreciate the help your office has given this subcommittee, and if you will just tell us something about Mr. Snedecor, Mr. Moriarty, Mr. Bare, and Mr. Whitehurst—who, I believe, is a former House of Representatives Judiciary Committee counsel—we can then proceed to have them read their prepared statements.

STATEMENT OF ROYAL E. JACKSON, CHIEF, BANKRUPTCY DIVISION, ADMINISTRATIVE OFFICE, U.S. COURTS, ACCOMPANIED BY JAMES E. MORIARTY, REFEREE IN BANKRUPTCY, U.S. DISTRICT COURT, CENTRAL DISTRICT OF CALIFORNIA; CLIVE W. BARE, REFEREE IN BANKRUPTCY, EASTERN DISTRICT OF TENNESSEE; ESTES SNEDECOR, REFEREE IN BANKRUPTCY, PORTLAND, OREG.; AND ELMORE WHITEHURST, REFEREE IN BANKRUPTCY, DALLAS, TEX.

Mr. JACKSON. Thank you Madam Chairman.

Madam Chairman and members of the committee, my name is Royal E. Jackson; I am the Chief of the Bankruptcy Division of the Administrative Office of the U.S. Courts.

It gives me a great deal of pleasure to introduce the judicial officers who are here to testify this morning.

On my right is the Honorable Elmore Whitehurst, referee in bankruptcy of the district court in Dallas, Texas. As the Chairman knows, Mr. Whitehurst spent many years in Washington, served as clerk of the House Judiciary Committee, following that as Assistant Director of the Administrative Office of the U.S. Courts prior to going to Dallas to become a bankruptcy judge.

Referee Whitehurst is editor of the Journal of the National Conference of Referees in Bankruptcy. He is a member of the Advisory Committee on Bankruptcy Rules of the Judicial Conference of the United States, and also a member of the National Bankruptcy Conference. As you are aware, the State of Texas has no garnishment statute and we believe that Mr. Whitehurst's testimony may shed some light on what effect, if any, a garnishment statute or the absence of one would have upon consumer credit.

On my immediate right is the Honorable Estes Snedecor, one of the senior referees of this country and serving in the U.S. district court at Portland, Oreg. You have in your files and in his statement a résumé of his extensive experience both as a practicing lawyer and as a judicial officer.

Referee Snedecor was engaged in the general practice of law in Portland for 26 years prior to his appointment as referee in bankruptcy on February 16, 1936. His service as referee in bankruptcy has been continuous since his original appointment and in recent years he has had a special interest in the garnishment statute in the State of Oregon and in its effect upon consumer bankrupts of that State.

Approximately 2 years ago he testified at hearings in the State legislature in support of an amendment to modify the Oregon garnishment law so that it would be less severe. Referee Snedecor is a member of the Advisory Committee on Bankruptcy Rules of the Judicial Conference of the United States and also a member of the National Bankruptcy Conference.

On my immediate left is the Honorable Clive W. Bare of the U.S. district court at Knoxville, Tenn. Judge Bare worked in the U.S. district court prior to joining the staff of attorneys in the Department of Justice with whom he served with distinction for a number of years as a judicial examiner.

Following his service in the Department of Justice he became a bankruptcy judge at Knoxville on July 1, 1957, where he now serves.

Referee Bare has been particularly concerned with the problem of usury in the Eastern District of Tennessee and one of his landmark decisions was handed down in the matter of William Sylvester Branch, debtor, bankruptcy No. 22372, Eastern District of Tennessee, June 8, 1966. This decision is published in full at page 101 of the October 1966 issue of the Journal of the National Conference of Referees in Bankruptcy. Referee Bare has since 1964 served as a member of the Seminar Committee and a discussion leader at the seminars for referees in bankruptcy held annually during the third week of March in Washington, D.C. since 1964.

On my extreme left is the Honorable James E. Moriarty of the U.S. District Court for the Central District of California at Los Angeles. Judge Moriarty is one of nine full-time referees in bank-

ruptcy at Los Angeles and, as you may know, the State of California alone has approximately 40,000 bankruptcy cases a year, just in that one State.

Referee Moriarty served from 1950 to 1958 as an attorney in the Department of Justice at Washington, D.C. in the civil, criminal, and internal security divisions. From 1958 to 1963 Referee Moriarty was an assistant U.S. attorney at Los Angeles, Calif., and was appointed referee in bankruptcy on January 21, 1963.

I would like to only briefly review the situation as it appears nationally in reference to the volume of bankruptcy cases. I cannot speak specifically to this bill policywise because it has not been considered by the Judicial Conference of the United States which is the policymaking body for the Federal judiciary and until the Judicial Conference does consider the bill and take a policy position you will understand that I cannot speak policywise with respect to it.

In the fiscal year ending June 30, 1967, a total of 208,329 bankruptcy cases were filed in this country. This is an enormous volume of business in our bankruptcy courts when you consider that at the close of World War II there were only slightly more than 10,000 cases a year filed in the country.

One of the startling things about the 208,000 cases is that 92 percent of them are filed by consumer bankrupts and only 8 percent are business cases. The increase in 1967 fiscal year was almost 16,000 cases or 8.3 percent. We had the same percentage increase in the prior year. This is the 15th consecutive year in which there has been an increase in the number of bankruptcy cases filed in our Federal courts. As a matter of fact, there has only been 1 year since World War II when there wasn't an increase over the prior year and that was in 1952 during the Korean conflict.

I have been asked about the total liabilities in these so-called consumer bankruptcy cases. We do not publish these statistics any longer because they are not strictly accurate. They were recorded in our statistics as a total of claims as filed by the bankrupts and we have learned by experience that they were not accurate. Sometimes the claims are understated, sometimes they are overstated, sometimes claims are left out entirely. But as nearly as I can estimate in the 116,407 no-asset cases closed in 1966 fiscal year, the total liabilities were $1,242,000,000. So there is a great deal of money involved in even the small no-asset consumer bankruptcy.

Now Madam Chairman and members of the committee that concludes my general statement. If there are any questions the committee members would like to ask me I will do my best to answer them.

Thank you.

Mrs. SULLIVAN. Thank you, Mr. Jackson.

I think that it might be preferable if each of the witnesses would give their statements and then let us question all of you at the same time. If there is any particular item, as you are going through your statement, that the members want to ask short questions at the moment, I think we could do it. But it might be better if we hear the statements and then begin the questioning.

Would you start, Mr. Whitehurst?

Mr. WHITEHURST. Madam Chairman, members of the committee, in view of what Mr. Jackson said I will skip my background except

to add that I am a member of the Supreme Court Advisory Committee on Bankruptcy Rules, the National Bankruptcy Conference, secretary-treasurer of the National Conference of Referees in Bankruptcy, and editor of the quarterly journal of the conference.

Title II of H.R. 11601, on page 33, prohibits garnishment of wages or salary due an employee and attaches a criminal penalty for the violation of the act.

In my opinion the enactment of this provision would result in an immediate and drastic reduction in the number of bankruptcy cases filed in the United States. It would not of course prohibit those who engage in "predatory extensions of credit" as that term is used in the bill, from pursuing their debtors and attempting to collect debts by harassment, or other direct means, or legal action outside the bankruptcy court.

Texas in its constitution and statutes has a prohibition against garnishment of current wages. The provisions of the constitution and statutes are as follows:

CONSTITUTION OF THE STATE OF TEXAS, ARTICLE 16, SECTION 28

SEC. 28. No current wages for personal service shall ever be subject to garnishment.

VERNON'S TEXAS STATUTES ANNOTATED, ARTICLE 4099

Article 4099 Current wages.

No current wages for personal service shall be subject to garnishment; and where it appears upon the trial that the garnishee is indebted to the defendant for such current wages, the garnishee shall nevertheless be discharged as to such indebtedness.

Mr. WHITEHURST. It is my considered judgment that it is the result of these prohibitions and not a mere coincidence that the bankruptcy courts in Texas have a far smaller number of wage earner cases than States of lesser populations which have severe garnishment statutes.

It has been, I believe, the finding of investigators who have studied the matter that garnishment of wages or the threat thereof triggers the filing of the great majority of no-asset wage earner cases where the only object of the proceeding is to secure a discharge in bankruptcy.

The prohibition of garnishment of current wages has by no means put loan companies out of business in Texas. To the contrary, as far as I can observe there are as many loan companies operating in Dallas as in cities of comparable size in States which have garnishment statutes.

I was in a department store the other day and saw on the cash register a big sign saying, "May I add this purchase to your account," calling attention of the salesperson to the requirement of the store, that they try to induce their customers to make purchases by credit rather than for cash.

But we do not have the flood of no-asset wage earner bankruptcy cases which they have.

(The prepared statement of Mr. Whitehurst follows:)

STATEMENT OF ELMORE WHITEHURST, REFEREE IN BANKRUPTCY, DALLAS, TEXAS

My name is Elmore Whitehurst. I am the full-time Referee in Bankruptcy for the Northern District of Texas, Dallas Division, with headquarters at Dallas, Texas. I have occupied this office for the past ten years.

For the record, my background is as follows: I graduated from Southern Methodist University with a B.A. Degree in Economics in June of 1927. The fall of the same year I was appointed by the late Hatton Sumners, then Representative in Congress from the Fifth District of Dallas, to be his secretary and served in that position for three years. In 1932 Mr. Sumners appointed me Clerk of the Judiciary Committee of the House of Representatives and I served in that position from 1932 until 1939 when I was appointed Assistant Director of the Administrative Office of the United States Courts. I served in that position until July 1, 1957, when I resigned to become Referee in Bankruptcy. I studied law in Washington and Texas and was admitted to the Bar of Texas in 1934 and to the Bar of the United States Supreme Court in 1938. I am a member of the Supreme Court Advisory Committee on Bankruptcy Rules, the National Bankruptcy Conference, Secretary-Treasurer of the National Conference of Referees in Bankruptcy, and Editor of the quarterly Journal of the Conference.

PROHIBITION OF GARNISHMENT OF WAGES

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Mr. WHITEHURST. Some of the bankruptcy referees in other States with severe garnishment laws handle 10 times as many cases in number as I have.

I have about 200 pending cases where they may have 2,000 on their docket. But that leaves me free to handle the type of cases which I think the Bankruptcy Act was really enacted to take care of. For example, at the present time through various trustees and receivers, I am operating and trying to rehabilitate with some degree of success, among other concerns, an aluminum extrusion plant, several oil companies, an ice cream factory, and an apartment house and motel.

Mrs. SULLIVAN. Thank you, Mr. Whitehurst.

Mr. Snedecor?

Mr. SNEDECOR. My name is Estes Snedecor. I live in Portland, Oreg. After practicing law in Oregon for 26 years, I was appointed referee in bankruptcy in December 1936. This is my 31st year of service in that capacity. I am a member of the National Bankruptcy Conference, a past president of the National Conference of Referees in Bankruptcy, and am now serving on the advisory committee appointed by the Chief Justice of the Supreme Court to prepare uniform rules of procedure and practice in courts of bankruptcy.

I shall confine my testimony in favor of title II of your bill, H.R. 11601 which seeks to prohibit the garnishment of wages or salary due any employee.

I think this is the most important part of your bill. I think it will be a godsend if something can be done about it.

The underlying causes of personal or consumer bankruptcies are: unemployment, overextension of credit, deficiency claims arising from repossessions of automobiles and appliances sold on contract, excessive interest rates, and unusual medical and hospital bills; but the one overriding cause precipitating consumer bankruptcies is the garnishment or threat of garnishment of wages coupled with an unrealistic wage exemption. This is dramatically demonstrated by comparing the number of consumer bankruptcies in States permitting garnishment of wages with those prohibiting garnishment entirely or restricting it to only a small portion of wages.

To illustrate, in fiscal year 1966 California had 37,545 bankruptcies while New York, with a comparable population, had only 7,462 bankruptcies. Why should there be so many in California and few in comparison in New York? It cannot be due to different economic conditions because less than 10 percent of these bankruptices represent business failures. Over 90 percent of the bankrupts are individuals whose available income is in the form of a wage or salary, referred to as consumer bankrupts.

In California, garnishment up to 50 percent of wages is permitted but the debtor must apply to the court to obtain a release of this amount of his wages. There is no automatic exemption, whereas in New York 90 percent of wages is automatically exempt. Only 10 percent is subject to garnishment at any time.

The unique feature of the New York law is that the garnishment is a continuing levy of 10 percent of the man's net wages until the creditor's judgment has been paid in full. However, only one execution and garnishment at a time may be in effect. If a second garnishment is served, it must wait until the first judgment is satisfied. In effect this law provides a simple and orderly method of satisfying old debts in installments not exceeding 10 percent of the laborer's net earnings. A similar statute is in effect in New Jersey.

New York and New Jersey have very few consumer bankruptcies. I dwell on this law because if you can't go all the way to prohibit garnishment I hope you will go as far as the New York law. Because as I say, there is 10 percent off the top only that can be applied to these old debts and it may help many wage earners to pay them out over a period of time.

A more dramatic illustration of the difference in the number of bankruptcies between States of comparable populations is displayed in a total of 32,118 bankruptcies in Ohio and Illinois as compared to only 1,951 bankruptcies in Pennsylvania and Texas. This startling difference in the number of bankruptcies must be attributed to the fact that the first-named States permit the garnishment of wages while no garnishment of wages whatsoever is permitted in Pennsylvania and Texas. Texas has gone so far as to include in its constitution that "no current wages for personal service shall ever be subject to garnishment."

For the last 120 years Pennsylvania has prohibited the garnishment of wages of any laborer or the salary of any person in public or private employment. The legislative policy expressed by this law is:

The preservation of employees and their families of the fruits of mental or manual labor in order that their earnings may go to supply their daily needs without hindrance from their creditors.

Numerous other illustrations and comparisons could be made to indicate that the number of bankruptcies filed by debtors varies according to the harshness or the liberality of the wage exemption laws of the various States.

What disturbs me most is that garnishment affords these young people some justification for wiping out their debts in bankruptcy.

I say young people because the average age of bankruptcy is 29 years and some of them come in as early as 23 and 24 and 25 years. They usually have two or three children.

Many of them come to me after court is over to say that they would have been able in time to pay the just bills if they had been given an opportunity, but repeated garnishment had prevented them from holding steady jobs. Our present laws are causing them to lose their sense of obligation. They become bitter and antagonistic toward some creditors who repossess their property and sue for deficiencies. They become discouraged after paying a long time on a small loan only to find that most of their payments have been consumed in annual interest at 36 percent on the first $300, 24 percent on the next $200, and 12 percent on the balance. Frequently in answer to an advertisement to come in and consolidate their bills, they borrow, let us say, $1,000 on their furniture and automobile, without realizing that the interest alone will begin at $18 a month and will continue at a hopelessly diminishing rate.

Statistics will show that over the years the number of consumer bankrupts increased in about the same proportion as the rise in consumer debt. The record low in the number of bankruptices occurred in fiscal year 1946 at the peak of World War II expenditures accompanied by rationing and credit restrictions. Only 10,000 bankruptcies were filed in that year while consumer debt amounted to only $6 billion. Fiscal year 1966 produced 192,354 bankruptcies while consumer debt rose to $90,650 million.

It is now $94 billion. That was in 1966.

In our expanded economy based almost entirely upon credit, consumers, no matter how improvident some may be, must be free to deal with their creditors in such a way as to meet their daily needs in the

proper rearing of their children. This, they cannot do when one or two creditors insist upon being paid first by garnishing their wages.

Consumers throughout the Nation should be given an equal opportunity of working out their credit problems without being driven to desperation and bankruptcy through garnishment of wages.

May I just point out one or two illustrations to show you how bad it is in Oregon, Oregon, by the way, has one of the highest per capita percentage of bankruptcies in the country. And the garnishment of wages is 50 percent.

Just the other day I had a bankrupt in court whose back was broken 3 years ago in an industrial accident. For over two years he and his family had existed on compensation from the industrial accident commission. Then for 6 months or more, on job training he became skilled for technical indoor work. Very soon after he obtained full-time work and was rehabilitated and was released from the accident commission his salary was garnished and being unable to maintain his family and meet the debts of his past misfortunes he resorted to bankruptcy in order to obtain a new start in life.

It is not unusual for a collection agency to garnish the wages of some handicapped person trying to earn his living at the Goodwill Industries in Portland. In fact, the welfare commission sometimes will pay the filing fee for a bankrupt in order that he can get a new start in life to rehabilitate him.

Thank you very much.

Mrs. SULLIVAN. These are the things, Mr. Snedecor, that I am glad you brought out. It is such examples as these that have shocked many of us. I just want to ask one think at this point.

One of our members of this subcommittee from Pennsylvania, Mr. Williams, has indicated in his questioning of some of the previous witnesses that elimination of garnishment would work a hardship on business and would deny credit to people who need it most.

Now, his State, according to what you have said, Mr. Snedecor, has had such a ban for how long?

Mr. SNEDECOR. 120 years.

Mrs. SULLIVAN. I am sorry he is not here today.

Mr. SNEDECOR. Not even the bankers or small loan companies that use garnishment to such an extent. It is collection agencies who take the dregs from our overexpanded economy, things that have been charged off and particularly deficiency judgments and put in the hands of a collection agency for 50 percent of the amount they can collect. That's where all of this comes from.

Mrs. SULLIVAN. Is that the same as a confession of judgment?

Mr. SNEDECOR. No, a deficiency is where they take the automobile and sell it out wholesale and then sue for the balance of the purchase price plus attorney's fees because that is in there, too. And often those deficiency judgments will be $1,500 on an automobile.

Mrs. SULLIVAN. Some of the questions that I wanted to ask you have been partially answered but I am going to read into the record now so that when you read the transcript you can elaborate upon the things that you have mentioned in your statement. I will just read these into the record and have you answer in writing.

I wonder if you gentlemen or you, Mr. Snedecor, could provide us with some basic information as to the type of individuals or families

that end up before you in personal bankruptcy cases. You answered this partially.

Generally speaking, how old is he, what is his income level? I think this is most important. What are his responsibilities in terms of family—you mentioned some two or three children.

In a recent study published by Michigan State University entitled "An Analysis of Economic and Personal Factors Leading to Consumer Bankruptcy," by Robert Dolphin, Jr., it is stated that 80 percent of the bankrupt individuals interviewed indicated that they had been threatened with garnishment and further, that 75 percent of them indicated that actual garnishment or the threat of garnishment was their reason for filing for bankruptcy. We would like to have your comment on that conclusion.

You can file that for the record or if you can just answer this last question quickly, whichever you prefer. I think maybe you can file it, it might be a little more in detail.

Mr. SNEDECOR. You prefer that I should file it?

Mrs. SULLIVAN. Yes.

Mr. SNEDECOR. All right.

(The information referred to follows:)

Many bankrupts in Oregon are women whose husbands have deserted and left them with children to support and a burden of old family debts. When their wages are garnished they are compelled to file bankruptcy in order to preserve their earnings and jobs for the benefit of themselves and their children. In my experience in dealing with state legislatures, it is difficult to obtain relief on the state level from garnishment of wages or to reduce interest rates on consumer loans. In state legislatures the consumer has no one to represent him, while the loan companies and collection agencies maintain powerful lobbies throughout the sessions.

For this reason it is my hope that your Committee will recommend federal legislation, either by one bill or separate bills, to prescribe uniform interest rates and prohibit garnishment of wages.

From what I have learned from other states, particularly Pennsylvania, the credit losses on consumer loans are not any greater in states prohibiting the garnishment of wages.

Mrs. SULLIVAN. I see that Mr. Bare has some of this information in his statement. Let's go on with Mr. Bare.

Mr. BARE. Madam Chairman, I am Clive W. Bare, referee in bankruptcy for the eastern district of Tennessee with headquarters at Knoxville. I have served as referee for the past 10 years and during that time have handled more than 10,000 bankruptcy proceedings.

Within the past few years Tennessee has achieved a rather dubious distinction. It has become one of the leading States in the filing of bankruptcy petitions. During the fiscal year ending June 30, 1967, Tennessee with 10,295 new cases ranked fifth in total filings among the 50 States in the country. Only debtors residing in California, Illinois, Ohio, and Alabama filed more bankruptcy petitions than debtors residing in Tennessee. Ninety percent of all cases filed were employee-type bankruptcies as distinguished from business failures.

The principal reason for the large number of bankruptcy cases filed in Tennessee is that the garnishment of wages is permitted. Tennessee not only permits the garnishment of wages but its wage exemption statute is one of the lowest in the United States.

I believe the impact of wage garnishments on bankruptcy cases can best be illustrated by pointing out the vast difference in the number of

filings in Tennessee and North Carolina. These States are similar in many respects—size, population, total income, and both have an agricultural and industrial economy. North Carolina, however, does not permit the garnishment of wages and in that State last year only 402 cases were filed. As heretofore mentioned, there were 10,295 new cases filed in Tennessee during the same period. Compare the number of filings in these two States and the impact of wage garnishments on bankruptcy becomes crystal clear.

A comparison of bankruptcy filings in Tennessee with some other States that prohibit the garnishment of wages also indicates the extent that wage garnishments play. During the last fiscal year filings in South Carolina totaled 155 cases; Florida 1,514 cases; and Texas 1,103 cases.

In Tennessee prior to July 1, 1967, only $17 per week was exempt from wage garnishments to the head of a family. The statute also provided a weekly wage exemption of $2.50 for each dependent child. Thus, a married man with four children had a weekly wage exemption of $27.

Effective July 1, 1967, a new wage garnishment exemption statute became effective in Tennessee which provides an exemption to the head of a family of 50 percent or $20 per week, whichever is greater, subject to a maximum total exemption of $50 per week. The $2.50 additional exemption for each dependent child was not changed. Thus, the head of a family with four dependent children earning $60 a week now has a total weekly wage exemption of $40. This figures out to a yearly exemption of $2,080 which is considerably below the so-called poverty level.

The garnishment of wages, in effect, makes the debtor's employer a collection agency for creditors. I am informed that more than 1,000 garnishments per month are issued by the general session court in Knox County. I have also been informed that under the prior law it cost an employer an average of $7 in time and expense to answer a garnishment. If this figure is representative, then wage garnishments in Knox County alone have been costing employers some $84,000 per year. Under the exemption statute now in effect, this cost will probably increase as employers are required to submit substantially more information to the court issuing the garnishment than under the former statute.

I have listed in my paper the information that is actually submitted to the court.

This information consists of a statement showing—

(1) Gross amount earned by the employee;

(2) Amount of social security and withholding tax;

(3) Net amount due the debtor; and

(4) A statement signed by the debtor (*a*) claiming as exempt wages in such amount as may be allowable; (*b*) stating that he is a resident of the State of Tennessee; (*c*) stating that he is married and living with his spouse if such be the case; and (*d*) stating the number of dependent children.

I understand that employers are quite concerned with the additional work involved in answering garnishments. Some employers are reported to be considering firing an employee if his wages are attached.

This practice has been followed by many employers in the past. Some permit one or two garnishments without disciplinary measures but others will immediately discharge an employee when a garnishment is served.

My examination of bankrupts at first meetings of creditors disclose that between 60 and 70 percent of bankruptcy filings are the direct result of wage garnishments. Many individuals are being driven into bankruptcy who actually owe relatively small sums, but whose wages are under attachment. They are financially overextended but if given an opportunity to pay their debts could do so within a reasonable period of time. The triggering cause of bankruptcy is the wage garnishment.

I have often wondered whether companies seeking new locations prefer to locate in States where wage garnishments are not permitted. This seems logical as there can be no doubt but that garnishments are disrupting and costly both to the employer as well as to the employee.

I have often heard it said, principally by collection agencies, that creditors could not collect their debts unless wage garnishments are permitted. This premise is apparently not true in those States where wage garnishments are not permitted since their economic growth equals or exceeds that of Tennessee where wage garnishments are permitted. Nor do I believe it would be true if wage garnishments are prohibited by an act of Congress. It would result, however, in a more judicious extension of credit. Clearly too much credit is being extended today and too many loans are being made not on the basis of the debtor's character, integrity, or ability to pay but solely because the lender or creditor knows that if debtors do not pay, their wages can be attached.

My conclusion in this respect is fully supported by a survey made some years ago by the Chattanooga Retail Credit Men's Association in which they reviewed in detail some 200 bankruptcy cases. Their report indicates that only 8 percent of the bankrupts covered in that survey had a good credit rating; 92 percent had either a poor or fair rating. Yet credit was extended to those individuals to such an extent that bankruptcy resulted. One of the association's conclusions is as follows:

> Some tradesmen appear inclined to extend credit more on the strength of the fact that they can sue and garnishee than they would be, were it not possible to enforce payment in this manner.

If wage garnishments are prohibited, the inclination to oversell or overlend would not be so prevalent. I have observed hundreds of bankruptcy cases where five or 10 loan companies hold hundreds of dollars of loans against the same household furniture which, if foreclosed upon, would have almost no value. These loans were made not on the debtor's ability to repay or the security which had been pledged but simply because the loan companies knew that the debtor's wages could be attached if he did not pay.

If consumers are not loaded down beyond their capacity to repay, they will have funds available to pay their legitimate debts. I firmly believe that the vast majority of bankrupts really want to pay their debts but, because of low sales resistance and garnishment statutes, they find themselves in an impossible situation and, once wage garnish-

ments commence, their only hope is to seek relief from the bankruptcy court.

From my observation of individuals filing bankruptcy petitions in Knoxville, I believe the following reports a fairly accurate picture: 80 percent are men, 20 percent are women; 81 percent are married, 15 percent are divorced; 4 percent are single, 90 percent are blue-collar workers; 15 percent had filed bankruptcy petitions before median age 30. Median education, 10th grade. Average income, $60 per week. Average number of dependents, 4. Average indebtedness, $4,000.

The $60 average income of bankrupts indicates that it is the lower income group that is resorting to the bankruptcy court for relief, that it is this group generally whose wages are being attached. In other words, the individuals whose wages are being garnisheed are the very individuals whose total wages are required for the payment of necessary living expenses: food, clothing, shelter, and medical expenses.

I would like to point out three examples which have come before the bankruptcy court, not necessarily pertaining to garnishment but dealing with consumer credit protection. These were actual cases that appeared in bankruptcy court dealing principally with the loan transactions in Tennessee.

In Tennessee the "flipping" of loans is not illegal. In 1958 the final report of the legislative counsel of the 80th general assembly had this to say about such practice:

> Industrial loan and thrift companies freely engage in the practice of "flipping" whereby a borrower who has repaid a portion of a loan is allowed to make or is enticed to make another loan whereupon the new loan is set up combining the new amount with the old balance on which all allowable charges have already been made, and the full amount of allowable charges is again imposed on the new balance.

Here are some of the results of flipping of loans.

First example: A widow with $60 weekly income borrowed $1,685.72 repayable in monthly installments over a 3-year period. She was charged interest amounting to $427.68; investigation fees, $117.79; insurance premiums, $232.85; or a total charge of $776 on a $1,685 loan.

Another example: A divorcee with a 2-year old daughter to support earning $52 a week negotiated three loans with the same loan company within a period of 4 months and received a total of $347.06. The cost of these loans was $252.94.

Third example: The debtor negotiated five loans with one company during a period of 11 months and received the total sum of $1,548.02. Interest charges on these loans amounted of $716.58; investigation charges $185.04; insurance premiums, life, accident and health and property insurance, $678.41; and recording fee, $9.50. Thus for receiving the sum of $1,548.02 the debtor obligated himself to repay $3,137.55. The debtor was a blue-collar worker earning some $50 a week. That case came before me in a chapter XIII proceeding in which I went into all these charges, wrote an opinion and reduced the loan company's claim from some $2,900 to $1,511.01. I would like to file a copy of that opinion.

Mrs. SULLIVAN. Without objection we will put it in the record.

(The opinion referred to may be found in the appendix, p. 962.)

Mr. BARE. In "An Analysis of Economic and Personal Factors Leading to Consumer Bankruptcy" prepared by the Bureau of Busi-

ness & Economic Research of Michigan State University the following conclusion should be noted.

> * * * of the bankrupts interviewed, 80 percent indicated that they had been threatened with garnishment. For many debtors, garnishment may mean short-term or long-term loss of income. Often the exemptions do not provide enough take-home pay to live on until the next pay check. Furthermore, if garnishment causes loss of employment, many debtors find it difficult to find new jobs. Faced with such bleak possibilities, debtors may find the threat of garnishment as frightening as actual garnishment. Of the bankrupts interviewed, 75 per cent indicated that garnishment or threat of garnishment was the reason for their filing for bankruptcy. There is little doubt that an individual in Michigan undergoes severe financial strain when garnisheed.

The proposed finding expressed in section 201 of H.R. 11601 that the garnishment of wages is frequently an essential element of predatory extensions of credit and that the resulting disruption of employment, production, and consumption constitutes a substantial burden upon interstate commerce is in my opinion fully justified. Remedial action should be taken.

Mrs. SULLIVAN. Are there any of these kind of examples ever written up in the press to let people know what is happening?

Mr. BARE. The local press, the papers in Knoxville have carried extensive stories on this opinion and on other opinions which I have written dealing with the same matter.

In the last legislature a bill was introduced to prohibit the flipping of loans, but the bill was not enacted. The report of the legislative committee was made in 1958. Flipping of loans still has not been prohibited.

Mrs. SULLIVAN. I am afraid the people who go in debt and borrow in this manner and pay such exorbitant charges probably would never read the story if it would appear.

Mr. BARE. Chances are they would not, that's true.

Mrs. SULLIVAN. This is the kind of thing we want to bring out. I am sorry we don't have the audience here today that we have had in the past seven hearings, because these are the stories that people need to hear, and need to know. I don't think I have read—and I do read the papers carefully—I haven't read examples like this in the newspapers. We have to go into the courts to find out the details and to find out about the horrors people are going through.

Mr. BARE. These are not isolated examples. There was a case that came before the Court of Appeals in Tennessee not too long ago involving this same question, the "flipping" of loans. I have a copy of their opinion and I would also like to file it. My opinion was based upon the opinion handed down by the Court of Appeals in Tennessee.

Mrs. SULLIVAN. Without objection we will make it part of the record.

(The opinion referred to may be found in the appendix, p. 971.)

Mrs. SULLIVAN. There is one other survey you mentioned.

Mr. BARE. I mentioned the survey which you referred to, the Credit Men's Association.

Would you like to have a copy of that?

Mrs. SULLIVAN. Yes. We will make that part of the record.

(The survey referred to may be found in the appendix, p. 974.)

Mr. BARE. I also mentioned in my prepared statement the conclusion reached in an analysis of economic and personal factors leading to consumer bankruptcy which you referred to.

Mrs. SULLIVAN. Yes; that is already inserted in the record. Thank you very much.

Now we will hear from Mr. Moriarty.

Mr. MORIARTY. Madam Chairman, as Mr. Jackson said, I am one of nine referees serving in the U.S. District Court for the Central District of California.

I served in the Department of Justice for some years, ending up as chief assistant U.S. attorney for the southern district of California. My entire legal career has been in the service of Federal Government.

Since becoming a referee in 1963 I have devoted a considerable amount of my free time, which is not very much to helping the neighborhood legal services and the Legal Aid Society in working with the unfortunate people who cannot even afford to pay for the services of an attorney.

In the 4½ years that I have served as a referee I have handled 8,210 bankruptcy matters. Of this number, approximately 90 percent, or roughly 7,500, have been what may be referred to as straight bankruptcies filed by wage earners. It is my understanding that it is in this area that the committee is most interested. It has been my experience that most persons seeking the protection of the Bankruptcy Act come before the courts because of excessive medical bills, lack of employment, domestic discord, easy credit, and other factors. While it may sound strange, we had a very nasty experience several years ago in which certain debt consolidating firms, or proraters, actually caused a number of persons to come to the bankruptcy court for aid.

They would bring these people in, charge them $300, give them a pro forma-type budget, and say this is what you are supposed to do. Eventually all of them ended up in the bankruptcy court to get relief, including the $300 they owed the prorating firm. So you never can tell what is going to bring a person to bankruptcy.

Basically it is the ones that I set forth.

I am sure that each member of the committee is well aware of the series of articles written by Miss Miriam Ottenberg, which appeared in the Washington Star within the last 6 months. This series of articles dealt with the vicious procedures used by many debt-consolidating firms.

Mrs. SULLIVAN. She has done an excellent job of bringing these issues to the public's attention.

Mr. MORIARTY. California, and particularly the central district of California, which encompasses the metropolitan area of Los Angeles, has been referred to as the bankruptcy capital of the world. The figures support this dubious honor.

You heard some of my colleagues refer to the great number of bankruptcies we have. I don't mean to be defensive but these figures give us this dubious honor. Referee Bare has a long way to catch up with us but I hope he never does.

But the figures do not tell the entire story. It has long been the practice of the State of California, dating back to the days immediately following World War I, that persons, particularly servicemen, were encouraged to come and settle in California and were given certain tax incentives on their residential property. This policy has continued to this day. With the conclusion of World War II many of our

fighting men, having spent time in California either in training or in transit to the Pacific theater of operations, found in California a way of life they desired, and at the conclusion of World War II the influx of new residents reached its peak. This steady flow of persons has continued to this date. We have welcomed these people and they have made our State the most populous in the Nation and they have contributed much to the industrial growth of California.

Many of our new citizens came to California without jobs and heavily in debt, so we inherited the problems that they thought they left behind. From personal experience I can state that I have presided at hearings on a bankrupt's petition in which not one single California creditor was listed.

They came back from the East—Oklahoma, Michigan, Virginia—we have had them. The creditors finally catch up with them and they seek to collect their moneys. So, we get those kind of people very frequently.

Of equal importance has been the relaxing of credit restrictions. In my opinion, perhaps the most frequent cause of bankruptcies is the relaxing of credit restrictions.

Individual debt, not so long ago discouraged and regarded with suspicion, is now encouraged. More than encouraged; debt today is merchandized as extensively and skillfully as any commodity, notwithstanding occasional pious reminder to "never borrow money needlessly." The communication media that touches a family's life constantly urges it to buy on "easy" terms, to open charge accounts with "nominal" monthly service charges, to get a new car at "bank" terms, travel now and pay later—whether the family can afford it or not.

Many researchers in the field of consumer credit have concluded that a person can become addicted to excessive credit buying just as one becomes addicted to alcohol, narcotics, or gambling.

I would like to relate one very intersting experience which points up how easy it is to obtain credit. I think this applies nationwide, not only to California.

Shortly after I became a Referee in Janauary 1963, I had a hearing on a bankrupt's petition. The bankrupt was a seaman second class stationed at the Long Beach Naval Shipyard. He listed approximately $2,000 in debts, of which over $1,700 was owing to one of the better known department stores in Long Beach. During the course of the examination of the bankrupt the court inquired as to the nature of this indebtedness and was advised by the bankrupt that between December 1 and December 15, 1962, he had purchased over $1,700 worth of merchandise to be sent to his relatives and friends back East as Christmas presents. While you might say that the gentleman had a little larceny in his heart, I think you might have some criticism of the department store for being so lax in their credit procedures.

As a referee I do not like to see creditors sustain losses but I must conclude that in most cases the creditor has in many respects created the very problem from which his loss arose. Each of us are paying for these losses when we pay our monthly bills. The creditor merely adds to the normal price a sum sufficient to write off these losses.

Reference is now made to some specific California statutes which relate to the legislation before this committee.

In the recent session of the State legislature which has just completed its deliberations, several bills were introduced to tone down the effect of garnishment of wages. The fight for this legislation was led by freshmen members of the assembly.

One bill that was not reported in my prepared statement—as you know, our legislature didn't adjourn until early Monday morning and in getting the material together one bill was omitted. This bill, introduced by Assemblyman Burton, of San Francisco, which had for its purpose the abolishing of garnishments and it never was reported out of the committee.

A bill, introduced by Assemblyman David Roberti, had for its purpose the prohibition against discharging an employee due to the garnishment of wages. This bill passed the assembly but was defeated on the floor of the Senate. Another bill, introduced by Assemblywoman Yvonne Brathwaite, passed the assembly by one vote but was killed in the senate finance committee. This latter bill originally provided for the exemption of one-half of "net earnings" or the first $100, which ever is greater. A 50-percent exemption is our current law.

By amendment the term "net earnings" was deleted and the $100 limitation was reduced to $70. This bill would also have prohibited garnishment of wages before judgment.

I have talked with members of the legislature and have been advised that opposition to these bills came from collection agencies, small jewelry shops, and neighborhood furniture stores. There was no noticeable opposition from banks, doctors, small-loan companies—one actually endorsed the amended bill which passed the assembly—or department stores.

The current failure came after an assembly interim judiciary committee studied the subject and concluded:

(A) revision of the law which will increase the debtor's protection by way of exemption and which will make that protection more modern and equal will be to benefit to both debtors and creditors. This conclusion reflects the underlying fact that neither debtor nor creditor benefits when the debtor is financially crippled. A more powerful exemption law will help keep the debtor from sinking further into a financial abyss and losing his job. At the same time it will protect the creditors to the extent that it allows the debtor to keep going and to avoid bankruptcy. Incidental credit grantors such as doctors, lawyers and small businessmen lose when a small loan company garnishees wages and causes the debtor to be fired or run for bankruptcy. A law with more exemption protection will encourage the commercial credit grantors to be more careful in choosing their credit risks. If the creditor will do this, he will reduce his bad debt losses. This induced care may result in some reduction of overall credit granted, but the reduction will probably be small and will be justified by the decrease in human misery caused by extreme credit problems. Finally, an exemption law can be tailored to encourage the debtor to find a program which will help him to find his way out of a bad financial situation and into a better one.

The Judiciary Committee report made no specific proposals.

In my prepared statement I also refer to the study made by George Brunn, which I understand the committee had full access to prior to my furnishing a copy so I would not make too much reference to that.

This comprehensive study by George Brunn was published in the California Law Review, December 1965, volume 53, No. 5, page 1214. The Brunn report included an analysis of court records in San Francisco. There is attached to this statement an analysis of civil court filings of the Los Angeles Municipal Court.

The effect of a garnishment can be devastating to a debtor. Most employers dislike garnishments because of the extra work and cost. As a matter of policy many employers will fire an employee after the second garnishment. Since California law permits multiple levies a worker could be fired within an 8-day period, the time necessary to cover two weekly pay periods. Not only does this challenge the ability of the worker to provide for the family needs, but a worker who has been fired because of garnishment can become a faceless person in the army of the unemployed. He may be a well-qualified machinist whose talents are in demand, but he is unemployable.

At a time when skilled employees are in great demand we must conclude that the exclusion of such a worker from our work force is a great waste of manpower.

I would like to skip the next few items if I may and go over to the exemption provision which I think is more germane.

Mrs. SULLIVAN. The entire statement will be placed in the record.

Mr. MORIARTY. I was not sure when I prepared this just what the committee had in its own files at the time.

The exemptions granted under our State laws to a debtor are generally liberal and it has been the policy of our courts, both State and Federal, to give these exemption statutes a liberal interpretation and to avoid forfeiture of these rights if, at all, possible. Briefly, a debtor's property which is exempt from execution includes in part: a homestead (husband and wife) $15,000; deposits in qualified savings and loan associations $1,000; deposits in credit associations $1,500; one automobile of a value not in excess of $350 (this exemption has recently been increased to a value of $1,000 with an equity of $350); household furniture commensurate with the debtor's station in life; clothing and personal effects.

When we get to the exemption of wages we find that California appears to lag behind many of her sister States. Under section 690.11 of the California Code of Civil Procedure the exemption for wages is one-half of the debtor's earnings. While there are provisions under section 690.26 that enable the wage earner to claim the entire salary as exempt, the difficulty and cost is often a bar to such relief. Except for the rare case, 50 percent of the wage earner's salary is subject to garnishment, attachment, or execution.

It was not until 1955 that one-half of the debtor's wages became automatically exempt. Prior thereto the debtor had to file an affidavit of exemption with the levying officer in order to obtain any exemption at all.

Because of the shortness of time I was unable to confer with a spokesman for the Commission on Uniform State Laws. Prof. William Warren of the School of Law of the University of California at Los Angeles is active on a committee which is drafting a model uniform statute dealing with consumer credit. It is my understanding that the model statute will cover some of the problems included in H.R. 11601. Professor Warren is on vacation and perhaps when he returns I can provide the committee with additional comments on this study.

Mrs. SULLIVAN. I wish you would do that.

Mr. MORIARTY. Perhaps you have been in touch with these people but I would be very happy to follow this up with some further written documentation for you.

Mrs. SULLIVAN. I wish you would do that.

Mr. MORIARTY. I have delivered to the committee the following documents:

1. Pertinent section of the California Civil Code (Unruh Act) relating to credit sales.

2. The complete text of the Rees-Levering Act; California Automobile Sales Finance Act.

3. Pertinent section of the California Financial Code relating to small loan companies.

4. Pertinent sections of the California Code of Civil Procedure relating to wage exemptions.

5. Pertinent sections of the California Labor Code relating to assignment of wages.

6. Wage garnishment in California: A study and recommendations—California Law Review article by George Brunn.

7. Miscellaneous reports and papers relating to recent legislative efforts to liberalize the wage exemption.

(The documents referred to may be found in the appendix, p. 980.)

(The complete statement of Mr. Moriarty follows:)

STATEMENT OF JAMES E. MORIARTY, REFEREE IN BANKRUPTCY, U.S. DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA

Madam Chairman, I am James E. Moriarty, Referee in Bankruptcy, serving the United States District Court for the Central District of California. I have been a Referee in Bankruptcy since January 21, 1963. Prior thereto I had devoted my entire legal career to the service of the Federal Government, serving in many legal capacities. My presence here today is to assist, as best I can, the Committee in its consideration of HR 11601, which is known as the "Consumer Credit Protection Act."

I would like to state at the outset that the position I hold does not permit me to make a policy recommendation for or against the pending legislation since this is solely within the jurisdiction of the Judicial Conference of the United States. However, I would like to relate to the Committee my experiences as a Referee as it is pertinent to the legislation under consideration.

In the four-and-one-half years that I have served as a Referee I have handled 8,210 bankruptcy matters. Of this number approximately 90%, or roughly 7,500, have been what may be referred to as straight bankruptcies filed by wage earners. It is my understanding that it is in this area that the Committee is most interested. It has been my experience that most persons seeking the protection of the Bankruptcy Act come before the Courts because of excessive medical bills, lack of employment, domestic discord, easy credit, and other factors. While it may sound strange, we had a very nasty experience several years ago in which certain debt consolidating firms, or pro raters, actually caused a number of persons to come to the Bankruptcy Court for aid. I am sure that each member of the Committee is well aware of the series of articles written by Miss Miriam Ottenberg, which appeared in the Washington Star within the last six months. This series of articles dealt with the vicious procedures used by many debt consolidating firms.

California, and particularly the Central District of California, which encompasses the metropolitan area of Los Angeles, has been referred to as the bankruptcy capital of the world. The figures support this dubious honor. But the figures do not tell the entire story. It has long been the practice of the State of California, dating back to the days immediately following WWI, that persons, particularly servicemen, were encouraged to come and settle in California and were given certain tax incentives on their residential property. This policy has

continued to this day. With the conclusion of WWII many of our fighting men, having spent time in California either in training or in transit to the Pacific theatre of operations, found in California a way of life which they desired; and at the conclusion of World War II the influx of new residents reached its peak. This steady flow of persons has continued to this date. We have welcomed these people and they have made our State the most populous in the nation and they have contributed much to the industrial growth of California.

Many of our new citizens came to California without jobs and heavily in debt, so we inherited the problems that they thought they left behind. From personal experience I can state that I have presided at hearings on a Bankrupt's petition in which not one single California creditor was listed.

Of equal importance has been the relaxing of credit restrictions. Individual debt, not so long ago was discouraged and regarded with suspicion, is now encouraged. More than encouraged, debt today is merchandized as extensively and skillfully as any commodity, notwithstanding occasional pious reminder to "never borrow money needlessly". The communication media that touches a family's life constantly urges it to buy on "easy" terms, to open charge accounts with "nominal" monthly service charges, to get a new car at "bank" terms, travel now and pay alter—whether the family can afford it or not.

Many researchers in the field of consumer credit have concluded that a person can become addicted to excessive credit buying just as one becomes addicted to alcohol, narcotics or gambling.

I would like to relate one very interesting experience which points up how easy it is to obtain credit. Shortly after I became a Referee in January 1963, I had a hearing on a Bankrupt's petition. The Bankrupt was a Seaman 2/c stationed at the Long Beach Naval Shipyard. He listed approximately $2,000 in debts of which over $1,700 was owing to one of the better known department stores in Long Beach. During the course of the examination of the Bankrupt the Court inquired as to the nature of this indebtedness and was advised by the Bankrupt that between December 1 and December 15, 1962, he had purchased over $1,700 worth of merchandise to be sent to his relatives and friends back East as Christmas presents. While you might say that the gentleman had a little larceny in his heart, I think you might have some criticism of the department store for being so lax in their credit procedures.

As a Referee I do not like to see creditors sustain losses but I must conclude that in most cases the creditor has in many respects created the very problem from which his loss arose. Each of us are paying for these losses when we pay our monthly bills. The creditor merely adds to the normal price a sum sufficient to write-off these losses.

Reference is now made to some specific California Statutes which relate to the legislation before this Committee

GARNISHMENTS

In the recent session of the State Legislature which has just completed its deliberations, several bills were introduced to tone down the effect of garnishment of wages. The fight for this legislation was led by freshmen members of the Assembly.

One bill, introduced by Assemblyman David Roberti, had for its purpose the prohibition against discharging an employee due to the garnishment of wages. This bill passed the Assembly but was defeated on the floor of the Senate. Another bill, introduced by Assemblywoman Yvonne Brathwaite, passed the Assembly by one vote but was killed in the Senate Finance Committee. This latter bill originally provided for the exemption of one-half of "net earnings" or the first $100, whichever is greater. By amendment the term "net earnings" was deleted and the $100. limitation was reduced to $70. This bill would also have prohibited garnishment of wages before judgment.

I have talked with members of the Legislature and have been advised that opposition to these bills came from collection agencies, small jewelry shops and neighborhood furniture stores. There was no noticeable opposition from banks, doctors, small loan companies (one actually endorsed the amended bill which passed the Assembly) or department stores.

The current failure came after an Assembly Interim Judiciary Committee studied the subject and concluded:

"[A] revision of the law which will increase the debtor's protection by way of exemption and which will make that protection more modern and equal

will be of benefit to both debtors and creditors. This conclusion reflects the underlying fact that neither debtor nor creditor benefits when the debtor is financially crippled. A more powerful exemption law will help keep the debtor from sinking further into a financial abyss and losing his job. At the same time it will protect the creditors to the extent that it allows the debtor to keep going and to avoid bankruptcy. Incidental credit grantors such as doctors, lawyers and small businessmen lose when a small loan company garnishes wages and causes the debtor to be fired or run for bankruptcy. A law with more exemption protection will encourage the commercial credit grantors to be more careful in choosing their credit risks. If the creditor will do this, he will reduce his bad debt losses. This induced care may result in some reduction of overall credit granted, but the reduction will probably be small and will be justified by the decrease in human misery caused by extreme credit problems. Finally, an exemption law can be tailored to encourage the debtor to find a program which will help him find his way out of a bad financial situation and into a better one.

"The Judiciary Committee report made no specific proposals."

Also, a comprehensive study by George Brunn was published in the California Law Review, December 1965, Vol. 53, No. 5, page 1214. The Brunn Report included an analysis of Court records in San Francisco. There is attached to this statement an analysis of Civil Court Filings of the Los Angeles Municipal Court.

The effect of a garnishment can be devastating to a debtor. Most employers dislike garnishments because of the extra work and cost. As a matter of policy many employers will fire an employee after the second garnishment. Since California law permits multiple levies a worker could be fired within an eight-day period, the time necessary to cover two weekly pay periods. Not only does this challenge the ability of the worker to provide for the family needs, but a worker who has been fired because of garnishment can become a faceless person in the army of the unemployed. He may be a well-qualified machinist whose talents are in demand, but he is unemployable.

At a time when skilled employees are in great demand we must conclude that the exclusion of such a worker from our work force is a great waste of manpower.

CREDIT SALES

The State of California has enacted legislation that has for its purpose the protection of the debtor who must resort to credit buying or credit financing. In 1960 the Unruh Act (Civil Code 1801 et seq.) was passed by the legislature.

Perhaps the most important provision is Section 1812.5 which prohibits deficiency judgments resulting from repossession and sale of personal property. Section 1803.1, 1803.2, 1803.3, 1804.4, 1803.5, 1803.6 and 1803.7 contain provisions relating to "Truth in Sales".

AUTOMOBILES

In the purchase of automobiles the Rees-Levering Act (Civil Code 2981, et seq.) has given the purchaser certain protection. Unlike other credit sales, the buyer is liable for any deficiency resulting from a repossession and sale (cc. Section 2983.2). Such deficiencies frequently constitute a sizeable part of the debts listed by bankrupts.

SMALL LOANS

In the area of small loans (Financial Code Section 24000 et seq.) Sections 24411, 24412, 24413 and 24414, the "Truth in Lending" provisions give the borrower some protection. Section 24452, as amended, sets forth the maximum charges. It cannot be said that these provisions make the full disclosure that is sought by the provisions of H.R. 11601.

EXEMPTION

The exemptions granted under state law to a debtor are generally liberal and it has been the policy of our courts, both state and federal, to give these exemption statutes a liberal interpretation and to avoid forfeiture of these rights if, at all, possible. Briefly, a debtor's property which is exempt from execution includes in part; a homestead (husband and wife) $15,000.; deposits in qualified savings and loan associations $1,000.; deposits in credit associations $1,500.; one automobile of a value not in excess of $350.; (This exemption has recently been in-

creased to a value of $1,000, with an equity of $350.); household furniture commensurate with the debtor's station in life; clothing and personal effects.

When we get to the exemption of wages we find that California appears to lag behind many of here sister states. Under Section 690.11 of the California Code of Civil Procedure the exemption for wages is one-half of the debtor's earnings. While there are provisions under Section 690.26 that enable the wage earner to claim the entire salary as exempt, the difficulty and cost is often a bar to such relief. Except for the rare case, fifty percent (50%) of the wage earner's salary is subject to garnishment, attachment or execution.

It was not until 1955 that one-half of the debtor's wages became automatically exempt. Prior thereto the debtor had to file an affidavit of exemption with the levying officer in order to obtain any exemption at all.

Because of the shortness of time I was unable to confer with a spokesman for the Commission on Uniform State Laws. Professor William Warren of the School of Law of the University of California at Los Angeles is active on a committee which is drafting a model uniform statute dealing with consumer credit. It is my understanding that the model statute will cover some of the problems included in H.R. 11601. Professor Warren is on vacation and perhaps when he returns I can provide the Committee with additional comments on this study.

DOCUMENTS SUBMITTED

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ANALYSIS OF CIVIL COURT FILINGS OF LOS ANGELES MUNICIPAL COURT

I. INTRODUCTION

Attachments by way of wage garnishments represent a large percentage of the problems brought to the offices of those assisting the indigent.

This and obviously related problems motivated a group to run a search of the Civil Court files of the Los Angeles Municipal Court (one of twenty-six Municipal Court Divisions in Los Angeles County) in relation to the nature of suits filed.

There was no preconceived idea as to what such a search might reveal; but, in part, it was thought that such a search would confirm in most respects the findings of a study by George Brunn, "*Wage Garnishment in California: A Study and Recommendations*", December 1965 California Law Review, Vol. 53, No. 5, and would assist this Committee in consideration of AB 457.

II. COMPILATION OF CIVIL FILINGS

Cases filed in the Los Angeles Municipal Court (fiscal year July 1 to June 30) were:

	Total cases	Percentage
1963–64	95,577	[1] 92
1964–65	102,163	[1] 85
1965–66	107,616	[1] 84

[1] These percentages of cases were contractual in nature; the balance covers auto accidents, conversion of properties, unlawful detainer, mechanic liens, and related "wrongs." (Figures from Los Angeles Municipal Court public reports.)

During the corresponding period of time, the Los Angeles County Marshal's Office made attempts to levy on debtors, or persons holding debtor's funds as follows:

	Times
1963–64	108,201
1964–65	114,972
1965–66	127,762

These figures are maintained by the Marshal's Office, but whether such attempt to reach the debtor's fund were successful is not recorded for percentage determination.

III. RANDOM SAMPLING OF CIVIL FILE

The cases filed in the Los Angeles Municipal Court during the first quarter of 1965 indicated:

	Number	Percent
Contract action	21,786	80.5
Torts (auto accident)	3,031	11.2
Unlawful detainer	1,266	4.5
Other		3.8
Total cases filed	27,080	100.0

Source: Above figures from Los Angeles Municipal Court public records.

A. The random sampling of this quarter[1] indicated that 84% of the cases *reviewed* were based on contractual obligations; and, of these, 78% were filed by assignees. This would indicate that of 21,786 cases filed, 17,050 were filed by assignees,[2] *or 63 % of the "total" actions filed.*

B. The random sampling as to the amount involved in the lawsuit indicated that, in those actions based on contract, 36.5% were for less than $200.00 (Small Claims jurisdictional amount); therefore 7,915 cases filed in this period were for less than $200.00 (approximately 30% of the "total" cases filed in the Municipal Court).

IV. DISPOSITION OF CIVIL FILE

The following statistics resulting from this random sampling of this period indicates the following *as applied to the contract actions:*

1. Answers to the complaint were filed in only 8% (or 1,743) of the cases.
2. In 50.5% of the cases (or 11,002), judgment against the defendant was entered by default, entry being made by the Clerk of Court.
3. Of 21% of the writs that indicated a return on the levy of attachment or execution:

57% were on wages
21% were on bank accounts
18% were on personal property

However, it is difficult to reconcile this small number in relation to the total handled by the Marshal's Department.

V. RELEASE OF ATTACHMENT

While a portion of the Code relative to the release of an attachment by the posting of a bond or other security is a possibility, no such release is recently a matter of record. Also, claims for exemptions from attachment are very infrequent.

VI. CONCLUSIONS

A. Eighty to 85% of the actions filed in the Municipal Court are of a contractual nature.

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[1] The random sample was taken for the months of February, March, April, 1965; based on a random numbers table. This particular period was taken because the grouping was convenient in location to working space. Two persons worked independently. One examined 215 cases, the other 265 cases; and, when these two studies were compared, the difference in results was minimal. From this, it was concluded that the samplings were representative of the whole, even though less than 2% of cases filed were reviewed.

Further, a brief corresponding check of the same period for 1966 indicated that the results were in accord with what might result from a more extended study.

[2] Assignees for the most part are collection agencies.

B. Of these contractual cases, 75% are filed by what is commonly known as collection agencies (2/3rds of the total cases filed).

1. That in over one-half of these cases judgment was entered by default.

2. That in only 8% were the defendants able or willing to file an answer.

C. That 30% of the cases filed in the Los Angeles Municipal Court would be filed in the Small Claims Court, except that an assignee cannot sue in such court, nor will a writ of attachment be issued.

D. It is a fair conclusion that the results of the examination covered herein substantiates the articles referred to by George Brunn for the San Francisco area.

Mrs. SULLIVAN. Thank you, sir.

I just wish before we start questioning you if you would tell us something about the kind of case where a loan company or a store will have the borrower fill out an incomplete financial report.

Mr. MORIARTY. Very happy to do that.

Mrs. SULLIVAN. Leaving out certain debts at their suggestion, so that the borrower cannot later have that debt discharged through bankruptcy.

Mr. MORIARTY. I hope Mr. Jackson won't mind if I drift into S. 578 in answering that. That's the bill we hope someday will give the bankruptcy court the right to determine the dischargeability of debts.

Let me first go back. You asked a question a moment ago which I would like to clear up. You asked about the confession of judgment. They are not permitted in California. That is the type of situation where, when I come in to borrow money from you I sign a confession at that point. Now, we were talking about deficiency judgments. In California we have a great number of deficiency judgments in automobile financing.

Under our other type credit sales which are covered by—we refer to that as the Unruh Act—deficiency judgments are not permitted, but with automobiles you can recover your deficiency.

Now, a small loan company, and I don't want to pick on them as a particular one, but just take them as an example—they give to a borrower an application, maybe the size of this [indicating]. It has certain basic employment information and then you will find an area which says, "Creditors" or some similar type of wording. It may have three lines. I have never seen one that has more than five lines. So, here is a man going to a small loan because he cannot get a conventional loan and at the most there are five spaces on that piece of paper. I am relating now the story that I hear daily—Well, why didn't you list all your creditors?" "There were only five spaces and I talked to the man at the counter and he said list the most important ones and I didn't list any more." This is the area in which the small loan company has a very commanding position. They will rarely file a claim in a bankruptcy proceeding. They will not even repossess the furniture. But this man has filed a statement with the finance company and says I owe (a), (b) and (c) companies. So at the bankruptcy proceeding the attorney for the creditor will come and say, "Well, Mr. Bankrupt, on the date you filed this application, didn't you owe (w), (y) and (z) some money?"

"Oh, yes."

"Well, they are not listed on your application, why not?"

"Well, I was just told to put the three largest ones."

"Who told you this?"

"I don't remember his name but he was in charge there."

These people move about and he couldn't remember the name. I can see what is happening there and I am sure the gentleman at the table can see the same thing. This man will get his discharge about 6 weeks after his first meeting of creditors.

After he has gotten his discharge—and you must remember the small loan company will rarely object to the person's discharge. He will get his discharge, the discharge will generally eliminate all other debts—the small loan company has a false financial statement which is not dischargeable under chapter 17 of the Bankruptcy Act.

They go right across the street in the State court, they sue and the man says, "I got a discharge." "Sorry, you gave a false financial statement. You owe the finance company $400 plus attorney's fees for bringing this action." So the man walks out of bankruptcy court, thinking he is ready to start a new life suddenly finds he still got the finance company to contend with.

And at this point he has lost—while he is in bankruptcy they cannot harass him—we grant restraining orders. Suddenly he is out of the bankruptcy court, the creditor got a judgment in the State court and there is no way that this man can keep from being garnisheed. So that is the aftermath of what happens after we perform the services for them— they still have to face up to these other problems.

It is one that is very frustrating because I get calls and I am sure the other referees, too.

Maybe this gentleman doesn't get one like this in Texas and they call up my office and they insist on talking to me. I will talk to these people. They say, "I got a discharge, how can they do this to me?"

Many times they do not have an attorney, they came in without the benefit of an attorney or if they had an attorney the attorney has been paid and he doesn't want to talk to them. So you just have to tell him, yes, they could be sued in the State court and it is up to the State court to determine whether these debts are dischargeable.

The question is, I asked them, why didn't you tell us that?

Mrs. SULLIVAN. This is what I wanted to get into the record.

Before I turn the questioning over to Mr. Bingham—we are going to start at the lower end again—I want to say that I am so impressed with the four statements that you gentlemen have made that I am going to see if we can't get some attention paid to them. I am going to put them in the Congressional Record next Monday because these things should be known.

People should read them.

Mr. WHITEHURST. Madam Chairman, I mentioned earlier that in my spare time and on weekends I edit the Journal of the National Conference of Referees in Bankruptcy. If the committee wishes I will be glad to file a copy of the July 1966 issue of the Journal containing an article entitled "Schlockmeister's Jubilee—Bankruptcy for the Poor," by Ralph Brendes and Lawrence Schwartz. This was given at a consumer conference at the University of Chicago. It is a very perceptive article outlining the ways in which a discharge in bankruptcy does not always give the poor bankrupt the relief he thinks he is going to get.

Also, a copy of the October 1966 issue which contains a reprint, in convenient form, of the opinion of Referee Bare.

And I have a copy of the January 1967, issue containing an article entitled, "Consumer Bankruptcy, a Continuing Problem," by Prof. Robert Dolphin, Jr., which is a sort of followup to his analysis which was referred to earlier.

Mrs. SULLIVAN. Thank you, Mr. Whitehurst.

Without objection we will accept these for the committee and see if they should be printed in the hearings.

(The articles referred to may be found in the appendix, p. 1037.)

Mrs. SULLIVAN. Mr. Bingham?

Mr. BINGHAM. Thank you, Madam Chairman.

I, too, would like to compliment these witnesses on their presentation today. They have been most enlightening. This is the kind of evidence that we have been seeking from the beginning of these hearings on the subject of garnishment and that we have been unable to get from administration witnesses.

I would like to ask any of the gentlemen who might care to reply to this whether they see any indication that creditors, responsible creditors, are concerned with the rising number of bankruptcies? Because after all they have a lot to lose on this, too.

Mr. MORIARTY. Sir, I may start the—I don't profess to have all the answers to this.

As I was telling your good chairman informally before the session, I did have occasion to speak last Tuesday evening before a group in Los Angeles made up mostly of the credit managers of the large department stores and oil companies.

I raised the very question at the dinner table, are they concerned, and they didn't seem to be concerned. I wouldn't want a casual dinner type conversation to be regarded as a statement of policy on my part, but I got the impression in my conversations with them that they were not too concerned about the credit situation, and so forth.

I might say this: I have a very unusual habit and I am not sure it is appreciated but when I became a referee I noticed that the people had all these credit cards and I would ask them during the course—let me see your credit cards and they would; everyone that was on the list of creditors I would check them over and turn to my trustee and say Mr. Trustee please mail these back to the creditors and tell them this man is in bankruptcy.

I got some flashback on that. They didn't think I should be doing that because after all, the creditors, they were making money on these people in one way or the other and they want to keep them as customers and didn't want to lose them.

It is just written off, these losses. It is in the statement here.

I don't mind doing it but when they come along and fire the man we have to pay again because he goes on some type of relief, so we are being hit twice on this thing.

I don't know whether I answered your question but I did want to relate that experience I had the other evening where they don't seem to be concerned about the losses—these losses are very small volume-wise. I am speaking of the big stores—the losses are less than 5 percent in this area for bad debts.

Mr. BINGHAM. Would the other gentlemen agree that the creditors don't seem to be concerned?

Mr. BARE. I think that creditors are concerned with the rising number of bankruptcies. These figures might be helpful.

Of the total indebtedness owned by bankrupts, a survey of the 200 cases in Chattannooga indicated that 41 percent of the total indebtedness was owed to loan companies and finance companies.

Twelve percent, as I recall, was owed for automobiles—purchase of automobiles.

Eleven percent for doctor bills. So, those three categories make up over 60 percent of the total indebtedness which means that department stores and others—their actual losses are not as great as bankruptcy might indicate. It is the loan companies that have the principal indebtedness in bankruptcy cases.

Mr. WHITEHURST. I was going to say that I was raising questions with creditors in one of my cases about what seemed to me to be rather loose credit practices. A banker said that a study of 3-year automobile loans which are customarily made, showed that at the end of the first year the value of the automobile averaged $750 less than the balance of the debt. But they didn't seem to be disturbed about it and I found no evidence of great concern except when they happen to encounter a loss themselves personally and then they get pretty unhappy about it and would like to blame somebody else if they can besides themselves for having granted credit unwisely.

Mr. BINGHAM. I was going to suggest that this rising tide of bankruptcies, because it would increase the number of loans and credit transactions that went sour, would actually raise the cost of credit to the consumer.

Would any of you like to comment on that thought?

Mr. BARE. I have heard that premise advocated or stated. I am in North Carolina occasionally. North Carolina does not permit the garnishment of wages. I can't distinguish any difference between the cost of credit in North Carolina and Tennessee.

Mr. BINGHAM. If I might just ask one more question. We have been going on the assumption that a lot of bankruptcies are a bad thing. I go along with that assumption, but we really don't have any statement in the record as to why that is so.

Why is it? What is wrong with a lot of bankruptcies?

Mr. SNEDECOR. I made the statement that I think the thing that is wrong is, we are giving the—we are driving these people into bankruptcy into desperation, whereas if they were given time they would pay their debts. I think it is too bad that we don't give them that chance. I think we want to try to train people in honesty and in thrift and in paying their obligations.

Mr. WHITEHURST. I don't think it is the bankruptcy that is so bad, it is what has gone before.

For example, I had a case just recently, within the past 2 weeks where the bankrupt was an immigrant from Germany who held a very good job in a German style restaurant. He had not been here too many years and I am sure he found credit policies different from any he had ever experienced before.

Before long he and his wife were overboard and they were harassed by their creditors to the extent that one day he came home to find his wife unconscious on the floor after having attempted suicide. And the

doctor said that if she had tried it once, it might happen again and advised bankruptcy as a therapeutic measure.

Very often when I do have these no-asset wage earner type of bankruptcies, they are filed because doctors have recommended that bankruptcy be taken to get some relief from the harassment and the pressures which were driving sensitive people into nervous prostration.

Mr. BINGHAM. Thank you, Madam Chairman.

Mrs. SULLIVAN. Really, with such good witnesses it is a shame to have to limit the members to just 5 minutes of questioning. But again, if we submit questions, I hope the witnesses will answer them when the transcript comes to them for correction.

Mrs. Dwyer?

Mrs. DWYER. Thank you, Madam Chairman.

I must say that your testimony this morning was both revealing and shocking and I thank the gentlemen for bringing this before the public.

I have several questions, one to Mr. Whitehurst. Secretary Barr told us the other day the Federal Government itself was probably the largest factor in garnishment in endeavoring to collect income taxes. Since the Texas Constitution prohibits garnishment, does that mean that the Federal Government cannot institute garnishment proceedings to collect income taxes in Texas?

Mr. WHITEHURST. No, Madam, it does not. The Internal Revenue Service takes the position that those provisions of the State constitution and statutes do not apply to them or are overridden by the Internal Revenue statutes and they do and have to my knowledge attached wages of discharged bankrupts.

In one case I recall it was a very great hardship to the woman secretary who had recently been discharged and found her wages attached. As you know, a discharge from bankruptcy does not discharge the bankrupt from liability from taxes except to a very limited extent.

Mrs. DWYER. Will any of the other panel care to comment on whether you have any difficulty with the Internal Revenue garnishing salaries?

Mr. BARÉ. In my district, no. Occasionally I am sure the Internal Revenue Service does garnish wages for the collection of taxes but I don't think that is a major problem.

Mr. DWYER. Mr. Whitehurst again, I noticed in your testimony——

Mr. MORIARTY. I am not aware of it being a problem in California. We do have problems with Internal Revenue but not in this area. We have it where they will close down a small business, force a business into bankruptcy and we have been most successfully working out agreements with Internal Revenue that permit us to sell. Because many times their lien is quite small and they grab—they padlock the entire business.

Many times you can sell just a portion of the property and pay them off and still have something to salvage for the creditors which is our chief concern.

Mr. DWYER. Mr. Whitehurst, I noticed in your testimony you mentioned some department store had a sign over the cash register. Would you care to enlarge on that and tell us the name of the department store?

Mr. WHITEHURST. Woolco—W-o-o-l-c-o. I think it is a division of the Woolworth stores. I was making a small purchase and they asked

me if I wanted to add it to my account and obviously it was done as a part of direction to the sales person or to the cashier—it is one of those self-service-type stores and I noticed the sign this large on the cash register that said something to the effect, be sure and ask if this purchase can be added to your charge account. I didn't have an account.

Mrs. DWYER. You object to those proceedings?

Mr. WHITEHURST. I didn't object to it. I don't object to it. I think it is perfectly all right but I use that illustration to demonstrate the fact that the absence of a garnishment law doesn't to my observation decrease the extension of credit in the State of Texas.

As far as I can see credit is sold and advertised and earnest efforts are made to get you to open charge accounts and to take revolving charge accounts on which carrying charges of 1½ percent a month are added, which is 18 percent a year. I could stand on the steps of the courthouse and almost throw a rock through a half dozen different loan company offices.

So I have seen no evidence of diminution in the amount of credit extended by reason of the absence of a garnishment law in the State. That is what I had in mind.

Mrs. DWYER. Thank you very much.

Mr. Bare, you cited a case of flipping loans in which you said there were $2,900 in charges on $1,500 in loans and you reduced the charges to $1,500. That is 100 percent of the loan, is it not?

My question is, Why did you not reduce the charges far below $1,500 or 100 percent of the loan?

Mr. BARE. That was the decision in the *Branch* case. The amount received by the debtor—he borrowed money from the loan company on five occasions within 11 months. The total amount that he received from the loan company was $1,548.02. There were interest charges on those loans of $716.58; investigation fees of $185.04; insurance premium, $678.41; recording charges, $9.50. During that period the debtor repaid $287.85. When the loan company came into the bankruptcy court they said the debtor owed $2,870. I reduced that claim to the amount of cash that the debtor had received in these five loans, plus a legal rate of interest. I felt the loan company was entitled to get its actual money back which I allowed plus legal interest. I eliminated investigation charges; I eliminated all insurance premiums because the debtor testified that he had never requested the loan company to write the insurance. The insurance was written by the loan company manager.

Mrs. DWYER. One more question. All of the previous Government witnesses have recommended that the garnishment provisions of the bill not be included in this credit charge disclosure bill saying that garnishment needs far more study and if there is to be a Federal law it should be separate legislation.

All of you apparently disagree with the administration.

How do you explain this?

Mr. MORIARTY. I think you have two questions there. We have been asked to testify on the advisability of abolishing garnishments. The bill contains other features as well.

As a matter of fact, the features relating to SEC, I don't think any of us could give you a good answer on that because that is not in our operation.

Now, you have the truth-in-lending feature and you have the garnishment which is at the end. Now, I don't think I would want to comment or even recommend as a tactical approach whether it should be two bills, one, or how it should be handled. There may be some merit to each suggestion.

My position is that I think garnishments are harsh, they do a lot of damage, and I say that in spite of the fact that I may talk myself out of a job because if the bankruptcies in California are reduced I find myself not having enough business and I am one of the junior members out there so I could be in that position.

I think you have two different problems there. I don't think—I am not prepared to comment as to whether it should be split or not.

Mrs. DWYER. I think your testimony was fairly persuasive but I asked the question because I thought the administration policy is to defer this question for further study or separate legislation. That was the only reason I asked the question.

Mr. MORIARTY. I may say this. I am familiar with the—I believe Referee Snedecor would say the same thing. I think that it should go all the way or not at all because even in New York where you have 10 percent you can still get employees fired for garnishments if the company's policy is to fire—they refer to them as nuisances.

If you are going to go at all, go all the way because half a loaf of bread is not going to help the poor guy who has been fired because, if the wages are garnished a second time.

Mrs. SULLIVAN. Thank you.

Of course, you people are attached to the Federal courts and not part of the executive department. I do not agree with the administration in their position on title II of H.R. 11601 because I think this is all part of the credit picture and that is why it is in the bill.

Mr. BARE. We have been studying this problem for—at least I have for some 10 years, and Referee Snedecor for 30 years, Referee Whitehurst for 10 years and Referee Moriarty for 6 to 8 years. Certainly I do not believe that any bill should be enacted without adequate study but we have studied this problem for many, many years.

That is the answer, I think, to the differences.

Mrs. SULLIVAN. That is exactly why you gentlemen were called in, so that we could have the benefit of your knowledge and background on these cases that touch so directly on consumer credit. Perhaps, after some of these statements, we can get Mrs. Dwyer to join us in trying to get this provision through, despite the adminstration's reluctance to help us on it.

I want to make only one comment on the practice of urging customers to use more credit. They make money on their credit—let's not kid ourselves. But I believe—and I am one of them myself—I think people will buy much more freely if they can just say charge it than they would if they had to open up their purses and put out the cash right now to satisfy that desire of the moment.

Charge accounts are enticing. So, this is just one additional way of selling their products. And their product is often credit for its own sake. Let's not fool ourselves on that.

Mr. Annunzio?

Mr. ANNUNZIO. Thank you, Madam Chairman.

I, too, would like to join my colleagues in extending our deep appreciation to you gentlemen for coming to Washington to give us the benefit of your experiences in the bankruptcy courts.

On one particular section of our bill, which is the garnishment section, you have been very constructive and it will not only assist us but I will be happy to join other members of the committee, including the chairman, to inform the administration people that you people are available through your testimony if they need advice in carrying on this study.

I introduced for the record yesterday the exempt percentage for each State and we have had the legislative director of the American Federation of Labor and CIO before this committee and do you know that this national labor organization doesn't have a national policy on garnishment of wages although 50 States have some sort of garnishment law, so the problem is very, very serious.

At this point, Madam Chairman, I would like to insert in the record a study recently concluded in Chicago. This is a study of consumer credit litigation. I think this brief study is extremely revealing and I would only like to point out to the subcommittee that of the cases surveyed, the study shows, for example, that there are instances when over 280 percent in charges were assessed against purchasers of used cars—235 percent on purchases of radios, TV's and hi-fi sets, 105 percent on purchases of furniture, 199 percent on purchases of clothing.

I am putting this into the record because I think it is important for all of the American people to realize what they are really being called upon to pay in interest charges on their credit transactions.

Mrs. SULLIVAN. Without objection we will at least make this part of the committee record. Whether or not it gets printed in the hearings will be determined later. In any event, it will be part of the subcommittee records. It sounds like extremely useful information for us to have.

Mr. ANNUNZIO. I would like also to make another brief statement before I ask a question.

The point was made that the Internal Revenue Service uses garnishment to collect taxes. The fact that the Federal Government uses this procedure doesn't make it right as far as I am concerned. I would like to read 2 paragraphs taken from the Wall Street Journal.

> One payday in January, auto worker Carl W. Clark discovered his entire week's take-home pay of $112.39 had been turned over to the State of Indiana for delinquent State income taxes. Beset by debts, he asked officials at Ford Motor Co.'s plant in suburban Chicago Heights, Ill., for his accrued vacation pay to tide him over.
>
> Next payday, he learned Indiana—the State where he used to live—had received $208.84 out of his $363.93 in wages and vacation pay. The 24-year-old father of a young boy, not knowing how much he owed Indiana tax collectors, (the two deductions actually satisfied the claim) became despondent over the pay loss. Two days later, Carl Clark placed a .22-caliber rifle under his chin and shot a bullet into his brain.

That bears out the tendency of suicide that was mentioned before.

Based on these statistics that I have read, from the study made by the chief judge of the Circuit Court of Cook County, at the present time what have been some of your experiences in handling bankruptcies where usurious rates of interest were charged?

Mr. BARE. In bankruptcy——

Mr. ANNUNZIO. I want to talk about usurious rates of interest.

Mr. BARE. When a straight bankruptcy petition is filed, the debt is discharged and the usury—all the charges are discharged.

In chapter XIII proceedings where the debtor agrees to pay a certain amount for the benefit of his creditors, the bankruptcy court is required to strike all usury charges from the claim that is filed.

I do not know of anything in my area which comes anywhere close to the information you have just submitted.

Mr. ANNUNZIO. My time has expired, Madam Chairman. This question will be in the record and I shall appreciate your answering it so that we can have the benefit of your experience.

Mrs. SULLIVAN. Mr. Hanna?

Mr. HANNA. Thank you, Madam Chairman.

May I say at the outset that I am most delighted to find among this very distinguished panel of my old friend Jim Moriarty whose court I have been in as a lawyer, I am certainly well aware of the fine work that he has done.

Madam Chairman, it is, I think, a matter well to be noted that we have before us over 56 years of collective experience in bankruptcy. As a practicing attorney, it is a mass of no small satisfaction to find a gentleman like Mr. Snedecor here who has a career of 57 years in service in his profession and certainly from the 31 years in public service in bankruptcy, that is something to be well proud of.

Mrs. SULLIVAN. I agree with Mr. Hanna and I think everyone of the committee members here is very much impressed and grateful to you gentlemen for giving us so much information from your own experience.

Mr. HANNA. I would like to direct my questions specifically to the reasons that have been raised for not including garnishment in this particular bill and ask you to discuss whether or not the arguments presented individually have force and effect.

One that has already been mentioned has been that the various witnesses have indicated that they did not think garnishment in and of itself should be a part of this bill because of the following: First, it would disallow garnishment for taxes. You have already commented on this. I would only ask you to correct me if I am not entirely right about this. If you are thinking primarily of the poor they pay the least possible taxes so garnishment for taxes on the poor would really be of the slightest impact. That is No. 1.

No. 2, it would seem to me, that if this were the sole argument we can easily put in language as we have already done in the bankruptcies saying that particular kind of garnishment was not included and I don't think it would be difficult not to put this language in because actually where the Federal Government is really desirous of having this against people who are not involved in bankruptcy for the most part.

I believe that is correct. Is that correct?

Mr. MORIARTY. Yes, sir.

Mr. SNEDECOR. Yes.

Mr. HANNA. The second point, garnishment in divorces. Would any of you comment as to how many instances you have found in bank-

ruptcy in which garnishment of a wife against a husband for the support of the children has been a factor?

Mr. SNEDECOR. I don't think that has been a factor very much because it is not a dischargeable debt. Alimony or support for children is not dischargeable.

Mr. HANNA. I hoped you put that in. Because that is the same situation you find in taxes because that is not dischargeable in bankruptcy and I think we need that, need to take that into consideration.

The third argument seems to be more persuasive. I talk to you now as lawyers.

When we talk about garnishment, we are talking about the total creditor-debtor relationship and the basis of the responsibilities and the rights that are created when the credit relationship arises and that you have not only garnishment but you have, for instance, in the creation of the debt things like assignments, mortgages, various other things that operate as the basis upon which the credit is extended.

Then you have after the fact the question of whether confession of judgments, whether deficiency judgments, attachment or garnishments or other creditor reliefs are going to be made available.

Is there a possibility of some merit in the argument that this is a piecemeal approach on a total debtor-creditor relationship that might be given consideration?

Mr. MORIARTY. It seems to me like while the effects the basic remedy that certain people have, you know as a lawyer, sometime you may have rights but you have no remedies. That might be the situation we have here.

Now, even if you abolished all garnishments, the person could still get a deficiency judgment. They may still be able to levy on property. We are only talking about wage attachments now. It is on the property a man may have. If he has a bank account, has an interest in a cabin in the mountains or something like that, they may be able to reach it. I think Referee Whitehurst could tell you coming from a nongarnishment States, could probably tell you how they collect bills in Texas where there is no garnishment at all.

Mr. HANNA. Thank you. Mr. Whitehurst?

Mr. WHITEHURST. Of course, if he has property that is subject to garnishment then garnishment is available. It is only current wages that are exempt. After money gets into his bank account it is no longer exempt. So, if he needs his wages for his daily living expenses he never lets them get into a bank account. Most of this type debtor have no bank accounts. They also collect it—I am sorry to say—by harassment, repeated telephone calls all day, and calls to employers, and I have had people approach me, and they were so scared—they couldn't put you in jail I told them—and they say they can't? Obviously, they had been threatened to be put in jail. Well, those strong-arm methods are not quite so much in use now as they were a few years ago before an attorney who made a specialty out of this type of thing succeeded in collecting some very large judgment for mental and physical damage by harassment—he got some very substantial judgments against loan companies who went out of bounds in their efforts to collect.

Also, the creditors take mortgages on all sorts of personal property and sometimes we find the same furniture mortgaged five or six times

as a matter of fact, and also they repossess automobiles. Nearly all lenders who lend money on automobiles will have a repossession clause and they hire companies that go out in the middle of the night and break open an automobile and drive it off. I am sure you know how that is done.

Mr. HANNA. I would say, Madam Chairman, that the testimony here this morning has indicated that there is a strong belief entertained by these gentlemen who have very close association with this problem that the burdens of having this relief available far outweigh any benefits that might accrue.

I have noted with interest that you have indicated that the garnishment provision can be a crutch that may very well be the thing that they rely upon rather than an honest assessment of the ability to pay and that in the extension of credit there may be something affecting the health of the total credit situation in the entire United States.

I wonder whether you would comment on this afterwards because I wanted to make this point, Madam Chairman, that I think garnishment of wages, perhaps with some others of these practices creating an attitude of antagonism in our society between the creditor and the debtor and I suspect that we would find in the anatomy of a writer certain extremes of modern anger of that as the spring of that strain.

These antagonisms that are created—and I am sure they don't run but one way and I am on record at this hearing and I would like to continue to go on record as being in favor of truth in borrowing as well as truth in lending which means that the health of the credit situation is created when there is a real sound relationship between the credit user and the credit extendor at the point where credit is created.

Mrs. SULLIVAN. Thank you. When you gentlemen correct your transcript if you have anything to add to his statement on this we would be happy to have it.

Mr. Gonzalez?

Mr. GONZALEZ. Thank you, Madam Chairman.

Since my colleagues have praised the panel, I join them in that praise and thank them for being present and also do the same thing as my California colleague here in welcoming a Texan member of this panel. All of us from Texas are Soul Brothers.

I do want Mr. Whitehurst to know that we deeply appreciate his presence here, particularly coming from a State that has no salary or wage garnishment. I think that you have made a very distinct and powerful case for the abolition of wage garnishment as a collection process.

I think that if anybody needed any conviction, that all they have to do is either listen to you or see the statistics to be convinced, if they have an open mind.

In connection with the Federal Government I might say that I have introduced a national homestead exemption act to prevent the Federal Government from taking a man's homestead or levying on his homestead as a result of income tax or anything else. I feel the same way about garnishment of salaries and the fact that the Federal Government does it or the State government doesn't mean that its net impact is any less. A man still loses his job.

There was one question that I wanted to ask and see if you have any distilled sentiment as a result of your observations and experiments. It has to do with the use of credit insurance.

Do you find a business in this practice leading to at least a predicament that some of the cases you have confronted seemed to reflect as a factor in bankruptcy, the abuse of the credit insurance in either the loans or other experiences?

Mr. WHITEHURST. I think Mr. Bare can best answer that.

Mr. GONZALEZ. May I interrupt you to say this? I think perhaps Mr. Whitehurst will agree that Texas was in a large part populated by Tennesseans leaving because of garnishment and such practices.

Mr. BARE. That is right, including the former Speaker for whom this building was named. He was born in Tennessee as well as Davy Crockett, Sam Houston, and many others.

Mr. GONZALEZ. They say Davy Crockett was leaving Tennessee to escape garnishment.

Mr. WHITEHURST. I was told that the last entry in most Tennessee insolvency case dockets was "G.T.T."—Gone to Texas, and I think that these debtors must have gone to the Texas Legislature and written the debtor creditor laws.

Mr. GONZALEZ. I know some of our ancestors came up from the South for worse than garnishment. They came for their lives.

Mrs. SULLIVAN. May I ask this and would this satisfy you, Mr. Gonzalez? We are pushing against time here and I think this matter of credit insurance is extremely important. Mr. Bare gave us some very good examples, but I wonder if again, when you correct your transcripts, if you, each of you, could give us some examples of this problem in answer to Mr. Gonzalez' questions. We want to go into this, and we are going to try to get a little deeper into that with some of the retailers.

But if you could give us, from your knowledge of the subject, the abuses or the necessity for legislation on it, we would appreciate full answers.

Will that satisfy you, Mr. Gonzalez?

Mr. GONZALEZ. Certainly.

Mrs. SULLIVAN. I have just one further question and I don't know that it has to be answered right now. Again, it is something you could answer in the transcript. But you gentlemen are all distinguished lawyers with wide experience in Federal law. Would you see any conflict at all with State laws or States rights if we were to enact a Federal law on the subject of garnishment? Now this, too, could be answered within the next week or 10 days so that each of you might have something to say on it in the transcript.

Mr. MORIARTY. I haven't had a chance to research it, but in reading the bill I notice you tie it in with the commerce clause and I think you are on a good start there.

As to its constitutionality I have had no opportunity to check into that particular field. But using the commerce clause as a vehicle, it seems to me to be a very wise move in this regard.

Mrs. SULLIVAN. The staff advises me that the money clause is also tied in.

Mr. SNEDECOR. You might explore also the constitutional provision that gives Congress the power to enact laws on uniform laws on the subject of bankruptcy. It might come under that.

Mrs. SULLIVAN. These are some of the things that I am not sure about. I am not a lawyer. If we could have your thinking on this we would very much appreciate it.

I think Mrs. Dwyer had one comment to make before we dismiss the witnesses.

Mrs. DWYER. It isn't always the poor who have suffered garnishment—I would like to observe that a great champion and victim of unscrupulous operators, Joe Louis, was reduced to the status of pauper by an IRS garnishment for past taxes owed. So it isn't only in the area we are talking about.

Mrs. SULLIVAN. Thank you. We are extremely happy to have had you gentlemen give us the benefit of your knowledge and experience. With that you will be dismissed with our sincere thanks and appreciation.

We are trying to decide whether to continue this hearing now rather than come back this afternoon. Apparently that would conflict with luncheon engagements of two of the members.

We asked the other witnesses to come in at 11:30 so we could hear them right now. I know that Mr. Annunzio will try to get back. We will declare a recess for a few minutes.

(Short recess.)

Mrs. SULLIVAN. The recess is over and the subcommittee will come to order. We will try to hear now the witnesses previously scheduled for this afternoon.

We are glad to welcome all of you to this hearing which we have been conducting since last Monday in morning and afternoon sessions.

I am going to ask Mr. Carstenson to let us have his statement first. He has been here for 2 solid days waiting to get on and we have not been able to reach him until now.

I thing most of the statements to be presented are short. You can read your entire statements or summarize them. I think the shorter you make the summaries the more time we will have for questions. We want to hear your opinions of the bills and we want to take advantage of your background knowledge through questioning.

Let us start with you, Mr. Carstenson, and then we will hear Mr. Ellis and Mrs. Angevine and then Mr. Stone. All of you can contribute much to our understanding of the issues involved in this legislation and we welcome you here today.

STATEMENT OF BLUE A. CARSTENSON, ASSISTANT LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION

Mr. CARSTENSON. I am very pleased to appear before the committee and share the witness table with my colleagues from the National Rural Electric Cooperative Association.

I want to submit my testimony for the record and indicate that we are very pleased at not only our support of the basic truth-in-lending bill but the additions that you have made and your colleagues have made in H.R. 11601.

We would like to point out in our convention that truth in lending is a top national program for the union, and we have spent quite a bit of time in coming in on this, and we have talked with our Congressmen and Senators concerning this legislation.

Interest rates and credit practices are most crucial to farmers and we are very pleased in the Senate version that the agricultural implements and agricultural products are an important part of the bill.

I have many examples here in terms of the other parts of the truth-in-lending bill because we are affected as farm families. We are receiving some of the same problems as urban areas and we have some very special problems.

On page 2, we talk about the various consumer problems as we see them. The thing that is most striking to us, at the bottom of page 2, is that there hasn't been any tight money prices in consumer areas. We have never found a department store who had a tight money situation. What we have seen, because of the high interest rates charged through deception, that it has pulled credit from housing, from farm loans, and from other essential parts of our economy, and there is no reason why a lender or money source should lend money to a farmer for 7 or 8 or 9 percent or 11 percent, when it can turn around and lend it to the same farmer on his car through an indirect finance company or through a power dealer or some other source for 18 or 24 percent. It just doesn't make sense. It becomes exceedingly difficult for farmers to get loans, and when the interest rates go so high it no longer becomes profitable to the farm, and this is what is happening to so many of our farms.

On the back I have a sheet which I think is important to get a perspective on the amount of interest the farmers are paying. It is a staggering amount. This is a survey that was made of our farmers, union members in Minnesota, and this was before the tight money, high interest rate period. It is a very staggering amount. They are paying more for interest than they are for many of the other essential ingredients of farming such as gasoline, fuel, feed and chemical fertilizers, and so forth.

This outflow, coming back to the main testimony, the outflow of money from the usual channels for home loans and for farm loans and in bonds and mortgages—Government bonds—has been very great. It is increasing and it will continue to increase unless something is done to open it up for the average consumer to see what has actually happened.

The next page talks about the increase. I would like to relate one personal example, if I might, about a situation that has happened just recently. Our refrigerator broke down and we went into a plant store here in Washington and asked to get a new refrigerator. We got a good buy and asked about credit, and to try to determine whether or not we should go to the bank and spend the extra time to arrange for credit at the bank or whether we should go through the company's credit program—resources. I spent almost a half hour because of my interest in the subject, trying to discover, along with the chief salesman, exactly what interest rate was being charged, and both of us are, I would say, a little bit more than usually acquainted with the interest rates, and neither of us, after a half hour of trying and all sorts of

paper and pencil and all the rest, we could not determine whether it was cheaper for me to get the credit there or to go over to the bank and get the loan at the bank. The best we could come up with is somewhere between 13 and 15 percent, but that was more of a guess than a calculated figure that we could say was true.

If it happens where you do take the time and where you have some command of mathematics, what happens to the vast numbers of people who are almost afraid of trying to even start to figure interest rates and trying to get a comparison?

In terms of the farmer, the matter of interest rates has become very critical, partly because of the cost of machinery which has gone up at such a large rate, and we do spend some time in our testimony telling a little about what has happened on the price of machinery, which is not related to increased wages, but prices have gone up at a very fast rate, and when it is compounded with high interest rates and when, on top of that, we see the trend toward the same type of revolving credit, or installment credit that we haven't had in the cities now being moved to the agricultural implement field, it does mean a real hardship on many of our farmers.

I also pointed out that we are paying a little bit more on our Federal debt up from $6 billion to $14 billion, and a good portion of this is because of increased interest rates, and I think a lot of this is because of the syphoning out of money that used to be available that has gone off over into the consumer field because of the increased money that they can earn there. It has cost us a good deal. Perhaps it has cost us as much as we have appropriated for Federal aid to education—we have probably lost that in terms of what has happened to the bond market in the past year.

We do support very strongly the truth-in-lending provision in your bill. We illustrated some cases related to farming and buying of cattle where the interest rates are very deceptively put forth in the advertisements.

We know one thing that wasn't in anywhere and we are not quite sure whether this fits in this bill or somewhere, but something should be done about these Christmas savings clubs where they don't announce any interest, and we hope that perhaps something could be done there to reveal the amount of interest paid. This is something most people are not aware of and many people get taken in by it.

Mrs. SULLIVAN. Is there any?

Mr. CARSTENSON. In the vast majority, none.

We do support and have supported for many years the standby emergency control provisions. We do feel that the 18 percent, if anything, is a little high. We would rather see it a little lower in terms of the maximum.

We don't have as much garnishment of wages in terms of farm families, but we know it is a problem and we do feel that something should be done to prevent the abuses that have been going on, and we were very much impressed by the testimony this morning, realizing that something must be done and should be done and hope the committee will include something on this in the legislation.

This has, in our opinion, had an impact in terms of the riots and in terms of the problems of low-income families.

Thank you.

(The complete statement of Mr. Carstenson follows:)

TESTIMONY OF BLUE A. CARSTENSON, ASSISTANT LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION

We are appreciative of the opportunity to testify before this Committee on behalf of the members of the National Farmers Union. Our position taken at our National Convention in Oklahoma City in March of this year is clear and direct. As a part of our target program for this year, our Convention passed this resolution:

"*Truth in Lending*: We urge adoption of a financial disclosure act which will provide to the buyer or borrower information of the total cost of borrowing including all carrying or service charges, spelled out in dollars and in approximate annual interest rates."

"*High Interest Rates*: We adopted our Nation Stop Buying Campaign in protest against high interest rates, high implement costs, and low farm prices. We believe that there are several reasons for the high interest rates and they are still high in the countryside despite the partial decline of interest rates by a few New York banks and an easing of a few of the credit controls by the Federal Reserve Board. Further action is needed by the "Fed" if interest rates are going to really go down in the rural areas. Also, farm prices must go up if farmers are going to be able to afford to take out loans at all."

Our fears of continued high interest rates and tight money have proven true. One contributing factor to high interest rates to all Americans—not just consumers—is deceptive interest rate charges or in accurate language "deceptive usury". We ask that this committee strengthen the Senate passed bill and eliminate the loopholes in this bill. We strongly urge that all revolving and installment credit be included regardless of the length of the loan or the rate of interest.

The Retailer as a Loan Shark

The practice of concealing interest rates, confusing the consumer or the buyer has crept up on us. Deceptive interest rate practices on consumer loans has forced many respectable businessmen in effect to become "loan sharks" in order to compete.

The practice is so widespread that it has been drawing in significant amounts of money from home mortgages, school and governmental bonds, farm loans, and business loans. It has also had a significant inflationary impact upon interest rates in general.

No banker is going to lend a farmer money at 7%, or prospective home owner money at 5% when he can directly through a bank credit card or indirectly through a car loan, through a business installment loan or through an easy credit operation lend money to these same people at 12%, 18% or 24%.

We will attempt to show that "deceptive usury" is causing injury to the American farmer, consumer, minority groups, the homebuilder, electrician, the lumberman, the carpenter, the low income person, the small businessman and the white collar worker, and indirectly upon the taxpayer through increased school and local government bond costs and federal debt service charges.

Consumer Credit

One of the causes of increased interest rates in an already tight money market has been the development in the interest charges and flow of money into *personal loans, installment buying* and *revolving credit card accounts.*

Personal loans have been increased. Most people obtaining personal loans are told that they are being charged 7 to 9 percent, but in fact they may actually be charged twice that amount. The interest on a personal loan is added to the principal and then the total is divided into monthly installments. In effect, interest is charged as if the person had the full amount of the loan for the entire period of the loan. There are service charges, extra large "late charges", and other charges. This is an effective way of doubling the interest while getting around usury laws and deceiving the public.

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

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

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

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

Most of the credit cards carry a 1½% interest rate per month on the unpaid balance. There has been no shortage of department store credit.

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

For example, you can get a home loan at 7% if you pay enough points (or a finders fee) which is nothing more than a way to disguise the increased interest rate bringing up the actual interest to 14 or 15% for the first year. Figuring it another way, with a mortgage at 5¾% and a 10 point fee (payable in advance), a $20,000 loan nets the borrower only $18,000; so the interest rate is jacked up to 6.4% over the term of 20 years.

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

In 1952, urban home loans were at 4½% often without any additional points being added. In the fall of 1966, according to the National Association of Home Builders, home loans were averaging 6½% with an average of 7 or 8 points. Home loans in rural areas were considerably higher. While they have fallen some, they are definitely not anywhere near where they were in 1952 or even where they were a couple of years ago. Last year housing starts fell to a 20 year low. The money had simply gone elsewhere.

CONSUMER CREDIT INTEREST RATES SKYROCKET

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

Installment Loans now are estimated at $20 billion, used to be 8 to 12% interest. Today the charges are from 1% to 1½% per month (or 12 to 18% in annual interest) to 2% per month (24% annual interest). Some department stores make more on the interest and service charges, plus insurance and late charges than they can make on the original sale. Installment loans have doubled since 1959. Although the amount of home loans have been at a 20 year low this winter, home installments are at an all time high.

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

Revolving Credit Card Loans are now on an estimate of $5 billion. The usual charge is 1½% per month (18% simple interest) plus late charges, etc. More banks are making widespread use of this type of "instant" credit card loans.

Car Loans (*$31 Billion estimate*). Hidden interest charges here are even more devious than in the other fields. Most used car dealers simply don't like cash customers.

Consumer Installment Debt Grows. At the end of World War II, only 3½% of the individual's income was spent to pay back consumer installment loans. By 1965, it had risen to about 17%. It has become a major item in the family budget.

It used to be that the family could get food on credit but equipment, radios, clothes, etc. he paid cash for. As a result, in low income families they at least ate. Today, they can get everything except food on credit and the first bills that get paid are the installment payments. If there is any left over it is spread out and stretched to cover food and a few other items.

If people only knew how much interest they were being charged for installment loans they would go to a bank or credit union and get a regular loan and not only save money but would have the freedom to buy as they want to. Too many people buy what they can get on credit where they can get credit.

The families with lower income have greater consumer installment debt. One half of the families with a total income of between $3000 and $5000 have installment debts.

If there has to be a choice, it would be preferable for the law to protect these families rather than the wealthier families. Therefore we plead the cause of the small consumer and urge that all installment loans be included under the law and not just the big purchases usually made by the wealthier families.

The Senate passed bill excludes much of the revolving credit and installment credit where the interest charge is less than $10.00. There is probably as much "deceptive usury" taking place where the interest charges are less than $10. as there is in the installment loans covered by the Senate passed bill. It is on the short term (6 to 12 months) small loan ($100 to $250) where the average consumer needs help. For example, one of the largest electrical appliance companies has an installment plan to cover such items as refrigerator. The refrigerator, at a price of $200, can be purchased through a local dealer through an installment plan from the company in 10 monthly payments. The chart supplied by the company to the dealer shows a flat cash charge for the interest for the 10 month period. If the bill is paid early, there is no decrease in the interest charged. There is no percentage of interest charge of any type nor could the interest rate be computed easily or even with difficulty by the average purchaser or salesman. The purchaser has to guess whether he should spend the time to go to a bank to borrow the $200 or simply pay the charge and hope that he wasn't "taken" too badly.

It has been stated that many of our finance companies in this country are financed by banks. Some say that they receive from 70 to 80% of their funds from banks directly or indirectly. The Federal Reserve Board reported last December that 350 large banks had loans to finance companies totaling nearly $7 billion.

Perhaps the worst deceivers with regard to interest rates traditionally have been those finance companies serving military personnel. Also those finance companies in the slums have not been noted for their honesty. Credit and loan practices by finance companies and retail stores have been a contributing factor to the violent attacks upon businesses in the recent ghetto riots.

However the deceptive credit practices have now spread to the white collar stores and even to the very expensive places. They have reached out and corrupted the lending practices in our small towns. The chain stores have spread the revolving credit plans with their deceptively low interest charges of 1½% per month forcing the local merchants to do likewise. It is spreading to other types of business. A big lumber yard in Washington, D.C. has handled its revolving credit operations in the same manner as the toughest finance company, giving a very unclear picture of the interest that they are really charging.

The net result

If the truth were known, we would find much of the revolving and installment loans are made by the local department stores or other retail stores who turn around and borrow this from the banks. This practice makes many of the retail merchants, who charge 2% per month, nothing more than deceptive loan sharks. Often they make more on their lending business than they do on the actual sale.

For the preservation of honesty and ethics in retail business, we urge that installment credit and revolving credit of all types be covered by this legislation. We feel strongly that including these two types of credit will also strengthen the role of the small town bank as the basic source of credit in our rural areas.

THE FARMER AND CREDIT

The farmer has one of the most critical problems with credit of any group of people in the country. The Department of Agriculture said that as of the end of last year we farmers were paying out more than $2.5 billion a year in interest chargeable to farm operations. This is an increase of 14% over the previous year. It is over $1 billion more than farmers paid five years earlier. This figure does not include any of the interest paid in connection with household and family living expenses.

Total farm debt during the past year increased by $5 billion to a new high of $45 billion or a 12% increase over 1965. About half is farm mortgage debt and the other half is short term credit used in buying farm equipment and farm supplies.

Several studies in Minnesota for 1966 showed that many farmers have been paying more for interest than for feed and seed. (See attached study.) The interest payments were also running much higher than their farm support price payments (ASCS payments). Interest cost on farm loans have gone up about 11% a year in the several years preceding 1966. Last year farmers suffered a major increase in interest rates, making the situation even worse. The situation has *not* improved.

Interest Charges on Farm Equipment. The National Farmers Union is strongly in favor of inclusion of farm machinery as contained in Truth in Lending Act as passed by the Senate. Interest on farm equipment and operating loans should be computed in the same way as it is computed by the banks, the Farmers Home Administration, etc. Implement manufacturers say they should be exempted because their loans vary so much because of when farmers can make payments. We say this is no different than a bank or FHA loan to a farmer.

The local banker or local FHA director will be happy to explain how to compute interest charges with farm implement dealers if they really have any trouble figuring interest. The truth is that many of the farm implement dealers are simply the broker as the loan source is really the farm implement manufacturer or a big banker. We suspect that many of you individually will be hearing from the bankers and the farm implement manufacturers complaining about this problem.

We want the retail farm implement man to make a reasonable profit as we need local retail farm implement businesses if for no other reason than they are our sources of spare parts. We would like to think that the farm implement dealer knows that he needs us farmers too. For every six farmers who go broke because of too low a farm income and too high a price which the farmer must pay for his supplies, one merchant goes broke and leaves mainstreet. Far too many farmers are going broke because of inflated interest charges.

Farm implement manufacturers have profited while the farmers are going broke. Farm machinery prices have climbed 4% a year for the past 15 years. International Harvester increased its profits from $74 million to almost $90 million during the same period. Allis Chalmers increased its profits from $16 million to $21 million during the first nine months of 1966. Other companies reported similar increases. Despite the fact that farm prices were not good and despite the fact that these companies were making tremendous profits, they raised prices and have not reduced them.

These farm implement companies, acting in unison, raised farm machinery prices another 2 to 5% on November 1st. This means that farmers are putting out an estimated $200 million more this year over what they spent last year.

According to the UAW, the wages of the workers are not a factor in that productivity has more than compensated for the increases in wages. The price of Ford trucks are going up from 1½% to 7.6% and International Harvester plans to boost their prices 3 to 4%.

The price of a plow (3 moldboard) has increased from $254 in 1947 to $580. A corn planter from $493 to $1120, and a manure spreader from $509 in 1947 to $928. The average farm machine other than tractor has doubled in price since 1947, and we are getting less for wheat now than we did then. We are getting about ¾ of what we were getting then in net income. We are getting 74% parity today in contrast with 100% in 1947–49.

SALES AND PROFITS, LEADING FARM MACHINERY COMPANIES

[Dollar amounts in millions]

	Sales	Profit after taxes[1]	
		Amount	Percent return on net worth
International Harvester:			
9 mo., ending July 31, 1965	$1,717	$74.2	9.3
9 mo., ending July 31, 1966	1,905	88.8	10.6
Deere & Co.:			
9 mo., ending July 31, 1965	656	[2] 39.1	11.0
9 mo., ending Sept. 30, 1966	783	62.1	16.2
Allis-Chalmers:			
9 mo., ending Sept. 30, 1965	526	16.4	7.3
9 mo., ending Sept. 30, 1966	683	21.3	8.2
Massey-Ferguson:[3]			
9 mo., ending July 31, 1965	566	23.5	10.8
9 mo., ending July 31, 1966	683	32.7	13.5
I. Case:			
9 mo., ending July 31, 1965	203	[4] 7.9	14.5
9 mo., ending July 31, 1966	240	[4] 14.8	23.1
White Motor Co.:			
9 mo., ending Sept. 30, 1965	481	15.4	13.7
9 mo., ending Sept. 30, 1966	597	23.6	19.1

[1] Annual rate.
[2] Exclusive of $4,800,000 net gain on chemical assets sale.
[3] Dollar figures are Canadian dollars.
[4] Company pays no income taxes because of losses incurred in preceding years.

Cost to the Taxpayer

We hope we have shown that deceptive consumer interest rate charges allow excessive interest rate charges. We hope we have shown that there has been a major expansion of this type of credit and that it has hurt the availability of lower interest rate, regular bank loans, and that it has had an inflationary affect upon interest rates.

The impact on school, local and state governmental bonds and U.S. Treasury bonds and other governmental securities has also been sizable. Many school bonds were not put on the market because of the high interest rates. Even in the fiscal year 1965–66, which was before the situation was at its worst, the average net interest cost for all school bond sales went up 42 basic points from the 1964–65 average, according to HEW.

Local government was equally hard hit. It is my belief that part of the cry for tax sharing was because of the difficulties in selling local and state governmental bonds at a reasonable rate of interest. The interest rate on high grade municipal bonds has almost reached the high point of last year—over 4%.

The U.S. Government has had to pay considerably more for the money which it borrows. The Sales Participation Act did not help, and as we predicted it did increase the interest cost for all governmental bonds and securities. While we all know that the national debt has increased since 1960, interest costs to the Federal Government have accelerated at a faster rate. In 1960, the U.S. Government paid out $6 billion in interest rates while in 1967 it looks like we as taxpayers will be paying out about $4 billion in national debt service charges, plus what we pay out for the Sales Participation differential.

We must, as a Nation, work at many levels to help prevent the high interest disaster which hit us last year. The Truth in Lending Bill is one tangible way in which high interest rates through deception can be stopped.

A Special Farm Problem

Increasing during the past few years as farmers have needed more credit than they could get from their local banks, a new type of business has developed around the sale of cattle. Farm journals have long carried advertisements about where farmers could buy cattle and calves, but now some firms are advertising easy credit available. Some of these do offer reasonable credit. Others actually use 12% to 18% credit, plus a big mark-up over and above the actual market value of the cow. However, you have to be a lawyer to read the contract and a math genius to find the interest rates they charge. Some of the interest rates and

other charges are so high that it is impossible for a farmer to break even on the cow.

The Truth in Lending Bill would take care of situations as far as the contract. However, farmers still need a Truth in Lending Advertising provision. We have seen an increase in deceptive advertising of credit. It has been noticeable among magazines ads for dairy cattle.

CONGRESSIONAL RESPONSIBILITY

Congress has always had the responsibility to regulate and influence interest rates and to regulate and control banking. Many of the retailers who are handling this type of consumer installment loan are in effect *extension offices* of the local bank.

Now even the banks are getting directly into the act. Many of our farmers in Illinois are reporting that they are receiving unsolicited Midwest Bank Cards out of Chicago. This will give instant installment or credit loans at any of more than 20,000 stores. The average person receiving the cards which are being mailed out to hundreds of thousands of families in or near Chicago will not know the annual interest rate charge or be able to easily find out that he could go to the same banks and get substantial savings by borrowing the money directly. Apparently these banks make enough by the deceptive interest rates they are charging that they can afford a few bad risks and still pay out over a million dollars to advertise this new system in Chicago.

We believe that Congress has the responsibility and the right to require honest interest rate charges. We believe that interest rate payments on all saving accounts be clearly stated, including the interest payments by Christmas Saving Clubs.

Unless Congress acts to eliminate this deceptive practice we are going to see an ever increasing level of bankruptcy not only among the poor but among the middle income persons as well. All of this has an inflationary affect upon interest rates and will further hurt us as farmers and taxpayers, and of course will hurt our sales with the average consumer who buys our products with cash.

SUMMARY STATEMENT

The National Farmers Union supports the Truth in Lending Bill and urges early passage. We support the Truth in Lending Advertising provision. Farmers are alarmed about high interest rates and we are proud of the key role that Farmers Union, its members and our Stop Buying Campaign have played in bringing down the interest rates. We sent a plane load of farmers from North Dakota, plus additional farmers from about six states to attend the tight money conference in January, and I cannot say that we got the banks to reduce their interest rates but I can say that simultaneously within the hour Senator Gore called for the resignation of Chairman Martin of the Federal Reserve Board, and the big New York banks dropped the interest rates. We have lead the crowd of organizations which have been protesting high interest rates through our Stop Buying Campaign. We do claim some measure of success for helping bring the interest rates down, but we are still talking loudly because interest rates are still not down in the rural areas and there is still too much money that is being syphoned off by deceptive consumer credit practices.

SPECIFIC COMMENTS ON THE NEW H.R. 11601 PROVISIONS

Farmers Union would like to make special comments concerning the several new provisions in H.R. 11601.

We support the standby emergency controls on consumer credit which would be given to the President during emergencies. We have supported this position for many years.

In general, we support credit control authority for commodity futures trading. We would like to submit further comments on the particulars on this matter at a later time. We support a maximum of 18% for consumer credit and in fact would like to see this maximum even lower.

Garnishment of wages is not as serious in rural areas as it is in urban areas. However, there is no question that lenders have abused the garnishment procedure on a wide spread basis, especially those that are charging highly usury rates of interest. Something should be done to correct this situation. The abuse of consumer credit has added fuel to the ghetto tension and has been one of the

contributing factors as why business in ghetto areas were targets during the recent riots.

1966 RETURNS SHOW TIGHT MONEY AS BIG ITEM ON FARM BALANCE SHEET

Interest charges on farm debt are one of the major items of the cost side of the farm balance sheet—and one of the greatest contributors to increased farm operating costs.

Interest payments by farmers in 1966 are estimated by USDA at about $2.5 billions, an increase of 14% over the level of a year earlier.

The increasing burden is due both to the larger amount of credit being carried by farmers and the increase in the cost of money to the highest level in 40 years.

When farm interest payments are compared with other farm operating expenses, it can be seen that they are now heavier than property taxes, fertilizer purchases, and outlays for gasoline, fuel and oil. The interest costs of $2.2 billions paid by farmers in 1965 exceed the $1.8 billions for real estate and property taxes, the $1.6 billions expended for fertilizer and lime and the outlays of $1.4 billions for gasoline, fuel and oil.

A survey of farms in the West Central Minnesota Farm Management Study for 1964 indicated that the average farm was laying out $1,632 per farm in interest payments, compared with an average of $736 per farm in payments for fertilizer and lime, $851 in property taxes and $823 in outlays for gasoline, fuel and oil.

An examination of data from 1966 Schedule F federal income tax returns made available to Minnesota Farmers Union by individual farmers shows that the interest payments are a major expense item, overshadowing some of the other farm outlays. Each line in the accompanying tabulation represents the figures for an individual Minnesota farm for 1966.

SELECTED FARM EXPENSES ON ACTUAL MINNESOTA FARMS (BASED ON 1966 FEDERAL INCOME TAX RETURNS)

Acres farmed	Gas and fuel	Feed purchased	Fertilizer and chemicals	P.P. taxes	Real estate taxes	Interest payments
320	$623		$731	$126	$552	$107
480	1,373	$3,002	1,358	247	809	2,600
880	1,806		1,924	100		528
700	1,502	3,124	921	284	984	713
480	611	1,432	533	145	474	479
360	1,000	1,200	800	160	646	1,600
400	623	210	1,391	157	1,300	1,378
110	425		600	125	565	
60	100		200	75	300	
120	325		400	100	500	
207	1,006	1,782	931	143		210
160	874	135	283	111		105
190	1,360	12,125	1,317	110	733	4,002
160	1,002	11,735		211	911	120
80	370	310	767	207	537	210
380	1,000	295	221	114	343	231
225	751	1,451	924	167	506	74
160	1,110		1,246	64	893	135
200	111		98	17	672	1,378
320	1,299	2,984	3,933	153	1,839	2,722
260	927	1,670	235	126	1,304	2,138
80	262	358	360	11		221
160	360	473	85	91	448	
322	907	1,798	3,508	194	1,795	2,304
239	982	2,485		850	134	
148	540	3,500	1,150	225	600	1,100
160	650	900	350	120	758	305
119	501	206	77	38	531	
113	529	3,156	1,029	208	444	506
440	225		260	19	211	
240	520		1,197	112	919	
120	506	429			546	213
247	676	1,772	200	128	795	20
200	420	1,700	670	200	225	417
188	729	578	458	70	693	810
320	1,000	1,100	1,800	301	2,425	2,050
350	2,500		1,647	160	2,127	1,609
182	690	2,936	708	105	595	132
160	1,015	621	365	84		
81	310	720	25	83	350	
139	474	1,322	32	114	532	
200	845	6,799	556	225		735
400	825	1,350	950	204	1,250	3,400

SELECTED FARM EXPENSES ON ACTUAL MINNESOTA FARMS (BASED ON 1966 FEDERAL INCOME TAX RETURNS)—Continued

Acres farmed	Gas and fuel	Feed purchased	Fertilizer and chemicals	P.P. taxes	Real estate taxes	Interest payments
480	$532			$58	$948	$237
320	868	$1,618	$1,220	139	405	1,901
280	1,200	100	700	100	1,300	
310	706	5,300	1,063	140		390
1,040	3,000	500	1,500	240	950	2,000
440	800	900	657	101	489	1,600
400	1,400	300	350	146		400
320	1,150	3,000	1,000	200	425	350
320	1,050	850	460	160	560	1,000
400	720	1,200	640	157	800	650
560	2,973	10,088	2,547	300	191	3,971
200	210	24		56	237	314
445	660		728	197	1,471	83
251	1,071	8,349		252	407	415
160	615	482	147	82	696	264
210	809	670	735	103	800	61
224	740	1,950	300	110	228	1,541
240	380	310	309	110		
320	700		300	50	240	400
880	895	2,107		128	1,300	720
810	955	2,832	1,751	116		675
800	825		2,000	120	1,200	800
230	860	1,700	1,800	75	715	847
160	444	797	106	154	381	
1,350	1,700	5,000	1,600	915	1,715	6,000
320	854	2,300	1,300	240	1,200	800
216	1,000	2,000		160	900	1,100
2,200	6,930	1,100	6,000	984	4,600	5,050
250	500	2,100	875	200	500	1,500
140	427	83		26	140	13
114	350	40	50	17	130	
159	390	150		48	150	
160	300		180	72	200	
647	915	510	458	262	343	141
1,600	1,934	25,000	3,000	737	1,189	1,343
80	800	15,000	600	110	1,000	300
330	1,431	1,928	1,292	198	1,231	497
360	670	40	896	96	1,008	1,110
440	1,456	180	1,780	120	380	
960	1,498	1,939	1,711	185	1,548	1,278
480	1,532		3,108	188	1,812	653
120	353		545			153
1,120	2,146	480	7,600	346	2,690	2,960
1,240	2,200	450	8,000	350	2,745	312
440	762		1,388	152	935	
440	1,336	430	1,352	169	1,062	877
200	235	125	160	86	187	
906	1,733	189	2,088	405	1,462	
320	1,200	600	400	125	445	600
160	565	35	545	109	380	
740	1,156	4,450	1,200	250	1,271	2,839
548	1,281	628	1,300	152	1,473	130
400	511	263	1,123	403	889	816
400	201	82	500	127	590	
120	600	1,000	500	82	454	940
320	572	789	1,209	98	773	462
176	1,141	1,113	508	99	549	271
620	859	172	5,767	145	1,361	384
149	509		385	50	551	
160	656	446	1,367	171	685	
200	324	1,876	418	208	819	1,563
470	1,250	2,600	2,900	260	2,040	2,950
320	842	2,220	332	233		1,125
160	860	1,300	1,200	48	440	300
120	593	1,622	402	91	701	730
120	600	40		116	622	2,000
437	776	1,108	1,185	248	2,241	2,587
184	878	2,664	664	162	540	435
320	521	217	97	96	528	39
500	1,637	1,156	442	149	586	
580	920	287	322	99	10,001	2,689
800	1,155		389	142		32
900	1,229	366	652	269	1,719	
200	814	339	843	71	523	437
620	2,200	1,558	3,170	226	800	105
400	780	940	900	230	560	1,000
200	142	122	321	176	1,174	1,484
480	615	697	256	335	1,964	
450	1,578	908	2,559	189	1,962	
160	653		232	96	1,244	236
400	900	4,141	1,300	190	238	1,543
360	1,112	5,546	2,945	286	1,060	2,343

ACTUAL 1965 FARM OPERATING FIGURES AS REPORTED ON SCHEDULE F TAX FORM—INTEREST COST IS FAST GROWING ITEM

[Each line represents an individual farm]

Farm number	Gas and fuel	Feed purchased	Fertilizer and lime	Property taxes	Interest payments
1	$353	$433	$1,547	$227	$120
2	1,406	224	548	1,008	382
3	1,696	1,244	592	638	1,243
4	689	849	502	530	386
5	1,553	1,292	636	304	423
6	1,381	1,432	182	362	536
7	24	3,982		958	2,304
8	270	245	2,586	150	476
9	1,190	1,395	156	1,447	2,252
10	520	2,339	986	95	433
11	1,023	6,005	120	951	1,260
12	434	1,096	751	402	368
13	544	2,100	71	628	1,352
14	915	2,952	1,426	864	1,498
15	1,954	141	516	930	1,613
16	1,933	6,583	2,626	1,309	719
17	1,769	10,614	953	931	3,313
18	1,125	1,650	1,711	1,856	2,443
19	837	1,489	468	1,188	1,870
20	647	275	4,598	1,101	609
21	2,558	4,072	1,259	2,007	2,638
22	666	2,971	1,236	1,435	2,241
23	959	3,246	731	634	1,581
24	224			522	240
25	303	3,748	307	727	1,626
26	1,386	3,136	423	367	152
27	579	617		646	1,004
28	370	1,200	537	366	350
29	1,838	1,216		931	1,716
30	1,006	929		631	490
31	853	3,008	2,000	585	1,304
32	2,585	1,345	3,311	115	350
33	961	3,341	203	2,083	2,931
34	474	850	356	919	493
35	734	2,036	1,400	830	663
36	640	640	753	742	1,672
37	640	76	310	1,200	528
38	722	367		762	1,034
39	844	507	774	533	855
40	657	1,116	826	1,117	1,023
41	378	1,298	708	724	330
42	560	1,296	850	748	1,027
43	984	246	874	578	816
44	558	16		543	218
45	384	8,792	642	239	241
46	449	930	177	474	1,135
47	171	4,766	101	406	203
48	492	3,156		1,425	403
49	529	403	201	525	450
50	346	1,526	408	454	588
51	515	7,341	954	604	1,193
52	856	3,257	628	848	476
53	1,287	1,902	451	930	302
54	1,085		5,401	1,239	1,549
55	1,710	347	34	1,937	3,138
56	866	283	160	667	338
57	520	1,730	228	490	722
58	670		440	708	1,259
59	506	570	1,598	615	1,334
60	919	553		1,996	344
61	588	1,083	1,306	1,272	937
62	973	6,208	883	1,127	1,126
63	1,467	1,916	319	1,718	3,346
64	524	4,649	397	748	583
65	1,341	4,430	614	2,120	3,325
66	1,106	2,136	178	978	2,393
67	698	4,862	518	842	814
68	579	639	261	155	437
69	1,037	14,446	1,683	143	450
70	1,485	1,387	806	2,100	3,721
71	797	631		509	909
72	540	18,750	1,537	795	1,035
73	3,177	597	275	1,211	3,134
74	577	173	586	540	833
75	1,331			952	1,000

ACTUAL 1965 FARM OPERATING FIGURES AS REPORTED ON SCHEDULE F TAX FORM—INTEREST COST IS FAST GROWING ITEM—Continued

[Each line represents an individual farm]

Farm number	Gas and fuel	Feed purchased	Fertilizer and lime	Property taxes	Interest payments
76	365	94		340	457
77	1,477	6,602	520	1,841	1,039
78	767	1,738	315	727	1,191
79	857	341	175	1,004	786
80	1,005	6,122	1,718	807	1,609
81	1,211	928	2,138	1,368	693
82	2,656	15,698		2,266	3,255
83	865	1,143	575	634	782
84	650	1,112		651	1,344
85	418	93		396	1,170
86	811	4,634		704	540
87	741	2,451	816	793	508
88	1,173		1,097	716	315
89	788	2,268	109	574	1,064
90	522	1,032	226	415	605
91	3,304	1,821	665	932	822
92	754	250	825	823	1,793
93	1,794		3,340	652	1,233
94	996	1,720	432	523	956
95	742		1,127	1,083	1,000
96	2,473		631	1,988	2,787
97	1,969	19,876	3,500	3,289	8,753
98	1,150	1,243	936	244	1,100
99	448	1,860	131	210	334
100	291	4,134		566	1,152
101	707	1,224	324	583	346
102	487	1,154	135	329	495
103	1,472	920	462	809	992
104	568	3,573	342	559	343
105	1,350	3,211	1,272	1,028	496
106	917	836	292	191	594
107	614	4,554	906	239	191
108	1,434	157	927	922	874
109	1,826	20	1,618	1,291	1,973
110	2,467	2,284	2,960	1,170	2,365
111	1,031		88	703	530
112	556	1,427		616	613
113	176	297		237	288
114	943		1,071	944	545
115	2,325	194		934	1,766
116	947	12,050	1,491	1,092	1,200
117	312		558		435
118	955	1,823	1,687	704	2,708
119	656	1,847		634	851
120	480	250	100	505	640
121	1,646	17	883	1,319	916
122	1,491		2,673	1,770	1,312
123	899	200	461	810	740
124	2,400		2,000	2,470	500
125	1,176		2,782	780	560
126	2,247	96	1,344	214	1,679
127	1,082	2,243	774	1,122	1,356
128	663	1,888	1,075	1,131	1,385
129	1,457	2,509	736	1,644	1,290
130	1,943	239	257	1,003	1,187
131	947	651	162	274	297
132	1,039	4,774	335	952	1,696
133	865	152	312	1,402	4,165
134	468	4,899	2,720	984	363
135	1,466	1,984	1,276	1,102	1,428
136	1,155	2,031	595	536	965
137	830	1,505	1,942	71	605
138	1,184	7,190	422	2,166	2,880
139	353	4,746	193	725	1,283
140	464	92	1,157	216	914
141	1,036		3,516	789	426
142	1,308		3,031	1,288	4,144
143	923	1,709	194	834	324
144	425	1,284	473	714	312
145	710	7,170	1,231	616	787
146	1,359	1,572	95	791	1,188
147	784	510	43	641	1,326
148	190	15,645	692	125	302
149	729	2,605		819	2,108
150	759			530	974

Mrs. SULLIVAN. Thank you. I was able to read your statement last night and it is very good, very complete and full of some real meat and information.

I take it from what you have said to us and what your full statement reveals that you are for H.R. 11601 as needed law; is that right?

Mr. CARSTENSON. Yes.

Mrs. SULLIVAN. Fine. I know that Mr. Carstenson has to go to another committee to testify, and I apologize again for holding you up. Unless members have any questions to ask him, we can let him go.

Mr. Bingham?

Mr. BINGHAM. I am very impressed with Mr. Carstenson's statement. He has made a general point here which I do not thing any other witness has made before, and that is, if I understood you correctly, that you think too much money has gone into consumer credit transactions and that much of this money would better have gone into other types of credit transactions.

Mr. CARSTENSON. I think that much—there has been an outflow of money from other essential parts of the economy that have not been made, for example—the housing industry and school bonds—and it has had a detrimental effect in these areas. I know the committee has been concerned about what has happened to housing, and perhaps we think that is a more essential thing, to build houses than it is to put the toaster in.

Mr. BINGHAM. For example, if a provision prohibiting garnishment were to discourage credit transactions, would you say that was fine?

Mr. CARSTENSON. We have had such an increase in consumer credit, sometimes they have been given without much thought and has been pushed without much care. We have seen—some of our members have reported where department stores have in their back rooms signs that say, "Push credit, this is where the profits are." This has gone too far and the garnishment provision I think would tighten up the consumer credit and would allow more money to be available for essentials as building schools and houses and things of this sort.

Mr. BINGHAM. Thank you very much.

Mrs. SULLIVAN. As I remember, one of the witnesses said this morning that there was $1.2 billion lost just last year in consumer debts through personal bankruptcies growing out of the overextension of credit. This is what I said before about the easy comeon, to charge now and pay later, and it makes a great dent.

Mr. CARSTENSON. It is too easy to open most charge accounts.

Mr. BINGHAM. One further question, Madam Chairman.

You did not mean to suggest in your statement, did you, that our bill, the Sullivan bill, does not include agricultural machinery in its coverage?

Mr. CARSTENSON. I think in the corrected copy it does indicate that it is in there. I am well aware it is in there and we appreciate it, and I think the farmers of this country will benefit greatly from this.

Mrs. SULLIVAN. Do you have any questions, Mrs. Dwyer?

Mrs. DWYER. No questions.

Mrs. SULLIVAN. Thank you very much for coming. If you want to stay, you may, but if you feel you should go, we will excuse you.

Mr. CARSTENSON. Thank you very much, Madam Chairman. I have to be over to appear in another committee.

Mrs. SULLIVAN. Thank you.

Now, we have Mr. Clyde T. Ellis and Mrs. Erma Angevine from the National Rural Electric Cooperative Association. We always consider Clyde Ellis as Mr. Rural Electrification, a genuine innovator and pioneer.

It was at your conference on tight money last spring at which I agreed to consider in these hearings the question of usury ceilings suggested by our full committee chairman, Congressman Wright Patman. This is why it is in the bill and we want to see what we can do with it.

If you will, I would appreciate your giving your statement, Mr. Ellis, and then Mrs. Angevine, we will hear from you. We will then hear Mr. Stone before we start the questioning.

STATEMENT OF CLYDE T. ELLIS, GENERAL MANAGER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.; ACCOMPANIED BY MRS. ERMA ANGEVINE, WOMEN'S ACTIVITIES COORDINATOR FOR NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.

Mr. ELLIS. Thank you, Madam Chairman. We appreciate this opportunity to appear before your committee.

For the record, my name is Clyde T. Ellis, and I am and have been for 25 years general manager of the National Rural Electric Cooperative Association, which has its headquarters in Washington.

Madam Chairman, since you referred to the tight money conference sponsored by the Consumers Information Committee of which NRECA is a member, I would like to include in the record the consensus of this meeting which was adopted following the address by the chairman of the House Banking and Currency Committee and my good friend, Wright Patman.

Mrs. SULLIVAN. It will be placed in the record at this point.

(The material referred to follows:)

TIGHT-MONEY CRISIS—A CALL FOR DECISIVE ACTION

America is in a tight-money, high interest rate crisis. This must be quickly reversed before it leads us into a recession with its resulting unemployment, inadequate housing, unavailable credit, and general economic stagnation.

This crisis is man-made, the product of monetary policies of the Federal Reserve System.

No one can question the significance of the role played by the Federal Reserve Board and Federal Open Market Committee and its effect on the economic well-being of the American people. The result of actions taken by the Federal Reserve System in the area of monetary policy can create an environment productive of economic prosperity or economic recession and ultimate depression.

Monetary policy decisions made by the Federal Reserve Board since the middle of the 1950's have been major contributing factors to four recessions in the United States. The Board's most recent action on December 5, 1965, which increased interest rates by 37½%, raised the rediscount rate and subsequent action which severely restricted the money supply, has not only caused significant disruption between the traditional positions of our financial institutions, but among other things has been a major cause of the depression in the housing industry.

The current Federal Reserve policy of tight money and high interest rates—rates which have soared to 40-year highs—has been detrimental to consumers, as wage earners, farmers, home builders or small businessmen. The current tight money, high-interest rate policy has not only thwarted, but in many cases actually wrecked President Johnson's Great Society Program.

The increased interest costs which will have to be paid by the American people due to increased costs of carrying Federal, State, and local debt, and the increased interest costs which the American consumer must bear for funds borrowed for home purchases and other consumption needs will amount to many billions of dollars. This burden will have to be carried by coming generations as well as the present.

Many vital programs, such as rural electrification, cooperative housing, Farmers Home Administration loans, Veterans' benefits, education aids, other programs which are dependent upon the Federal, State and local governments for direct loans or insured loans cannot survive under current monetary policies.

No one benefits from a tight-money, high-interest rate policy except those in the fortunate position of having funds to lend. A high-interest, tight-money policy promotes concentration of wealth rather than encouraging wide-spread distribution of income and money. The policy erodes the American tradition of advancing effective and efficient small business, home ownership, and decent standards of living for all our people.

Our present economically and socially undesirable monetary policy is a direct consequence of the refusal of the Federal Reserve Board System to operate in harmony with Congressional mandate and Executive policy. In fact, the actions of the Federal Reserve Board and System over the last several years constitute a direct violation of the policies and objectives contained in the Employment Act of 1946.

For reasons presented in this brief review, the delegates to this National Conference call upon the Congress and the President of the United States to take positive action now in reversing the present dangerous tight-money policies and in putting the country back on the road to growth and prosperity.

Specifically, we urge an action program which will include:

1. Prompt hearings by appropriate Congressional Committees to determine how this country has been placed in the present dangerous situation and to initiate prompt and necessary action to correct and to prevent the recurrence of this situation.

2. Enactment of legislation to make the Federal Reserve System fully responsive to the Congress.

3. We urge the President not to reappoint McChesney Martin. If he is reappointed we urge the Senate to reject his nomination.

4. Establishment of machinery to give representatives of consumers and other major groups of citizens an opportunity to share in the design of monetary policies.

5. Utilization of all available and appropriate new direct and guaranteed loan and credit programs wherever appropriate to strengthen the hand of the consumer—the home owner, the businessman, the farmer, the working man, the borrower, the poor, the student, the elderly—in his efforts to share fairly in the growth of America.

6. Reaffirmation of the Employment Act of 1946, which calls for continuing growth as a national goal, with full employment of manpower, maximum utilization of plant and wise use of resources recognized as major objectives in the public interest.

As delegates of this National Conference, we are concerned that the Nation be given the opportunity to move forward. We extend an urgent invitation to all our fellow citizens to join with us in a crusade for sensible monetary policies.

While the Federal Reserve Board has recently and belatedly made small efforts to loosen money, it is clear that these modest corrective policies are still ineffective to achieve the flow of money and interest rates necessary for a growing and secure economy.

Mr. ELLIS. I might say that we feel that credit hardships in the rural electric systems and among our members do exist throughout this Nation, throughout America. Mrs. Angevine will go into that further in her statement.

The rural electric systems have long been interested in the total subject of credit. The architects of the program, Senator Norris of Nebraska, and Congressman Sam Rayburn of Texas, realized how important credit would be, not only to the rural electric systems, but to the consumers of those systems when they provided in the bill for the electric systems themselves—the borrowers of REA—to relend some of the money to their consumer members. Some systems do that but not all of them do it. In any case, the various problems of credit do exist in the rural areas.

Today we would like to call your attention to a few of the attitudes of our people, and, Madam Chairman, you are to blame—you are responsible for some of this. We had you, fortunately, at one of our national meetings to speak to some 1,200 of our leading women, and you advised them to become "kitchen politicians" in this area of consumer interest. They have done that. They are doing it and they are organized to do it now in many parts of this Nation. And I must say that they regard you as the great leader in this field, as we do at NRECA among the staff.

Mrs. SULLIVAN. I am happy to hear that I have a little bit of influence. I was delighted to appear at your meeting and talk about consumer issues. The women were wonderful.

Mr. ELLIS. Let's take a look at this language. Our people didn't get excited about this although they were interested in credit, but they didn't get excited about the possibilities of them doing anything until your fine speech to them. It had wide circulation in this country.

In 1967, this year, at our national annual meeting our people passed a resolution containing these two paragraphs:

WHEREAS, widespread misrepresentation of interest rates, vaguely worded credit contracts, unscrupulous repossession methods, trick payment clauses, high pressure door-to-door selling tactics, unconscionably high rates for credit, and and other unsavory credit practices work severe hardships on consumers: Now, therefore, be it

Resolved, That we reaffirm our support for legislation that helps consumers shop for the best buy in credit by requiring a clear statement of the cost of credit and the annual rate of interest.

In 1966, the year before, our people passed another strong resolution which is contained in the prepared statement. I will read only this one sentence:

Be it further resolved, That we support legislation that helps consumers shop for the best buy in credit by requiring a clear statement of costs.

It is the same idea, you see, carried through here.

We of the rural electrics think that the credit partnership of the Federal Government and the rural people throughout the rural electric system is one of the brightest spots in our Nation's history because it has worked and worked well and continues to work. I was one of those farm people who had no electricity. I had no electricity in my home until after I was married. We were excluded people—or part of them—of this country because we lived out where the lights were not and the outhouses were. And our friends in the cities laughed at us, made jokes about us. We just did not belong until electrification came along and gave us a new lease on life.

Now, this was a Federal-private citizen partnership in credit and it of course did, among other things, establish a responsible, respectable

credit system and it is still working. So we take more interest in credit as our people continue to move from the rural areas to the cities. Too, much so, we think.

Now, for the substantive statement for our organization, I defer to Mrs. Angevine who is our women's activities coordinator and works with various women's organizations in the States and in the regions.

Mrs. SULLIVAN. We will insert your prepared statement at this point and then we will be glad to hear Mrs. Angevine.

(The full statement of Mr. Ellis follows.)

STATEMENT OF CLYDE T. ELLIS, GENERAL MANAGER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.

My name is Clyde T. Ellis, and I am and have been for 25 years General Manager of the National Rural Electric Cooperative Association, which has its headquarters in Washington, D.C.

NRECA is the national trade and service organization of 980 rural electric systems serving nearly 20 million consumers in 2,578 of the 3,072 counties in the continental United States and in 9 of the 19 election districts of Alaska.

With me is Mrs. Erma Angevine, Women's Activities Coordinator for NRECA, who has done much work in the area of consumer legislation in general and "truth-in-lending" measures in particular. Mrs. Angevine will detail NRECA's support of "truth-in-lending" legislation and our position in regard to the proposed Consumers Protection Act of 1967.

Much of NRECA's active interest in "truth-in-lending" and similar consumer legislation stems from the speech made by your distinguished Chairman, Rep. Leonor Sullivan, to 1200 rural electric women at the NRECA annual meeting held in Miami Beach in 1965. At that time, she urged them to become "kitchen politicians" in behalf of legislation to protect the interest of consumers. Many of them are doing just that, on a bipartisan basis.

The work of the rural electrics' "kitchen politicians" is evident in the consumer resolutions proposed that year and each subsequent year by the NRECA Women's Activities Standing Committee. These resolutions have been adopted by the NRECA membership without a dissenting vote.

At the 1967 NRECA annual meeting, delegates representing the rural electric systems unanimously approved a "truth-in-lending" resolution which reaffirms support for legislation that "helps consumers shop for the best buy in credit by requiring a clear statement of the cost of credit and the annual rate of interest." I would like to submit that resolution and the 1966 NRECA resolution on consumer protection for the hearing record.

Resolution adopted at 1967 NRECA annual meeting:

"TRUTH IN LENDING

"Whereas, widespread misrepresentation of interest rates, vaguely worded credit contracts, unscrupulous repossession methods, trick payment clauses, high pressure door-to-door selling tactics, unconscionably high rates for credit, and other unsavory credit practices work severe hardships on consumers: Now, therefore, be it

"*Resolved*, That we reaffirm our support for legislation that helps consumers shop for the best buy in credit by requiring a clear statement of the cost of credit and the annual rate of interest."

Resolution adopted at 1966 NRECA annual meeting:

"CONSUMER PROTECTION

"Whereas, NRECA is an association of 979 consumer-owned and controlled electric systems, vitally interested in all matters affecting consumers; and

"Whereas, we recognize consumers have a responsibility in the economic life of this country to support with their patronage the honest and efficient producers and distributors who offier the best value for the lowest price; Now, therefore, be it

"*Resolved*, That we support legislation that helps consumers fulfill their role in an intelligent and responsible manner by giving them access to clear, unam-

biguous information about products and services available for sale; and be it further

"*Resolved,* That we support legislation that helps consumers shop for the best buy in credit by requiring a clear statement of the cost of credit and the annual rate of interest; and be it further

"*Resolved,* That we support legislation that assures the safety of food, drugs, and cosmetics before they are offered for sale; and be it further

"*Resolved,* That we reaffirm our support for full representation of the consumer in the highest councils of government and commend the President for again appointing a Consumer Advisory Council to work with his Special Assistant for Consumer Affairs; and be it further

"*Resolved,* That we urge rural electric systems and their state and national associations to make consumer information available to their members."

Those of us who work in the rural electrification program are well aware of the importance of credit and the significance of the terms and conditions attached to its use. The very history of rural electrification demonstrates the value of the extension of useable credit for a worthwhile national purpose—the construction of rural electric systems to provide electricity to farms, homes, schools, churches, and businesses in rural America. This successful credit partnership of the Federal government and private citizens is one of the brightest chapters in our Nation's history, for rural electrification has been—and continues to be—a dynamic factor in improving the living and working conditions of the people of rural America.

It is an interesting but often overlooked fact that the architects of the original Rural Electrification Act of 1936—the late Senator George Norris of Nebraska and the late Speaker Sam Rayburn of Texas—wisely included a provision for low-cost consumer credit in that landmark legislation. At that time, the United States was in the midst of the great depression, and reasonably-priced consumer credit was non-existent in rural America.

Because would-be consumer-members of the rural electric cooperatives could not borrow money from private sources to finance the wiring of their homes and farmsteads, Section 5 of the Rural Electrification Act of 1936 specifically provided for low-cost loans "for the purpose of financing the wiring of the premises of persons in rural areas and the acquisition and installation of electrical and plumbing appliances and equipment." These consumer loans, commonly referred to as "Section 5 loans" did much to speed the initial electrification of rural America and the subsequent modernization of its homes and farms.

At this time, I would like to introduce Mrs. Erma Angevine, who will outline NRECA's position in regard to H.R. 11601 and other bills before this Subcommittee.

Mrs. SULLIVAN. Knowing the ability and background of Mrs. Angevine, I am delighted that you are testifying. We will be happy to hear your statement.

Mrs. ANGEVINE. Thank you, Madam Chairman, Mr. Ellis.

I am very pleased to have the opportunity to be the one to register NRECA's strong support for H.R. 11601, introduced by your distinguished chairman and also the identical bill, H.R. 11806.

As Mr. Ellis mentioned and as he told you, we have two resolutions strongly endorsing truth in lending. These were passed in 1966 and early in 1967.

I want to point out, because these resolutions were based on the strong truth-in-lending bill of the former Senator Douglas, we therefore were disappointed in the provisions of S. 5 as passed by the Senate. We still strongly support truth in lending, but we are disappointed at a bill that leaves out first mortgages, revolving credit, some installment loans, and for all practical purposes doesn't become effective until July 1, 1972.

Currently, Americans pay around $22 billion a year on interest and finance charges. That's about a fourth of what they pay for groceries. We know it is hard, women know this day to day, to go in and decide

whether to buy six 5½-ounce cans at 98 cents or five 6½-ounce cans at 89 cents.

Yet it is much easier to make a decision like that than it is to go and try to buy credit where you have not the similarity of information most of the time.

I read through the hearing records for the past several years on Senator Douglas' bill and find even bank presidents and government officials have admitted publicly in the hearings that they cannot understand what the lenders and vendors are saying in their credit contracts. If they are confused by add-ons and discounts and percent of original balance and so forth, you can imagine how confused an average consumer on a rural electric line is.

According to a study that is called, "Consumer Sensitivity to Finance Rates," 800 families in the study were asked to list how much interest they thought they paid. Then they averaged these interest rates out and discovered that the families thought they paid 8.3 percent interest. In reality these families were paying 23.2 percent interest.

It seems to us that all consumers are entitled to know before they buy anything the price they are going to have to pay. This applies to credit as well as to anything else. We feel therefore that the disclosure provisions in title I of H.R. 11601 will provide them the kind of information they need to make informed decisions.

We also support the provisions that would make this go into effect on July 1, 1968. We believe that any lender would have ample time to change his operations to take care of this deadline.

The rural electrics heartily applaud the truth-in-advertising provisions in H.R. 11601 which extend the disclosure requirements to advertisement of credit as well as the conduct of an actual credit transaction.

NRECA has long been in battles about truth in advertising. Our rural electric systems have been the victims now and then of some vicious propagandizing, propaganda advertising campaigns. We therefore endorse any attempt to bring truth into the advertising field and believe that this is an area where reform has long been needed. Though we realize this is just one step, getting disclosure for credit advertising—it is that first step for truth in advertising.

We cannot either oppose or support title II of the bill, which would prohibit the garnishment of wages. We say this because our membership has never had any reason to consider garnishment of wages and we therefore cannot go on record representing these members without having some information from them.

I must make the same statement in relation to the part of title I that deals with the regulation in credit for commodity futures trading. We have no position, have never made any study nor have any information from our members. We do understand, however, that the Department of Agriculture is now reviewing an outside study which they have made on the extent speculating trading affects the futures market and the value margins would have in controlling speculation. We defer to those who are more familiar with such operations.

In regard to title III of H.R. 11601, we support the establishment of the proposed bipartisan National Commission on Consumer Finance. NRECA believes that the studies and recommendations of such a

commission would be most helpful in pointing the way for future improvements in the field of consumed credit.

We urge that provision be made for adequate representation of the rural users of credit when these Commissioners are appointed.

We believe these Commissioners should not necessarily come from the rural areas, but they should be people who are well aware that there are rural borrowers as well as urban borrowers. Rural residents are heavy users of credit for several reasons. Some of them Dr. Carstenson pointed out, some of them Mr. Ellis has discussed. There is a growing need, a growing trend toward larger sized and increasingly mechanized farms and this of course means that the debt of the farmers has increased, also. Over the past 20 years, farm mortgage debt has quadrupled. On January 1, 1966, the total farm debt exceeded $40 billion for the first time. That figure includes $21 billion in farm mortgage debt and $19 billion in debt for machinery, equipment, and other farm operating expenses. This is a heavy burden on any farmer, but it is particularly heavy on young people who are just getting started out in farming. Because of this heavy investment to get a farm started and because there is such a narrow margin between the gross and net income of any farmer, the farmer finds it necessary to borrow money oftentimes as he did back in the depression days just to carry him between planting a crop and harvesting it.

In addition, I would like to point out that rural America, which has only 30 percent of the U.S. population, contains more than 40 percent of the Nation's poor. I am sure that this committee is aware and that several other people have called your attention to this, but it seems to us that when we talk about credit, misuse of credit, we have to think about these poor people as being the ones who are more often victimized.

Enactment of meaningful truth-in-lending legislation we believe will benefit everyone, for we recognize all of us are consumers. But it will be most helpful to those who have the least to spend for the necessities of life.

Madam Chairman, we want to compliment you and your colleagues for introducing a bill which is aimed at correcting a wide range of abuses in the credit field. We recognize that we have not commented on every section of H.R. 11601. In some instances it is because we have no guidance from our membership and we are a membership organization. We do believe, however, our strong support of the National Commission on Consumer Finance does show our interest in further explorations of any area in the consumer finance field.

We look forward to the enactment of a strong truth-in-lending bill, full disclosure law, during this session of the 90th Congress.

Thank you.

Mrs. SULLIVAN. Thank you, Mrs. Angevine. You have given us an exceedingly interesting and full statement, and we are delighted to have your support. We know that there are sections of the bill dealing with matters on which you would not have the experience in your own organization to judge whether or not some one of these provisions should be enacted. For instance, we put in the commodity futures trading provision because we have had some experience in this subcommittee on this issue in investigations of coffee prices and sugar

prices. I have had bills before the Agriculture Committee since 1954 to bring coffee futures trading under regulation, and since 1963 to bring sugar futures trading under regulation, and this year I added livestock and livestock products, based on the work we did in the National Commission on Food Marketing. I understand from what I heard yesterday that the Committee on Agriculture is about to consider legislation that will include coffee, sugar, and livestock, so we are finally making some progress there. I do not know what is going to come out of it, but in the meantime, in these hearings on H.R. 11601, we are going to hear from some experts on margins on commodity futures trading and get some facts in our record.

(The complete statement of Mrs. Erma Angevine follows:)

STATEMENT OF MRS. ERMA ANGEVINE, WOMEN'S ACTIVITIES COORDINATOR FOR NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.

Madam Chairman and Members of the Subcommittee, my name is Erma Angevine, and I am Women's Activities Coordinator for the National Rural Electric Cooperative Association.

I am very pleased to have this opportunity to register NRECA's strong support of H.R. 11601, the Consumer Protection Act of 1967, which has been introduced by your distinguished Chairman, Representative Sullivan, and five other members of this Subcommittee, and an identical bill, H.R. 11806, which has 17 House sponsors. As Mr. Ellis mentioned, the rural electric systems have endorsed the enactment of effective "truth-in-lending" legislation by resolutions adopted unanimously at NRECA's 1966 and 1967 annual meetings.

However, we are disappointed in the provisions of S. 5 as passed by the Senate, for our support was geared to the more inclusive and thereby more effective "truth-in-lending" bill sponsored in previous years by former Senator Paul Douglas. We believe that the Senate bill, by exempting first mortgages, revolving credit, some installment loans and by setting, for all practical purposes, an effective date of July 1, 1972, will by that time only be protecting about one-fifth of all consumer credit transactions.

Currently, Americans pay around $22 billion a year in interest and finance charges. That's almost as much as they pay for groceries. And hard as it may be to determine whether six 5½ ounce cans at 98 cents are a better buy than five 6½ ounce cans at 89 cents, it's practically child's play compared to determining credit charges.

Even bank presidents and government officials have admitted publicly to being confused by the practices now used by lenders and vendors in stating their finance charges on consumer credit. If they are confused by the array of add-ons, discounts, percent of original balance, monthly payment amount, term price differential, sales price versus cash price, and so on, what chance does the average consumer have?

According to a study called "Consumer Sensitivity to Finance Rates," we do not have as much of a chance as we think we have. In the course of this study, 800 families were asked to estimate how much interest they were paying. All of their estimates were put together and averaged. The average estimate was 8.3 percent. How much were they really paying? On the average, they were paying 23.2 percent.

All consumers are entitled to know in advance of a credit purchase the price they are going to have to pay for the extension of credit. We feel that the disclosure provisions contained in Title I of H.R. 11601 will provide them with the kind of information they need to make an informed decision on a proposed credit purchase. We also support the provision that these requirements go into effect on July 1, 1968, as we believe this allows ample time for lenders to make the necessary changes in their present mode of operation in order to comply with the law.

The rural electrics heartily applaud the "truth-in-advertising" provisions of H.R. 11601, which extend the disclosure requirements to advertisement of credit as well as the conduct of an actual credit transaction. NRECA has long fought for "truth-in-advertising," for the rural electric cooperatives have been the victims of vicious propaganda advertising campaigns. We endorse completely

this bill's efforts to introduce truth into the advertising field. This is an area where reform is long overdue.

We neither support nor oppose Title II of H.R. 11601, which would prohibit the garnishment of wages. Our member rural electric systems have never had cause to consider garnishment of wages, and therefore we have no position on this matter.

I would like to make the same statement on the section of Title I which deals with the regulation of credit for commodity futures trading. NRECA does not have a position of either support or opposition to such regulation. We understand that the U.S. Department of Agriculture now has under review an outside study which has been made on the extent speculative trading affects the futures markets, and the value margins would have in controlling speculation. We defer to those who are more familiar with the operations and effect of commodity futures trading.

In regard to Title III of H.R. 11601, we support the establishment of the proposed bi-partisan National Commission on Consumer Finance. NRECA believes that the studies and recommendations of such a commission would be most helpful in pointing the way for future improvements in the field of consumer credit. We urge that provision be made for adequate representation of the rural users of credit by the appointment of commissioners who understand rural problems as well as urban problems.

Rural residents are heavy users of credit for several reasons. The growing trend toward larger-sized and increasingly-mechanized farms has resulted in a sizable increase in the cost of farming . . . and a corresponding increase in the size of the farm debt. Over the past 20 years, farm mortgage debt has quadrupled. On January 1, 1966, total farm debt exceeded $40 billion for the first time. That figure includes $21 billion in farm mortgage debt and $19 billion in debt for machinery, equipment and other farm operating expenses.

This financing burden is particularly heavy on young people who are just starting out in farming, and those who are attempting to expand their operation by the acquisition of more land or the purchase of additional machinery and equipment. Because of the heavy investment required by modern agriculture, and because the margin between gross and net income is a narrow one, many farmers also find it necessary to borrow money to carry them between the planting of a crop until its harvest.

In addition, rural America—which has only 30 percent of the U.S. population—contains more than 40 percent of the Nation's poor. As has been pointed out many times, it is the poor who suffer the most from credit abuses. Enactment of meaningful "truth-in-lending" legislation will benefit everyone—for we are all consumers—but it will be most helpful to those who have the least to spend for the necessities of life.

Madam Chairman, we compliment you and your colleagues for introducing a bill which is aimed at correcting a wide range of abuses in the credit field. We look forward to enactment of a strong "truth-in-lending" law during this session of the 90th Congress.

Thank you.

Mrs. SULLIVAN. Now we will hear Mr. Julius Stone, who represents a very excellent organization that we are all familiar with and all think very highly of, the Credit Union National Association. We are most happy to have your testimony on the credit union movement. If you wish, your whole statement will be made a part of the record. You may either read your statement or summarize it, as you prefer.

STATEMENT OF JULIUS STONE, CHAIRMAN, LEGAL AND LEGISLATIVE COMMITTEE, CUNA INTERNATIONAL, INC.

Mr. STONE. I don't want to trespass on the time of the committee. I thought that even if I attempted to summarize it I would be taking up too much time. Perhaps you might permit me to just touch upon a few of the high spots that I would like to call to your attention and I would be glad to answer any questions you may have.

Mrs. SULLIVAN. Good. I just want to say you are not trespassing on our time. You did come all the way down from Boston and we want to hear you. I am just sorry we do not have the full membership present at this moment.

Mr. STONE. Madam Chairman, members of the committee, my name is Julius Stone. I am chairman of the Legal and Legislative Committee of CUNA International, Inc., and I am a director and past president of CUNA. CUNA International, Inc., is a nonprofit association of credit union leagues. In this country, there are 48 State credit union leagues which represent approximately 22,000 credit unions and which comprise approximately 18 million members.

I am appearing before you today to testify in support of H.R. 11601, the Consumer Credit Protection Act.

When the first truth-in-lending bill was presented we came and testified in behalf of this concept.

As you know, credit unions are nonprofit mutual membership organizations chartered for the purpose of promoting thrift and providing provident and productive loans. They are chartered by either the Federal Government or by one of the State governments, and they are supervised and examined by a State or Federal agency. They are exempt from Federal income taxes. Credit unions do not deal with the general public. They must have a common bond of membership and they can only deal with members.

The community concept was conceived by Edward Filene when he had the Massachusetts law enacted in 1909. But the common bond might be governmental, municipal, might be industrial or it might be fraternal or it might be a national background. All of these types of credit unions with its membership having a common bond gathered together to assist each other and to make their funds available to each other in time of need. We like to think of credit unions as being a service organization. It is more than a thrift in savings type of organization. It is the type of organization where we attempt to service our members, and in attempting to service our members we felt that there has been an obligation upon us to educate them—to educate them in connection with consumer credit, to educate them with the problems that arise daily. So in connection with this we would have schools, we have had educational programs in our various legislation—CUNA International has submitted a number of pamphlets and some of them I think we would like to submit for the attention of the committee and this has been for the purpose of making our membership aware of the needs of the members and the need of checking credit and misrepresentations and representations made in connection with the extension of credit.

Mrs. SULLIVAN. Without objection we would like to have that for the record.

(The material referred to follows:)

[Consumer Facts—a service of your credit union]

MANAGING YOUR FAMILY'S CREDIT

By Lucile Ketchum, Extension Specialist in Home Management, Michigan State University

Ruth Mason sighs as she looks over the bills for the month and tries to think how they'll stretch the paycheck that Jim will bring home tonight. Groceries will take $125. Then there's the house payment, light bill, payment on the new washer, payment on the car, shoes for Johnnie, and the telephone bill.

Already it adds up to almost as much as the check will be.

And there's that bill for the things she charged at Jones'. A birthday gift to buy for Susan next week. Allowances for the children. And Jim really needs his new suit before that important trip at the end of the month. They've been planning to get it from month to month but there never seems to be enough cash to go around.

Ruth decides she'll talk with Jim about getting the suit on an installment plan. They never have bought clothes "on time," but she sees no other way to get the suit by the time he needs it.

And so it goes—another "easy" payment!

MORE DEBT: GOOD OR BAD?

Many other families are in the same boat as the Mason's—using more and more credit to buy the things they want.

Some folks say this is a bad situation. Others say it's good—that wide use of credit is one of the things that helps to give us such a high standard of living in America.

Good or bad, certainly many families and individuals *do* use credit in order to enjoy today—rather than waiting until they can save the purchase price—such things as automobiles, refrigerators, automatic washers, education and even vacation trips. Others use credit in the form of a charge account simply as a convenience. Still others borrow money to meet emergencies, such as illness or being out of work. And some folks say that buying equipment and furnishings for the home on the installment plan is a way of saving—that they wouldn't be able to save the purchase price of such items without a contract to make them do it. Moreover, some will say, even though it costs more to buy "on time," it's worth the extra cost to have certain conveniences and comforts while the family is growing, rather than to wait until savings can be accumulated.

IT'S HOW YOU MANAGE CREDIT THAT COUNTS

Whatever your reasons, using credit in itself isn't necessarily good *or* bad. It's the way you use it that means either benefits or problems for you.

You have to manage credit. If you don't your debts will manage you—keep you from doing and having many things you really want.

You may not have thought of it in this way, but actually your credit—the confidence others have in you which makes it possible for you to borrow money or to buy on time—is indeed a valuable personal asset.

The purpose of this leaflet is to bring together some ideas which may be helpful to you in using credit to your advantage.

ASK YOURSELF THESE QUESTIONS:

1. Shall I use credit for this purchase?

In order to answer this question for yourself, there are many others to think about:

How will the payments fit into your family's regular spending? If you haven't been in the habit of budgeting (planning expenses before you spend), now is the time to start—before you take on installment payments. Will you have to go without necessities or other items that are more important to your family than this purchase? No one else can give you the answer. Sometimes it's learned the hard way, by living with installment payments that are too big for your income. Sitting down together as a family and figuring all your living expenses ahead of time isn't easy—but it might save a great deal of real trouble.

How much will credit cost? What's the difference between the cash price and the price you'll pay if you buy "on time"? Is it worth the cost to you to be able to make the purchase now on credit, and pay later? Or would it be better to use savings? Or to wait until you can save enough to pay cash?

Will whatever you are planning to buy outlast the time you'll be making payments? Give long service? (It's no fun to pay for "dead horses"!)

Is this something that you will want as much when you are making the payments as you do now?

Will it mean better family living? (Save time? Save energy? Give satisfaction to the family? Protect health? Make it possible to increase income?)

Is your income certain for the length of time that payments will run? And do you have enough life insurance protection to cover the debt?

2. How do I shop for the best credit "buy"?

Main sources of consumer credit are:

Credit Unions
Small Loan Companies
Personal Loan Department of Banks
Sales Finance Companies
Retail Sales Establishments

The charges from these different sources vary a great deal. Take time to investigate. Find out what kind of service you can expect, what the cost and repayment terms will be. Do this before you decide where to use your credit.

Find out the dollar cost

You probably compare prices on shoes, dresses, coats, housewares. Why not on the cost of credit?

There is no reason why you should feel embarrassed about asking for this information any more than you would hesitate to ask the price of merchandise you might be looking at in a store.

Credit costs vary widely among different lenders and among stores that sell "on the installment plan." In fact, costs may differ considerably among the various "plans" available from a single store.

It will pay to take time to get the facts. Often the down payment and monthly (or weekly) payments are the only figures stated. You need to know more.

Add up the total amount that you will pay on the loan (or credit purchase). Then subtract the amount of money you will receive from the lender (or the cash purchase price of goods you buy in a store). The difference is the *dollar cost* of credit.

It isn't always easy to get a statement of the dollar cost of credit, but you can figure it out for yourself (at least roughly) if you know:

a) the rate of interest (and whether stated on an annual or monthly basis. One per cent per month equals an annual rate of 12%.);

b) the length of time to repay;

c) and whether charges on installment credit are figured on unpaid balance or on the original principal (as in "add on" or "discount" terms).

Look at all three of the above in judging credit terms offered to you.

For example, take a $500 loan or credit purchase to be repaid in one year on a monthly installment plan. If the rates charged are:

1% per month on unpaid balance, the dollar cost will be about $32.00;
6% annual interest on unpaid balance, the dollar cost will be about $16.00;
6% annual interest, "add-on," the dollar cost will be about $30.00.

If the payments were to be spread over 18 months, each payment would be smaller, but the total dollar cost would of course be higher. For example, at the first-listed rate (1% per month on unpaid balance), the cost would be about $47.00. (Compare to $32.00 for 12 months.)

In order to compare costs, you need to get the facts with respect to terms offered to you in any given situation, and sometimes you have to dig for the facts.

Find out the "true" interest rate

It is to your advantage to know the "true" annual rate of interest as well as the dollar cost of using credit.

When you know the cost and terms, you can use this simple formula to compute the true annual interest rate for a particular loan:

$$r = \frac{2\,m\,D}{P\,(n+1)}$$

In this formula.

r=annual rate of interest.

m = number of payment periods in 1 year (12 if you repay monthly, regardless of the number of months your contract is set up to run).

D = total charge (dollar cost).

P = principal of cash advance (purchase price, or cash you receive in the case of a loan).

n = number of payments your contract actually calls for.

In general, credit charges may be stated three different ways:

a) Interest charged as a discount—deducted from the face amount of your note. (Example: if you borrow $100 at 6 percent discount, you receive $94 and the note is for $100).

b) As a finance charge added to the purchase price. The charge is included with the principal in the amount of your contract—sometimes called "add-on." (Example: in the case of an installment purchase, original unpaid balance is $100, plus 10% charge; contract is for $110.)

c) As interest on the unpaid principal balance. The interest is included in the total amount you will repay and makes up part of your monthly payments. Each month the interest becomes a smaller part of the payment, and the principal payment becomes larger.

Find out about service

As you shop for credit consider other factors beside cost. What service will you get? Are payment arrangements convenient? Are the payments spread over a long enough time so that you can handle them along with your other expenses? At the same time, are you paying off the loan as quickly as possible to save financing costs?

Will you receive pleasant, courteous treatment and privacy in doing business with the lender or the store? Will there be a penalty if you miss a payment? Does the contract allow repossession of goods? Wage assignments? Does the lender or store have a good reputation for doing business in a sound and fair way?

Select the credit plan best suited to your needs—regular 30-day charge account, 90-day account, revolving account, installment account, single payment loan, or installment loan. (There are variations, but these are the main choices you'll have.)

What does the fine print say? Be sure you know before you sign the contract, because when you sign, you agree to all the terms stated.

3. How is my "credit rating"?

You often hear it said that it is an advantage to establish credit, but perhaps not as much is said about keeping your credit good. Once you establish credit, you are watched—not only your record of payments, but any reports about your activities from newspapers and other sources. Your credit rating follows you all over the country through the National Credit Exchange.

This pamphlet is one of a series on various consumer topics distributed by the credit union for your benefit. Your credit union is the best place to save and borrow money, and the best place to get impartial advice. Please let us know how we can serve you best.

Mr. STONE. Now, our Federal credit unions lend money in terms of 1 percent per month and for many years we have talked about 1 percent per month on the unpaid balance. And we realize that we are going to have to change this type of advertising and the type of pamphlets we will be putting out, but we feel it is important for the best interest of our membership that we do this, that we place it on an annual basis, and we are ready and we have been from the time this concept was first presented to the Congress. We are ready to change, assume whatever sacrifices and obligations that this will entail, to do whatever is necessary to report on the basis of an annual percentage basis.

Mrs. SULLIVAN. You are not afraid to tell them that 1 percent a month will be 12 percent a year?

Mr. STONE. That's right.

Mrs. DWYER. On page 4 you say:

In supporting this bill we also admit that, generally speaking, most credit unions quote an interest rate on a monthly percentage basis. Historically, we believe that this practice originated with the recommendations of the Russell Sage Foundation. We have not changed to an annual rate because of the confusion which exists in the mind of the credit user concerning the cost of consumer credit. There have been occasions when credit unions have switched to

an annual interest rate but had to go back to the monthly rate because it proved to be too difficult to explain to the members the difference between the annual rate charged by the credit union and the discount or add-on rate used by other lenders.

That is an unusual statement to make and then say you support the bill.

Mr. STONE. We think that for one creditor to talk about monthly rates and another creditor to talk about annual rates, and to talk about expenses in connection and incidental to the extension of credit is confusing. And this is the thing about which we have been trying to educate our members.

Mrs. DWYER. And if this bill passes, is it going to take a lot of education?

Mr. STONE. I don't think so. We have had in Massachusetts, when the truth in lending went into effect on January 1, 1967, and in my own credit union, I can't see that it is going to take much education. I think it would take a little time. I think people are not used to this concept. I think that we have simple charts which are simple for our staff to understand and communicate, and I think that it is just—going to be just as easy to understand after it is once explained that there will be a percentage rate which will be expressed in terms of simple annual interest as it is in terms of monthly rates.

Mrs. DWYER. And the 12 percent will not scare them?

Mr. STONE. I don't think it will scare our members because I think our members are going to be interested in what they have had to pay. I think—and even if it did, it would seem to me that if everybody were charging a rate that people could understand, whether it was expressed in terms of 12 percent or 15 percent or 18 percent or something like that, where they could compare it, then it would seem to me that they would have something they could compare.

Mrs. DWYER. Thank you, Madam Chairman.

Mrs. SULLIVAN. You may proceed.

Mr. STONE. In addition to the truth-in-lending bill we realize that this bill includes some changes. For example, with reference to first mortgages, I would think that first mortgages ought not to be treated any different than any other type of extension of credit. In the Massachusetts law they don't treat it differently than any other extension of credit.

With reference to the matter of the revolving charge annual rate, I think that most people don't understand that what is involved is a matter of extension of credit. If I am buying something I have to pay an interest charge on that, I ought to know how much it is costing me and in Massachusetts, in our law, we include not only closed end transactions, open end transactions, and when we couldn't make our mind up whether it was closed end or open end, we said any transaction, whether it be closed end or open end, for the purpose of making it a comprehensive law, and I think that if we are thinking in terms of something like this, that is going to help the consumer, we ought to think of this with reference to the revolving charge annual rate as well as in connection with the extension of credit as we understand it.

My statement doesn't refer to the $10 exemption, but I personally don't see why there should be any such exemption. The people who are

affected by the $10 are the poorer people who need this kind of assistance most.

I realize that this imposes a penalty and perhaps a lot of work on the part of the lender. But in the nature of his business he ought to be doing this. In my credit unions we make loans of $50 and $100 which require just as much time and effort as a loan of $2,000 or real estate loans of $20,000. But the member is entitled to that kind of service and perhaps if he needs $100 or $200 he is entitled to the service much quicker than the man who needs a $10 or $20 loan.

Mrs. SULLIVAN. I might say that it has been an argument of almost everyone who insists upon having this $10 credit charge exempt, that it costs just as much to make a $5 loan or $50 loan as it does a $5,000 loan. But, as you point out, it is the man who has to borrow a small amount who really is most often victimized by excessive charges.

Mr. STONE. That's right.

Mr. BINGHAM. Madam Chairman, could I ask a question at this point?

Mrs. SULLIVAN. Yes.

Mr. BINGHAM. I would like to ask Mr. Stone whether the credit unions typically make a minimum charge on a small loan for a short period? For example, a $100 loan for 3 months. Do you have a minimum charge?

Mr. STONE. No. of course, traditionally, the Massachusetts State-chartered credit unions, we loan $100, charge him $6, and give him $94 and ask him to repay this at $2 a week over a 50-week period. This was the traditional type of loan.

Mr. BINGHAM. You do not have short-term loans?

Mr. STONE. Very rarely. When we do make a loan for 6 months or so and we have to charge an interest rate, it is on the basis of the charge that has to be made and with no minimum.

Mr. BINGHAM. Thank you.

Mr. STONE. I might add that with reference to the Federal credit unions, since they are charging 1 percent on the unpaid balance it really wouldn't make much difference whether it was for 1 month, 2 months, or 3 months. There would be no minimum if a man borrowed a certain amount of money and paid it at the end of 1 month—he would repay that on the unpaid balance.

Now, with reference to the garnishments, the national usury, with reference to the national usury, we are committed, our credit unions, to a 1 percent a month or 12 percent maximum. So that this is traditionally the maximum in the Federal Credit Union law and I think you will find that most of our State-chartered credit unions operate under very similar maximums. So we are not affected by this provision with reference to an 18 percent national usury limit, and I would just be expressing a personal opinion in which I am sure you are not interested.

With reference to garnishment and one or two of these other things, I think that this is a matter that this Commission that this bill includes might well study. I would like to say with reference to this, that we are very much in favor of this Commission on Consumer Finance.

Mrs. SULLIVAN. Before we leave this subject, may I ask this question—and I ask it because I have a number of credit unions in my

city which have raised the issue. These are credit unions of some of the large unions. They are terribly concerned about the frequency of personal bankruptcies, particularly with some of their members who are rather mobile. They will borrow to the hilt what they are allowed to borrow, and then, before they leave town they take bankruptcy. They then go to another State and start the same thing over. I thought bankruptcy was strictly a Federal matter but apparently bankruptcy in one State evidently does not always follow to another. I have correspondence with the chairman of the Judiciary Committee on the question of bankruptcies, and whether or not legislation is needed to handle that kind of problem.

It is a sore spot. It has not been cured. Even though they feel that they know the people to whom they make these loans, because of the fact that they move from State to State, the credit unions have trouble in collecting what is owed. I wondered if that was your experience in your part of the country.

Mr. STONE. I think that some of the reports which I receive from the men with whom I talk is that they are concerned because some of the petitions in bankruptcy indicate that some of these petitioners have made loans from a number of finance companies and also from one or two credit unions.

Now, the difficulty from the credit union viewpoint is that in most instances the credit unions' dealings with its members is confidential, it cannot be communicated to anybody else, so we don't have the means of communicating this credit information from one credit union to another.

Of course, in many instances it is not necessary because of the common bond. But obviously a man could belong to a certain fraternal order and be a post office employee and belong to two credit unions and borrow from both of them. And we have had a number of cases where this has been disturbing, but we feel that both this and the matter of garnishment ought to be further studied and researched and we have asked many of our people to do this and perhaps the next time I have an opportunity to talk to you, Madam Chairman, we will be in a position to give you better information concerning our statistics on this matter.

Mrs. SULLIVAN. I would like to have anything you have, even if it is not for the record—information which might be useful for me in discussing the problem with my people in St. Louis. Thank you.

Mr. STONE. I would just like to add with reference to standby consumer credit controls, that we are on record as opposed to this. We have been opposed to it. We are familiar with the consumer credit controls. Some of us are familiar with regulation W. I was treasurer of the credit union when W went into effect in the early thirties. I was treasurer during the Korean conflict and I have some familiarity with the consumer credit controls.

But the movement as a whole has been opposed to the consumer credit controls and they have asked me to record that for the record.

Thank you very much. It has been a privilege and pleasure to have had this opportunity to appear before the committee.

Mrs. SULLIVAN. Thank you, and it has been most enlightening to hear from all three of you. Mr. Stone, we will place your entire statement in the record at this point.

(The complete statement of Mr. Stone follows:)

STATEMENT OF CUNA INTERNATIONAL, INC., BY JULIUS STONE, CHAIRMAN, LEGAL AND LEGISLATIVE COMMITTEE

Mr. Chairman, members of the Committee, my name is Julius Stone. I am chairman of the Legal and Legislative Committee of CUNA International, Inc., and I am a Director and Past President of CUNA. CUNA International, Inc., is a non-profit association of credit union leagues. In this country, there are 48 state credit union leagues which represent approximately 22,000 credit unions and which comprise approximately 18 million members.

I am appearing before you today to testify in support of H.R. 11601, the Consumer Credit Protection Act.

As you know, credit unions are non-profit mutual membership organizations chartered for the purpose of promoting thrift and providing provident and productive loans. They are chartered by either the Federal government or by one of the state governments, and they are supervised and examined by a state or Federal agency. They are exempt from Federal income taxes. Credit unions do not deal with the general public. They must have a common bond of membership and they can only deal with members.

Each member of the credit union has one vote which he is free to exercise for the election of officers and for many other purposes. In order to become a member, an individual must pay a 25 cent admission fee and he must agree to subscribe to one 5 dollar share. These facts are stated as a means of indicating the unique structure of a credit union as compared to other lenders.

We in the credit union movement like to believe that credit unions exist for one purpose—that purpose is to serve the members. Traditionally, we have fulfilled a substantial need for those who have been unable to obtain credit. We like to believe that we have been responsible for proving to other lenders that the "average man", whether he is a factory worker, an enlisted man in the military, a teacher, a civil servant, or a welfare recipient, has the capacity and the character to repay his loans if he is dealt with fairly and counseled wisely.

To this end, we like to think of ourselves as more than just a savings and lending institution. We believe that we are also an educational institution and a considerable amount of our time is devoted to educating our members. We justify this undertaking on the theory that our members save money not only by depositing a specific amount in the credit union each month, but, equally important, by becoming knowledgeable buyers and by having adequate information with which to make decisions in the market place. This consumer orientation is reflected in many of the publications which are produced by CUNA International and by the various state credit union leagues. We publish a series of pamphlets known as Consumer Facts which attempt to give the facts to our members so that they will be able to get more for their money. These pamphlets cover everything from "How to Save On Meat Purchases" to the "Veteran's Benefits Available Under the Cold War GI Bill".

Moreover, we publish a consumer's magazine known as *Everybody's Money* which has a circulation in excess of 1,500,000. This magazine is sent only to credit union members and its specific purpose is to provide them with facts so that they will be able to get more for their money. In addition, we carry on all kinds of educational programs for credit union volunteers and professionals. Among the more important of these programs is our family financial counseling course which, in many cases, is available to credit union officials and members through a correspondence course.

We point all of this out so that you will understand our position on H.R. 11601. We believe that H.R. 11601 contains many provisions which are necessary for the consumer credit user to know the facts which will allow him to get more for his money. We also believe that H.R. 11601 introduced many new provisions which must be examined more thoroughly before being acted upon. We have taken a favorable position on the Truth-in-Lending bill ever since it was first introduced by Senator Douglas, and we have wholeheartedly supported it. We continue to do so, even though we realize that the approximate annual interest rate disclosure

may put us at a disadvantage since there are some lenders that have a lower rate than is available from many credit unions. We think this is good. If an individual can get a better rate elsewhere after comparing all the facts, we think he should go elsewhere. As a matter of fact, some surveys we have taken indicate that many members do just that. This has led some credit union people to believe that our educational endeavors may be just a little bit too good.

In expressing our support of this bill, we do it with the realization that credit unions will be able to comply without much difficulty. We have substantiated this in previous hearings and we continue to hold this view.

In supporting this bill we also admit that, generally speaking, most credit unions quote an interest rate on a monthly percentage basis. Historically, we believe that this practice originated with the recommendations of the Russell Sage Foundation. We have not changed to an annual rate because of the confusion which exists in the mind of the credit user concerning the cost of consumer credit. There have been occasions when credit unions have switched to an annual interest rate but had to go back to the monthly rate because it proved to be too difficult to explain to the members the difference between the annual rate charged by the credit union and the discount or add-on rate used by other lenders. Regardless of these experiences, we remain convinced that if all lenders and creditors are required to disclose the interest rate on a uniform basis, then the consumer will be in a position to make a knowledgeable comparison.

We want to make it quite clear that while we have adhered to a monthly rate, we have made no attempt to hide the annual percentage rate. Many of our publications clearly disclose the annual rate. In educating our members, we constantly use the annual rate since we have found from experience that it is the only adequate means of comparison. Moreover, since the Department of Defense has issued its directive (DOD Directive 1344.7) requiring on-base lenders to disclose an approximate annual percentage rate, we have complied and we have no evidence that this compliance has adversely affected credit union service. We must admit, however, that in complying with the directive we deemed it necessary to include a statement to the effect that "a 12 percent annual rate means that you will pay approximately $6.50 per year per $100 balance owed." This proved necessary for reasons indicated previously.

We recognize that the growth of consumer credit has been a big factor in the expansive growth of the Gross National Product (GNP) from which every consumer and business in America benefits. Our credit and the American economy have grown together. We point this out because we believe that the consumer credit industry is still in its infancy. We believe that an analysis of the present age distribution of the population of the United States indicates that consumer credit will be growing substantially in the next 25 years. According to a recent article in *Banking Magazine*, by 1980 there should be approximately 14,800,000 families in the 25 to 34 age group, an increase of 62 percent over 1965. In the same article, it is pointed out that between 1960 and 1963, 67 percent of the families in this age group had personal debt.

While speaking of the 25 to 34 age group, we would like to point out the fact that the people in this age group have an entirely new concept of debt. To these people, debt is actually becoming a form of thrift. When these people borrow, they must set aside a certain part of their income to pay for property they have already acquired. As you know, under the old concept, debt was considered to be somewhat immoral so consumers would try to save money first and then use this money to purchase property. This changing concept of debt has been recognized by our own credit union managers and by many other lenders.

This is an important concept. If the contemporary consumer looks upon debt as a form of thrift, then it seems absolutely necessary that we have available the means to compare this new concept of thrift with the traditional concept of thrift. In both instances, the consumer is setting aside a portion of his income. When practicing thrift according to the traditional concept, he is quoted a simple annual rate. But when practicing thrift according to the contemporary concept he is quoted a discount, add-on or monthly rate. A meaningful comparison is obviously difficult.

Because of the substantial growth expected in the consumer credit field; because of the changing concept of thrift; and because of the lack of meaningful disclosure of interest costs in the consumer credit industry, we think the time has come to provide the consumer credit user with the facts necessary to make an intelligent decision. We believe it is time to destroy the 6 percent myth. The myth serves no useful purpose in our contemporary economy.

In turning to the bill itself the credit union movement contends that it is essential to retain the approximate annual percentage rate disclosure requirement, to retain the coverage of revolving and open-end credit, and to retain the inclusion of all charges incident to the extension of credit.

We believe the approximate annual percentage rate disclosure requirement is essential since it is the only fair means of disclosing the cost in a meaningful way. The use of the cost of credit in dollars and cents does not tell the entire story since it is very difficult to make an adequate comparison only on the basis of dollars when the amounts of the downpayment or the length of the contract are varied. The use of a monthly percentage rate is substantively deceptive since it is misleading to the consumer. It is misleading because in almost every other instance the business world states the interest rate as an annual percentage rate. The annual percentage rate is used by commercial lending institutions when dealing with business firms. It is used by all government agency lenders and borrowers, including those lending directly to the consumer. The recent widespread publicity given to the prime rate being charged by commercial banks is an excellent example of the prevalence of the annual interest rate in the commercial world. It is not unfair to assume that the average individual reading about a 6 percent prime rate in the newspaper jumps to the conclusion that this is necessarily so since lending institutions do not charge in excess of 6 percent on loans.

In taking our stand on the annual percentage rate disclosure requirement, we realize that some confusion will result initially. We realize that adjustments in attitudes and practices will be necessary. However, as we previously indicated, we believe that the time has come to destroy the 6 percent myth and to put some facts back into the consumer lending business. Consumer credit has become too important to the economy to allow the perpetuation of such a meaningless fiction. We anticipate just as much confusion as do most other lenders, but we are prepared to handle it.

We also believe that it is essential to retain revolving and open-end credit within the coverage of the bill. Credit unions have recently established means of extending open-end credit plans to their members. We believe that we will be able to adhere to the approximate annual percentage rate disclosure requirement of the bill on these accounts. Possibly, since our system of computing interest rates is more simple than some other creditors, we fail to see the problems that other creditors will have. Yet, some of the testimony given before the Senate Banking and Currency Committee increases our confidence that there are means by which other lenders can comply. We are also of the opinion that to exclude revolving credit would be to defeat the purpose of the bill since it would eliminate one of the possible areas where a consumer would be able to make an intelligent comparison. We strongly maintain that if the annual percentage rate disclosure requirement is to be maintained as a part of the bill, that it must be equally applicable to all creditors.

We are also of the opinion that it is essential to include all charges incident to the extension of credit. To do otherwise would be to destroy the yardstick of measurement. To allow a creditor to quote an interest rate and then add on extra fees would in effect increase the rate and effectively distort the disclosure. There are, of course, many situations in which it is difficult to determine whether a charge is incident to the extension of credit. However, we are of the opinion that such situations can be handled by the regulatory authority as they arise. The regulatory authority would be in a position to hold a public hearing and to receive briefs from interested parties. An adequate determination could then be made and the decision of the regulatory authority would be binding on all creditors. Federal credit unions have faced this problem without difficulty. Section 8 of the Federal Credit Union Act allows Federal credit unions to make loans "at rates of interest not exceeding 1 percentum per month on unpaid balances, inclusive of all charges incident to making the loan." Over the years there has been disagreement as to whether a particular charge was or was not incident to the making of the loan. After listening to arguments, the Bureau of Federal Credit Unions has made a decision and we have lived with it. Had we disagreed strongly, we could have appealed to the courts on the grounds that the decision was arbitrary and capricious.

Advertising

Turning our attention to specific sections of H.R. 11601 which were not included in the original Senate bill, we believe that section 203 which requires advertisers

to make full disclosure in their advertising of loans or credit extensions, complements and strengthens the concept of full disclosure in credit transactions and is a logical extension of the full disclosure principle.

Commodity Future Trading

As to Section 207 of the bill which would grant to the Board of Governors of the Federal Reserve System the power to prescribe regulations governing the amount of credit for commodity future trading, we have no opinion to express since we do not have any expertise in this field.

Emergency Control of Consumer Credit

We do, however, have serious reservations about section 208 which would grant to the Board of Governors of the Federal Reserve System the right to issue regulations to control consumer credit when the President determines that a national emergency exists. Our reservations with this particular section are not concerned with the exercise of powers during periods of national emergencies when such powers are necessary. Our concern is that consumer credit is being singled out for controls and that all other forms of credit and other pertinent economic factors are exempt from controls, at least to the degree set forth in section 208. Moreover, serious questions arise as to the effectiveness of controlling consumer credit without placing comparable restrictions on wages and prices. We are of the opinion that actions such as this do not really solve the problem, although they lead many people to believe that the problem has been solved.

Our experiences with Regulation Q indicate to us that the burdens placed on the borrower and on the lender greatly outweighed any benefits derived from the restrictions imposed by the Regulation. We give this opinion with the realization that the average consumer is a man of intelligence who manages his financial affairs quite capably. Statistics have shown that during times of uncertainty the average consumer will begin repaying his loans and will decrease the extent of his borrowings. In view of this self-restraint that the consumer imposes upon himself, we see no need for the granting of such powers as are set forth in section 208.

Commission on Consumer Finance

We can wholeheartedly support the establishment of a Commission on Consumer Finance. According to section 204, the Commission would study and appraise the functioning and structure of the consumer finance industry, and several topics are set forth for the Commission to report and recommend to the Congress. We would urge the Committee to completely expand the concept of the Commission on Consumer Finance and empower it to make a study of the entire consumer credit field, including credit life insurance, credit reporting, personal bankruptcies, wage garnishments, creditors', and debtors' rights, the availability of credit, and all other matters which the Commission would feel would tend to give Congress a complete picture of the consumer credit field.

Consumer credit is growing substantially and all indications are that it will continue to grow. It is amazing therefore how little we know about this field. While the National Commissioners on Uniform Laws have been engaged in studying some of the problems connected with consumer credit, we note that the members of this commission are financed by creditors and lenders, including ourselves. We would therefore tend to believe that any recommendations made by the commissioners would be primarily for the benefit of lenders and creditors. However, it can be expected that a Commission appointed by the President with the consent of the Congress would be more free to take a broad look at the problems and to consider the rights of debtors on the same basis as they consider the rights of creditors.

Other Provisions

There are other provisions in this bill which we believe need further studying. The establishment of a Federal usury statute and the prohibition of garnishments and cognovit notes are matters which need to be studied more extensively before appropriate action can be taken. We would strongly urge this Committee to refer these matters to the Commission on Consumer Finance if such a Commission is established.

Conclusion

In conclusion, CUNA International continues to support full disclosure by all creditors and lenders, we oppose standby controls on consumer credit, and we support the creation of a Commission on Coonsumer Finance with powers broad enough to consider other matters contained in this bill.

AN ACTUAL CREDIT UNION MEMBER'S ACCOUNT FROM A WASHINGTON, D.C., CREDIT UNION, ON AN AUTO-SECURED LOAN AT ½ OF 1 PERCENT PER MONTH, ON A DAILY BASIS [1]

Date	Number of days	Interest	Loan payment	Balance	Shares
				$2,000.00	$5
1963—May 28					
July 11	44	$14.68	$50.88	1,949.12	
Aug. 13	33	10.72	69.28	1,879.84	
Sept. 23	31	12.84	57.16	1,822.68	
Oct. 15	22	6.68	58.87	1,763.81	
Nov. 14	30	8.82	66.18	1,697.63	
Dec. 13	29	8.20	89.43	1,608.20	
1964—Jan. 15	33	8.84	59.36	1,548.84	
Feb. 17	33	8.52	56.48	1,492.36	
Mar. 13	25	6.21	58.79	1,433.57	
Apr. 15	33	7.88	57.12	1,376.45	
May 15	30	6.88	58.12	1,318.33	
June 15	31	6.81	55.55	1,262.78	
July 20	35	7.36	57.64	1,205.14	
Aug. 31	42	8.44	56.56	1,148.58	
Sept. 21	21	4.02	60.98	1,087.60	
Oct. 14	23	4.17	54.50	1,033.10	
Nov. 17	34	5.85	59.15	973.95	
Dec. 10	23	3.73	56.27	917.68	
1965—Jan. 13	34	5.12	59.88	857.80	
Feb. 15	33	4.41	60.59	797.21	
Mar. 17	30	3.54	61.46	735.75	
Apr. 2	16	1.96	63.04	672.71	
Apr. 28	26	2.91	62.09	610.62	
Total		158.59	1,389.38	31,223.75	

[1] $2,000 equals payable 36 payments times $55.55 plus interest at ½ of 1 percent per month on the unpaid balance.

Average monthly balance 2 years equals $1,299.73 $= \frac{(31,223.75)}{(24)}$.

Average monthly interest paid over 2-year period equals $6.60 $= \frac{(158.59)}{(24)}$.

True simple annual interest rate paid equals 6.093 percent $= \frac{(6.60)}{(1,299.73)}$.

If $1,299.73 was borrowed and retained by the borrower on a note at 6 percent for 2 years, the interest paid would be $155.97.

AN ACTUAL MEMBER'S ACCOUNT OF A WASHINGTON, D.C., CREDIT UNION, ON A SIGNATURE LOAN AT 1 PERCENT A MONTH ON THE UNPAID BALANCE ON DAILY BASIS

Date	Interest paid	Principal payment	Balance	Days	Dollar days
Aug. 12			$150.00	27	$4,050.00
Sept. 8	$1.00	$9.00	141.00	15	2,115.00
Sept. 23	.70	9.30	131.70	15	1,975.50
Oct. 8	.66	9.34	122.36	15	1,835.40
Oct. 28	.61	9.39	112.97	17	1,920.49
Nov. 9	.56	9.44	103.53	14	1,449.42
Nov. 23	.52	9.48	94.05	15	1,410.75
Dec. 8	.47	9.53	84.52	15	1,267.80
Dec. 23	.73	9.27	75.25	16	1,204.00
Jan. 8	.38	10.27	64.98	14	909.72
Jan. 22	.32	9.68	55.30	17	940.10
Feb. 8	.28	9.72	45.58	15	683.70
Feb. 23	.23	9.77	35.81	13	465.53
Mar. 8	.18	9.82	25.99	15	389.85
Mar. 23	.13	9.87	16.12	16	257.92
Apr. 8	.08	9.92	6.20	15	98.00
Apr. 23	.03	6.20	0.00		
Total	[1] 6.03	150.00		254	20,968.18

[1] Figure rounded to include 20-cent interest refund.

NOTES

Average daily balance equals $\frac{(20,968.18)}{(254)}$ = $82.55.

Average daily service charge equals $\frac{(6.03)}{(254)}$ = 0.2374.

Annual interest rate charged equals $\frac{(0.2374 \times 365)}{(82.55)}$ = 10.49 percent (annual rate) [a] (11.976 percent (without interest refund)).

[a] This gives consideration to a 12½ percent patronage refund, returned to member at yearend. If there had not been a refund the annual interest rate would have been 11.976 (at 1 percent a month on the unpaid balance charged).

Mrs. SULLIVAN. Let me ask this question for Mr. Hanna, who had to leave.

I hope that I can cover it as he wanted. He says, "We must be concerned about truth in borrowing as well as about truth in lending," and the question is this: "Would your organization's member credit unions be willing to make available to other legitimate groups, such as credit bureaus, and so forth, the information they have on the credit records of their members when this would be useful in preventing excessive use of credit?"

Mr. STONE. Speaking for the credit unions I would say that now we are restricted from doing this because of the law which requires our dealings to be of a confidential nature. But if we were released from that limitation I don't see why we wouldn't be ready to do this.

Mrs. SULLIVAN. What law do you refer to—a law dealing just with credit unions? A Federal law, State law, or what?

Mr. STONE. In Massachusetts I know that the transactions of a member of a credit union—like the transactions of a member—that a depositor in a bank has is of a confidential nature and cannot be communicated to others.

Mrs. SULLIVAN. The suggestion has to do not with the balance in the credit union member's account, but his credit record.

Mr. STONE. I think if we had a right to do it, we would be delighted to exchange credit information.

Mrs. SULLIVAN. It goes back to my hope, that I have expressed many times in the past 15 years, of finding some way to have a central credit reporting system where everyone who uses credit is recorded on the record, just as our income tax records or our records under social security are recorded, so that when a person reaches a certain level of credit utilization, or a certain amount, based on his income, that he gets no more credit until he is able to pay back enough of what he owes so that he again comes within a reasonable level of credit. They tell me I am wrong, but I will bet you it will not be too many years before something like this will happen. I know we have many credit bureaus and some information is usually available. But we have found out in the past few years, during the years we have been privately going into this, that the full credit information often is just not used, even when it is available in the areas where the credit is being sought. Often, no reliable information is available.

If private enterprise does not get into this, the Government may have to, or maybe should do it. It has been one of my pet ideas for years that we ought to have a central credit bureau where everybody is listed just as they are as wage earners under the social security program.

I think it could be done, and if it is done on a large enough scale it would not be too expensive to run down the credit standing on every individual who wanted more credit, especially in view of the fact that there was $1.2 billion in losses in consumer credit just last year from personal bankruptcies.

The information you have given us has been extremely helpful, Mr. Stone. I am sure the members will want to question you and Mr. Ellis and Mrs. Angevine.

Mrs. Dwyer?

Mrs. DWYER. Thank you, Madam Chairman.

Mr. Stone, you suggest that with an annualized credit charge applied to all lenders that the consumer will shop for credit by being able to compare charges.

Is there any evidence to suggest that competition among revolving credit accounts will result?

Mr. STONE. You ask me if there is any evidence to this effect?

Mrs. DWYER. Yes.

Mr. STONE. No, I don't have any evidence to that effect. I was expressing an opinion that I think a consumer with this information at his disposal would be able to make a decision.

Mrs. DWYER. Would not everybody go to 18 percent per annum?

Mr. STONE. I didn't hear.

Mrs. DWYER. Would not everybody go to 18 percent?

Mr. STONE. I don't think credit unions would. As a matter of fact, in Texas they insisted that the law that was presented to the Texas Legislature provide for a 12-percent maximum as far as the credit unions were concerned. Moreover, Federal credit unions have a maximum 12-percent rate in the law now. I was privileged to go before the consumer credit code committee in Chicago in June and ask that credit unions be exempted from the provisions of the consumer credit code because of our basic concept of 1 percent per month maximum or 12 percent annual maximum rate.

Mrs. DWYER. One more question.

The other day an accountant took an actual retail account showing purchases and payments at an important outlet and actual charges of 1½ percent a month was not 18 percent a year.

Would you please submit for the record an actual credit union account over a 1-year period showing deposits and withdrawals for each month and then calculate how 1 percent works out to be 12 percent actual charge per year?

Mr. STONE. I would be glad to submit it to my people. I am not sure that I could do this. You are talking now about loans, not about the savings.

Mrs. DWYER. Talking about the loans.

Mr. STONE. Then it is money paid back on the loans, not money invested in the savings.

Mrs. DWYER. That is right. We would like to have you do this for us.

Another group presented their case on an actual account for a year.

Mr. STONE. You are asking me now to tell you what the annual rate would be?

Mrs. DWYER. What it actually is. It would look on the face of it to be 12 percent. But what does it actually amount to at the end of the year? Make it for a period of 1 year, showing deposits and withdrawals for each month and calculate how 1 percent works out to be 12 percent annual charges per year.

Mr. STONE. You are talking about a revolving credit arrangement. If you had a loan made and repayment there wouldn't be deposits and advances. If you were making a loan from a credit union and they advanced a certain sum of money, then you would make repayments on the loan and that could be figured out.

Now, if you are talking about an advance to a certain person, usually I think this would be in the case of a sale with revolving credit where the debtor made certain payments and bought some more merchandise and that was added on, and you then had to figure the interest, I think that is the kind of situation that you are talking about and I am not prepared to answer it.

Mr. BINGHAM. Would you yield at that point?

Mrs. DWYER. Yes

Mr. BINGHAM. Perhaps this might clarify it a little bit.

Do you have typically in a credit union account payments during the month and also further extensions of credit during the month and then you have a billing period at the end of the month?

Mr. STONE. We don't send out bills but we do have extensions of credit and we have certain charges from the payment—if the payment which is due on a certain day is not made.

Usually many of our loans are made on a weekly as well as on a monthly basis. And usually we won't start charging any penalties unless the loan is 4, 5 or 6 weeks in arrears.

Mr. BINGHAM. I think what Mrs. Dywer is trying to get at, taking a typical account with a lot of transactions in and out over a period of time, what is the actual interest rate charged for the balances that have accrued day by day? That is what this gentleman produced for us the other day.

Mr. STONE. I can't do this because we wouldn't have this kind of transaction. We don't have in-and-out transactions. If I loaned a person $100 and he was supposed to pay this back $2 a week and if he didn't pay it back on a certain time we would give him an extension without making any charge. Then, if his loan got 5 weeks in arrears we would make a charge on the loan at that time. But there would be no in-and-out transactions.

I do not think the $2 situations are comparable. I can understand why they cannot put that in.

Mrs. DWYER. Just one more question.

Is there any substantial degree of competition among credit unions and rates charged and will there be any greater degree of competition among credit unions if you are required to annualize?

Mr. STONE. The answer to the first part of the question is a qualified yes. I think that—I am not sure I would say it was competition in the normal sense because of the common bond limitation.

For example, many credit unions charge three quarters of 1 percent a month instead of 1 percent. Some charge 1 percent a month and give you a refund at the end of the year. So that the net cost to the borrower is less. I think they do this because it depends upon the policy of their board of directors. This is my own feeling and not by reason of competition, but there is some degree of competition.

Mrs. Dwyer. Is that not three quarters percent on security loans?

Mr. STONE. Yes, on some automobile loans, that is true. I think in many automobile loans it might be three-quarters of 1 percent and some even less.

Mrs. DWYER. Then it is practically the same throughout the industry, is it not?

Mr. STONE. You mean as making that——

Mrs. DWYER. The three-quarters on a secured loan?

Mr. STONE. I would say it was the same, but many of them do, especially the larger ones. They would charge three-quarters of 1 percent. Smaller credit unions might charge the limit of 1 percent per month.

Mrs. DWYER. That will be all. Thank you.

Mrs. SULLIVAN. They could not shop around from one credit union to another, though.

Mr. STONE. No, because they don't have a common bond. I can only belong as I see it, to two credit unions. I can belong to a credit union which is an officers' credit union and I do belong to a Federal officers' credit union and I can belong to my own credit union, but I couldn't join a number of other credit unions that limit its membership.

Mrs. SULLIVAN. Mr. Gonzalez?

Mr. GONZALEZ. Thank you, Madam Chairman.

In your statement you speak in behalf of the annual disclosure rate and yet yesterday we had a gentlemen representing a very substantial bank, together with the executive vice president of the American Bankers Association and he said this, and I quote from his testimony yesterday. The witness was Mr. Bailey.

I will agree with what Mr. Walker has said in this regard. The cost of making a loan doesn't vary with the dollar amount, and if you attempt to reduce it through an annual interest rate the figures would become astronomical and people pick those things up quickly and start talking about a institution that is charging 120 percent and just don't agree with it.

Do you have any comment with respect to that statement?

Mr. BINGHAM. Would the gentleman yield?

Mr. GONZALEZ. I yield.

Mr. BINGHAM. I was involved in that colloquy. What they were referring to was, as I recall it, a $50 loan for 1 month and the charge was $5. The annual rate of interest was 120 percent.

Mr. STONE. I can understand this and this is the question you asked me as to whether we had a minimum rate and I said no, we didn't—not in my credit union.

In the Federal credit unions it doesn't make any difference as long as they don't have a minimum charge. It wouldn't make any difference how long the loan is for since the charge is 1 percent per month or less on the outstanding balance.

Mr. GONZALEZ. Even in this case where the man was talking about $50 on a monthly basis? This is just for 1 month. Suppose he does not pay it in 1 month? What happens then? What usually happens then?

Mr. STONE. I think, Mr. Gonzalez, that in our credit union we would have to understand the position of the banker. The thing that I think, sometimes people don't understand it, as far as credit unions are concerned, is that we loan money to a man not because we are sure he is going to repay—like a banker has to loan money—but because we have confidence that he will repay and so we loan money to a man who is sick or who is unemployed or whose family needs assistance for different reasons than a bank does business.

Now, I wouldn't criticize a bank personally because they have to have a minimum rate, and that amounted to a certain percentage.

I would think that in the nature of competitive business they have to do this.

But with a credit union it is a little bit different.

Mr. GONZALEZ. Actually the banks until lately have not gone into the small, small loan category, have they?

Mr. STONE. No, I don't think the banks went into consumer credit loans until the credit unions made it respectable. It was not respectable for a bank to loan a man money and the average man could not get credit from the bank and when credit unions started to loan these men who couldn't get any credit anywhere else, and these people paid it back very successfully. Then the bankers began to realize that consumer credit was a good, profitable operation and until the credit unions demonstrated this, it was not respectable for banks to engage in consumer credit loans, in my opinion.

Mr. GONZALEZ. All right.

But even now, in the less than $100 loans do the banks compete substantially in that area?

Mr. STONE. No. As a matter of fact, their rates are much higher on loans up to $300 or $500, something like that. I am sure they don't want to make a loan of $300 or $500 because they are losing money.

Mr. GONZALEZ. Then in that case, I revert to the question that this one specific example of $50 for 1 month would not be a logical one against truth in lending as far as an annual disclosure rate.

Mr. STONE. No, I don't think so.

I think that the bank is entitled to get a certain return for its money, taking into consideration its overhead and other things.

Mr. GONZALEZ. I agree.

But the point is, is the consumer also entitled to have full disclosure as to the rate as well as to the yield?

Mr. STONE. Yes.

Mr. GONZALEZ. I notice some of the charges that were presented the other day with respect to the revolving credit accounts in department stores, the gentleman very skillfully talking about yield and there is a difference between that and a rate and it is this kind of thing that I believe the bill is attempting to try to remedy. That is, the theory that, in the feeling and confidence that the average citizen, no matter if he is the poorest of the poor is entitled to have the full truth as to the full amount that he will have to pay on the loan and he is entitled to that truth. I think most of us are very sympathetic and in fact have supported the credit union movement with respect to the purposes for which it was founded and which purposes have very well been carried out. I think you have stated a truth, that it has pioneered in the extension of consumer credit financing and that it has been to the good. So I compliment you in that respect.

There is one thing, though, that discourages me and I was disappointed to hear your statement where you referred to the garnishment provisions of the bill. You do not say we do not have enough knowledge or experience to advise you to or not to, but you are saying, "Do not do anything because we do not know enough about it yet."

Mr. STONE. Well, I will tell you. This matter of garnishments is very interesting. When credit unions first were being considered in Massachusetts—I don't claim to have been at the age at that time when they

were first considered—but I did become active in 1927 when I became treasurer of a credit union and in the early 1920's, one of the reasons for the development of the credit unions was that people's pay was being garnished—we call it trusteed. And in many cases that meant that the employer insisted that he had to settle that case or lose his job.

Some men who couldn't pay bills were placed in this kind of problem and we made loans to this man to release the trustee in order for him to maintain his job. So that we did have some experience with garnishment.

On the other hand, I was very much interested in what the chairlady said about certain people who have talked to her because certain people have talked to me, too, and have said they are very much concerned with the effect this is having upon the membership in their credit union.

What I tried to say, Mr. Gonzalez, is, that I don't think we are prepared to take a definite stand because the matter needs, from our viewpoint, further clarification. I would say that in the movement we have differences of opinion.

Mr. GONZALEZ. That is the reason I wanted to draw you out on that clarifying statement, because the way it is written you may not necessarily have intended it that way. You are saying:

> The establishment of a Federal usury statute and the prohibition of garnishments and cognovit note are matters that need to be studied more extensively before appropriate action can be taken.

It seems to me that what you are saying there is:

> We do not know enough about it but don't you take action whether you do know enough or not as a result of these hearings.

That is what I wanted to get.

Mr. STONE. We are hoping as a result of these hearings that the Congress would make the Commission study the problem in order to make recommendations. Perhaps then we would get this information so that we may take a position.

Mr. GONZALEZ. That is why I wanted to clarify it.

Thank you very much.

I have no further questions at this point in time.

Mrs. SULLIVAN. Mr. Ellis, the REA co-ops have enjoyed good borrowing terms, but your members frequently have to pay very high credit costs on farm equipment and other things.

Do you favor the provisions in our bill of an 18-percent ceiling on finance charges?

Mr. ELLIS. We have not studied it with respect to the 18-percent ceiling. But we do favor the bill in general. Credit is drying up in rural areas more and more. Every time another family picks up and goes to town it may affect the credit in the whole area.

It may help close down a little bank, a branch bank or a bank itself. People aren't losing money on bank failures any more, but banks are still being closed out. Local credit sources, department stores, local stores, and others, as there are fewer people to trade with them, have to close down entirely. Some cannot give credit as more and more people pick up and go to the city leaving more and more poor in these areas to drain upon the existing institutions.

Mrs. SULLIVAN. You feel then the need definitely for the ability to shop for credit to anyone who must resort to it?

Mr. ELLIS. Yes, our ability to shop in the rural areas is practically nil. We need that.

Mrs. SULLIVAN. Mrs. Angevine, do you fell that you can organize the women of your organization into a solid drive to support the things in H.R. 11601 which you can endorse? If you can and you will, we will win.

Mrs. ANGEVINE. Let me say I shall certainly try. I am sure that the women are very eager to have truth-in-lending bills. We are eager that we get the message out to them. I should say we could not bring any resolutions from them because there have been no meetings since this new bill came out.

But we hope to get the talking started.

Mrs. SULLIVAN. We want to bring out as strong a bill as we can from this committee, and it is not going to be easy. We do not want to stifle, or hamper in any way, the passage this year of a good truth-in-lending bill. I know this bill is loaded heavily with many other things that also concern credit. We want a bill, but I do not want a bill that has no meaning and is just a title. So we will need every bit of help we can get.

Mr. Ellis, would you like to summarize what you have heard here today, or could you summarize some of the highlights of the legislation from what you have heard this morning?

Mr. ELLIS. Madam Chairman, I would be happy to do that for the record but I would need to make some further study of the specifics. We depend on Mrs. Angevine and some other sources for the specifics in these areas. She might like to do it this morning. I don't think I should attempt it without some further study.

Mrs. SULLIVAN. All right. Mr. Bingham has another question.

Mr. BINGHAM. I have not had an opportunity to question the witnesses.

Mrs. SULLIVAN. I am so sorry. I thought I had started the questioning with you, but I remember, that was earlier this morning when the other witnesses were on. I apologize.

Mr. BINGHAM. I would like to compliment these witnesses. They have been very helpful. I would like to pursue with Mr. Stone for just a minute what Mr. Gonzalez raised.

The point of the testimony that we heard yesterday, Mr. Stone, was that the bankers argued in favor of an exemption for the $10 finance charge or below on this basis. They said we do not make much money out of the small loans, these little short-term loans—some accommodation is made—as an accommodation we may loan a fellow $50 for 1 month and charge him $5.

But if we have to tell him that that actually is a loan at 120 percent interest per annum that will look so bad that we just will not do it.

Now, that is their argument. I do not say it is right or wrong.

I would just like to have you comment on it. You said you felt a minimum charge with a short-term loan was justified.

Do you think they are also justified in saying that if they have to say that is 120 percent per annum they would not make the loan?

Mr. STONE. I appreciate the problem and perhaps a man ought to hesitate before he will pay 120 percent.

But if the man needs it and he has to have it and he knows what he is paying, then it seems to me that it is not an excuse—it is no excuse that they feel he is paying a high rate and then I think there ought to be truth and he ought to know what he is paying and whether it is 50 or 80 or 120 percent, he ought to know that this is what it is costing him so he can go to another bank or to a credit union and say here, "I need this money, can I get it, and how much will you charge me."

Mr. BINGHAM. In other words, you would be willing to take the chance that the banks will stop making these loans?

Mr. STONE. That is right.

Mr. BINGHAM. Mrs. Angevine, I would like to ask you to reexamine one statement that you make, because I think it is a little bit unfair—this is where you say, for all practical purposes the Senate bill sets an effective date of July 1, 1972.

As I understand the Senate bill, the only respect that that is an effective date is with respect to the requirement that charges be stated as a percentage—percent per annum rather than dollars per hundred per annum. Is that not correct?

Mrs. ANGEVINE. That is true. I think my implication, and I agree it is a judgment, it was that if we are not going to have the statement of interest in annual-rate terms until 1972, and if all revolving credit is taken out——

Mr. BINGHAM. I am not talking about that. I agree with you on that.

Is there really so much difference between a statement of dollars per hundred per year and percent per year?

Mrs. ANGEVINE. I think——

Mr. BINGHAM. Is there so much difference?

Mrs. ANGEVINE. I think there is a combination of so many things involved here, that if you are looking for a strong bill and this is taken out and that is taken out and finally in 1972 it all comes together, it just leaves those of us who are looking for a strong bill highly disappointed.

Mr. BINGHAM. I agree with you about the other exemptions, but I am——

Mrs. ANGEVINE. I know there is a part that goes into effect in 1969. I know that.

Mr. BINGHAM. But the reason for this particular section, in time as you probably know, is to give the States time to change their usury laws so that they would not be in conflict, and it seems to me that there is a point to that. I myself cannot get too excited about the difference between requiring a statement of dollars per hundred and a percentage. I think they are essentially the same thing.

Mrs. ANGEVINE. As I say, this is a judgment on my part, and based on my disappointment in the whole bill. We are supporting full disclosure and consider stating interest in annual percentage terms essential.

Mr. BINGHAM. All right.

Mrs. SULLIVAN. May I inject my thought into this?

When we quote dollars per hundred per year it should be the same as a percentage rate, except that when you go in to pay it back you

will pay off part each month, so that it ends up not as 8 percent that you thought you paid, but it might be 12 percent or more, or 16 percent, according to how you paid if off. So I figure $8 per hundred per year might not be the accurate figure.

Mr. BINGHAM. That is a different question. All I am saying is that if you have an accurate statement of dollars per hundred per year which this credit costs, that really is the same figure and same thing as the percentage figure and I have some sympathy with the position that if you require them to state it as a percentage figure they may run afoul of the State usury laws.

Mrs. SULLIVAN. That $8 per hundred, would that be quoted as the aannual rate on the unpaid balance?

Mr. BINGHAM. Whatever it is, it seems to me it is not deceptive or misleading to state it in terms of dollars per hundred per year rather than percentage.

Mrs. SULLIVAN. I think this is a thing still left up in the air that we will have to settle before we get through with the hearings. If it means the same thing as a percentage rate I do not see how stating it one way would violate State laws and stating the same thing another way would not, providing they describe the same transaction.

Let me say this has been a most productive day and I am grateful to Mrs. Dwyer for being here from her side of the aisle. I am going to make sure, if I can, that our absent colleagues read today's record in full.

You gentlemen and Mrs. Angevine have contributed greatly by your presence, by your statements, and by your help on this legislation.

Monday will be another full day. We are having the well-known consumer writer Sidney Margolius; Prof. Richard Morse, of Kansas State University, who is an outstanding expert on consumer credit; and Mr. Louis Rothschild, of the Retail Menswear Association, followed in the afternoon by the chief of enforcement of the Truth in Lending Act in Massachusetts; the head of the Massachusetts Consumer Council; a leading retailer in Massachusetts, from Lechmere's; and then Mr. Robert J. Klein, economics editor of Consumers Union, who was not reached last Tuesday because our session then had to be canceled because the House would not give us permission to sit during the afternoon.

The committee will recess until Monday morning at 10 o'clock.

(Whereupon, at 1:40 p.m., the subcommittee recessed, to reconvene on Monday, August 14, 1967, at 10 a.m.)

CONSUMER CREDIT PROTECTION ACT

MONDAY, AUGUST 14, 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 a.m., in room 2128, Rayburn House Office Building, Hon. Leonor K. Sullivan (chairman of the subcommittee) presiding.

Present: Representatives Sullivan, Gonzalez, Hanna, Annunzio, Bingham, Dwyer, Wylie, and Williams.

Mrs. SULLIVAN. The subcommittee will come to order.

Today, we begin our second full week of hearings into legislation dealing with the use and abuse of consumer credit and the problems they present for our economy and our people. I think the hearings so far have been informative, provocative, and nonrepetitious. I am sure they will continue equally interesting this week.

Most of our testimony up to now has been directed primarily to the credit-term disclosure provisions of H.R. 11601, the Consumer Credit Protection Act, although there have been numerous references to other sections of the bill dealing with garnishments, an 18-percent Federal ceiling on finance charges, standby credit controls in times of national emergency, confession of judgment notes, and other provisions not related directly to the truth-in-lending theme.

Tomorrow, we are going to devote our hearing entirely to section 207, which relates to the setting of margins for trading in commodity futures. We will have representatives here from most of the major exchanges on which commodity futures are traded, and I think all of them are prepared to tell us section 207 is not a good idea. I am sure we will receive an education in the manner in which all manner of metals, minerals, agricultural commodities, and—beginning next week, I believe—even bags of 1,000 silver dollars are traded on paper.

This morning, we are fortunate in having two outstanding and articulate spokesmen for consumer interests in this country appearing before us. Mr. Sidney Margolius is best known to Members of Congress through his columns in the prize-winning newspaper published by the Machinists Union, where I first saw it, but I have seen it also in many other periodicals which come across my desk. I believe you were also a member of the President's Consumer Advisory Council, Mr. Margolius, as was Prof. Richard L. D. Morse of Kansas State University, who is also here this morning. I am going to call you both to come to the witness table together—as the best way to develop the most information in the period we have this morning.

Later in the morning we will hear from Mr. Louis Rothschild on behalf of the Menswear Retailers of America, and then, this afternoon, we will have three witnesses who will discuss the truth-in-lending law enacted last year in Massachusetts and which has been in effect there since November.

Also, this afternoon we will have Mr. Robert J. Klein, economics editor of Consumers Union of the United States, who was to have been one of our witnesses last Tuesday when we could not hold an afternoon session. With the exception of Mr. Rothschild, all of our witnesses today have come some distance and at some sacrifice to help us in our deliberations, so I have my fingers crossed that we will run into no complications in the House in sitting this afternoon.

I think every member of the subcommittee will agree with me that in the past week we have received a liberal education in the field of consumer credit and its place in our economy—as well, I am afraid, as in the bankruptcy courts and the riots which erupted in some of our cities. Truly, we are dealing with an explosive subject, which is also one which holds a very necessary place in our expanding economy.

Mr. Margolius, may I suggest that you summarize in perhaps 10 or 15 minutes the excellent statement that you have filed with us, and I will ask Professor Morse to do the same, and then we will spend the rest of the time in development of the many ideas and areas of information you have covered in your presentations.

STATEMENT OF SIDNEY MARGOLIUS, PORT WASHINGTON, N.Y.

Mr. MARGOLIUS. Thank you, Madam Chairman.

First, I would like to say to this committee that family money losses arising from high-pressure credit selling today have become a serious national problem affecting the Nation's economy even beyond the problems that it has caused for the families themselves. Losses due to high credit fees and deceptions damage not only the families but causes a diversion of resources that is helping to frustrate vital family and national goals such as advanced education, better housing, and the antipoverty program.

I consider this bill, H.R. 11601 has significance beyond even the urgent need to give consumers honest and reasonably accurate information. This is a perceptive, intelligent, public spirited bill in the best national interest.

You and your cosponsors are to be congratulated for drafting and offering this bill which is as patriotic and practical as it is humane. This bill as it now stands would benefit America's families, help our national and local economies in a number of ways, and aid reputable businessmen.

The $13 billion a year that consumers spend for credit fees is just the beginning of the actual cost to consumers and the public of the present credit situation.

We also have a serious problem of overpricing made possible by the use of deceptive credit plans plus many families' losses due to repossessions, payments for legal costs, and so on.

Also, this bill especially benefits small businessmen who now must cope with hard-driving chainstore competition on the one hand

which inexorably is pushing extensive credit plans, and on the other hand, competition from fringe sellers who divert a surprising volume of sales from scrupulous business through deceptive credit-selling methods. Scrupulous businessmen should welcome this bill. Some leading businessmen themselves have said credit reforms are needed. Any scrupulous business spokesman who fights this bill is fronting—either unwittingly or short-sightedly—for the disreputable fringe sellers.

I would like to mention a story in Home Furnishings Daily which reports that small businessmen are up in arms because the bill as written by the Senate would give department stores a competitive advantage over furniture and speciality shops and I do want to make that point especially, that including revolving credit in this bill would benefit not only the general public but small businessmen.

It has become increasingly difficult for small businessmen to compete with the chains and mail-order sellers who peg their cash prices low, but then drive to get buyers to use their credit plans on which they make an additional profit.

The damage to consumers themselves is greater than many of us may realize. To a large extent—and this may seem a little strong to swallow at first—consumer exploitation has replaced labor exploitation as the real problem of our times. We would not permit the things to be done to people as workers that we allow to be done to them as consumers.

Consider this incident that happened to one working woman. A salesman knocked on her door and showed her a set of stainless steel tableware at a price of $65. He said she didn't have to decide immediately, but after delivery could take a few days to decide whether to keep it. When the tableware arrived, the women signed what was described as a "receipt." But on closer inspection the set did not appear to be the same quality she had been shown. She wrote the seller to take it back. The only answer was a demand for payment.

The "receipt" turned out to be an installment contract. The woman went to the Legal Aid Society, which was willing to intercede. But her employer's personnel office called her in and told her that a garnishee had been filed for $120, including finance charge and legal costs, and that the employer would not tolerate garnishees. To keep her job she had to settle with the seller. She settled for $75 for a set of tableware which another retailer subsequently estimated was worth $15. This woman earns just $60 a week. So she really had worked one week without pay because of the $60 she had overpaid for the tableware.

If an employer had forced her to work a week without pay, we would all cry: "This is peonage." Congress would not tolerate labor peonage. But in many cases today we have substituted consumer peonage for labor peonage.

This is not an isolated example. Thousands of such incidents occur each week across the country, often involving much larger amounts. Some families even are then forced into bankruptcy or on welfare because they are snared by deceptive sellers who use the coercive levers provided by most State credit laws to set their traps.

As is well known, there are more consumer bankruptcies today, than in the big depression of the 1930's. Such personal bankruptcies have increased every year for the past 14 years; in fact have jumped 240 percent in the past 10 years.

But even more widespread, though better hidden from public awareness, is the number of people whose wages are attached or garnisheed because of debts. Several million wage earners a year suffer such garnishees. Various cities such as Chicago, Washington, Birmingham, Detroit, Akron, Portland, Oreg., and others, have reported anywhere from 12,000 to 100,000 garnishees a year each.

Just as an informed guesstimate I would say there are somewhere between 3 and 6 million garnishments a year.

Often the debts for which these workers are garnisheed were incurred through deceptive selling tactics as evidenced both by examination of specific cases and because a high percentage of garnishees are filed each year by the same sellers and finance companies in various cities, such as Chicago, Detroit, and so forth.

Even when families do not reach the bankruptcy or garnishment stage, the habitual installment buying indulged in by about half of all families, causes a steady erosion of family income.

In my statement I show some figures which you have probably heard before about how much faster consumer credit has risen in the population, and income and so forth.

I make this point, that in the 10 years from the mid-1950's to the 1960's, the country's population increased 18 percent and disposable income rose 59 percent. But installment debts jumped 130 percent. Not only are American families buying more goods on credit, including small items traditionally bought for cash, but they are paying higher finance rates and taking longer to pay.

A family that usually carries $2,000 of installment debts very likely pays in the neighborhood of $300 a year in finance charges, or a total of about $9,000 over its major buying years. This family, if it is carrying a $16,000 to $17,000 mortgage on its home at 6 percent for 30 years, will pay an additional $20,000 just in interest fees on the mortgage. Altogether a typical wage earner today works 4 or 5 years of his life just to pay interest fees on installment debts and mortgage.

Of all the omissions in the Senate bill, perhaps the least understandable is that the dollar amounts of mortgages need not be shown. The excuse given is that people would be discouraged from buying homes if it were shown that the total interest on the mortgage amounts to more than the cost of the home itself or more than the morgage. I don't think we need to fool people into buying homes and I don't think people are going to stop buying homes. They have very little choice.

I think this is almost an immoral omission, let alone a very foolish one.

I want to address myself particularly to two sections of the broader bill you have offered—the inclusion of revolving credit in the requirement that true annual interest rates be disclosed, and the prohibition on garnishment of wages.

There is real danger in omitting revolving credit from coverage. It is true that revolving credit represents only 5 percent of all consumer credit. But it is the fastest growing kind.

Sears, Roebuck, one of the earlier and most active promoters of revolving credit, now does approximately as much business on re-

volving credit as on the traditional installment contracts. Sears now sells almost $4 billion worth of goods on credit (about 58 percent of all its sales). About 40 percent is for "soft goods" like clothing and domestic textiles which families traditionally bought for cash, but now often buy in revolving credit.

Spiegel's, a mail-order house owned by Beneficial Finance Co., actually does 90 percent of its business on various types of credit plans including revolving credit.

A Spiegel official several years ago referred to his firm as a combined loan company and store. That is not the only large retail organization that has become a combined loan company and store.

Some of America's largest merchandisers and manufacturers in effect have become combination stores and finance companies, including many who until a few years ago sold very little on credit.

Sears, Montgomery Ward, Penney's—traditionally a cash store and the last large holdout from credit—W. T. Grant, City Stores, Alden's, Gamble-Skogmo, and other large chains and catalog houses, now all own their own finance companies.

What I am going to say next is very significant of why we have to be concerned.

In reverse, some loan companies have been buying control of chains of stores which generate credit accounts for them. Beneficial Finance Co. now owns Western Auto Supply Stores as well as Spiegel's. Household Finance Co. now owns the White Stores, Coast-to-Coast Stores, Ben Franklin Stores, and the Colby Furniture Stores in Illinois—a total of over 4,500 stores.

Most of these large retailers now are promoting revolving credit especially hard. Montgomery Ward, for example, devotes more than twice as much space in its catalog to its revolving credit plan than to its three traditional installment plans put together. I have no breakdown on the proportion of its credit business Ward's now does through revolving credit, but Ward's now makes 47 percent of all its sales on credit even though it was a relatively late starter in pushing revolving credit. Even a variety chain like W. T. Grant which has broadened into a junior department store type of operation now does 25 percent of its business on credit, especially pushing a type of revolving credit called coupon books for small purchases. The true annual rate on coupon books—which you spend like cash in the store—can amount to as much as 31 percent for the smaller denominations.

They are pushing credit at us from every direction.

Recently a housewife bought a $9 bedspread from one of the large mail-order houses. When the bill arrived it gave her a choice of paying the $9 in 20 days or paying it on revolving credit—$5 now and $4 the next month.

An Akron family who had made purchases of a number of small items on a revolving credit account from Alden's found themselves behind in payments because of a work cutback. One day a letter arrived from the mail-order house warning that they would have to go to the man's employer. While the family was worrying because they knew that the employer fires for a garnishee, in the next mail another letter arrived from the same retailer urging them to make more purchases on their revolving credit account.

I would like to mention just a few incidents to show the effect of this heavy promotion of revolving credit on American families.

A college-educated Atlanta housewife wrote me:

As we added up the interest we paid last year we found we were paying 18 percent, and had been persuaded into extended payments by phrases in the catalog like "No lump sum interest charged, only a small 1½ percent a month service charge with each payment."

A Portland mother of 26, who has three little girls, wrote that she has gone back to work to help pay off accumulated debts of $4,721. Her husband's take-home pay is $420 a month. They have 20 debts, including six department stores.

A Haverhill, Mass., couple with only $300 a month income obligated themselves for monthly payments of $224 for bank notes and a revolving charge account, bank loans, plus accumulated bills for oil, insurance, and other needs. "The creditors are getting hard to handle," the wife wrote. "I am ready to jump in the river if I don't find a solution soon."

For the many young families who are led into serious overindebtedness, the effect often is a sense of despair and a shattering loss of self-confidence.

Panic accompanies the writing of every check—

The wife of a Lansing, Mich., schoolteacher wrote me—

After two and a half years of marriage and two babies, we are paying 20 percent of our income on our debts. But what happens when the house needs repair, the transmission in your car collapses and your child is hospitalized—all in one month?

A young wife in Phoenix with two small children, still in her early twenties looks forward only to a lifetime of debt: "It has finally hit us hard enough so that we have to face the fact that no matter what, we will never get out of debt."

She and her husband married right out of high school. They were active and confident consumers. They bought so much on credit that she ended up going to work as a secretary, for a finance company, appropriately enough. "With my working, we decided we could get out of debt easily. But due to always seeing things we wanted, and with our good credit, we got in deeper. With the second baby I lost my job. Now my husband is working only part time. We are constantly hounded by bill collectors."

Now there are additional pressures to buy on revolving credit through the bank credit card plans being promoted extensively. Obviously, excusing revolving credit from disclosing the true annual interest rate would leave a very large loophole.

Of course young families will still buy on credit, and some will overbuy. But at least the Atlanta housewife and others would know beforehand what annual interest rate they will have to pay, and will be better able to decide whether it is better to leave funds in a bank earning 4 to 5 percent while they pay a presumed 18 percent for revolving credit; whether it is preferable to pay 18 percent for a credit card plan when they could take out a personal loan from the same bank for a true annual 10 or 12 percent, or put more down, or pay moderate balances immediately, or use cash to buy small items

instead of coupons "which you spend like cash"—almost like play money.

Many excuses are being advanced for seeking exemption of revolving credit. Some of these seem to be a little academic. There would be nothing wrong with stating that there are free days and variations in billing as long as the seller complies with the requirement to state that when he does start charging for the credit, the rate is 1½ percent a month or approximately 18 percent a year. The seller would be able to make it clear that if the buyer pays up in 1 month, for example, there is no charge.

The bill as written provides for reasonable tolerances and also permits the proposed administering agency to make adjustments and exceptions for any class of transactions if the agency finds this necessary to secure compliance. If a revolving credit seller maintains that his charge of 1½ percent a month is actually lower in terms of simple annual interest, because of his method of calculating these charges, then—as I read this bill—he can make a showing of why his annual rate differs—if 12 times 1½ actually can differ from 18—and what tolerances, adjustments, and exceptions may be fair and reasonable.

He always can explain that competitively he can do things some of his competitors do not. I am referring to J. C. Penney when they argue that they give certain credits that most certain other retailers do not. There is nothing wrong with their explaining and advertising as much as they want that they do this, that they give credits which the other stores do not before they figure your finance charge for that month. Some such variations really affect only a minority of people. There are relatively few people who return merchandise for credit. If one chain overstated its actual rate in that case, still the great majority of the public would be benefited.

Another useful addition in the House bill is the inclusion of debts on which the finance charge is $10 or less. Otherwise not only many of the high-rate "payday loans," but such fees as an extra charge if you arrange to pay part of your auto insurance later, would not be covered. The insurance company would not have to tell you that a charge of $2 for repaying say, $40 3 months later, is really the equivalent of a true annual interest rate of 20 percent.

As one example of what loan companies can do if these smaller loans are not covered, a Chattanooga lawyer reported the case of a $39 loan renewed 18 times. The borrower got a total of $332 and paid $650, including $63.88 in investigation fees.

Incidentally, we should be conscious that in the famous case here in the District in which Judge Skelly Wright enunciated the doctrine of the unconscionable contract, the furniture store involved had the customer sign 14 different notes instead of one large installment contract and when she failed to pay on the final note, he repossessed all the merchandise on the 13 previous notes.

Leaving open this loophole would give credit sellers an opportunity to exploit the very-low-income consumers particularly.

With regard to the proposed ban on garnishments, this ban would do more to eliminate many of the credit deceptions now used on working people than any other action Congress or the individual States might take. There are a number of potential tools of deception written

into most State laws which high-pressure sellers use. These include the right to repossess and also get a deficiency judgment; the confession of judgment note which waives any defenses the buyer may have and the "holder in due course" provision which absolves the finance company or bank of any responsibility for the seller's lack of performance or even outright verbal misrepresentation, even though the finance company may be perfectly aware of what is going on.

But the garnishment is the lever of final coercion that makes most of these other tools of deception work. Often an unscrupulous seller does not even have to get a garnishee. He can merely threaten it and the victim often is frightened into paying even an unfair bill for fear of job loss. Often even the actual threat is not necessary when the victim knows that his employer fires for a garnishee, or at best condones only two or three.

Here is the kind of awful incident that has been repeated actually hundreds of thousands of times in recent years in referral selling schemes, food freezer plans, carpet selling schemes, overpriced home improvement jobs, fake correspondence schools, and so on, with no way to stop these schemes as long as the garnishee law exists. A woman in Kansas City, Mo., wrote me:

> A salesman came to my house with a camera. The setup was like this. You pay $20 for the camera and that is all you have to pay. Then you send the company customers and the camera is supposed to be yours. I sent the company over 20 customers and received no credit. Now they say I must pay for the camera because I signed the paper. I have a witness that I told the man if there was any more money involved I could not take the camera. These people sold the papers to a finance company. They have come four times to the company where I work, to garnishee my wages. I sent the camera back because I told them I could not afford to pay such a price—over $400.
>
> The company has the camera but they say I still have to pay. I have talked to three lawyers and I get no help. They say I still have to pay. So far I have lost four days work over this matter with all kinds of trouble at work. I am a woman of 50 with a 12-year-old child to support. I need the little bit I make for living expenses.

This woman is caught like a mouse in a trap. The trap is the State credit laws—stacked on the side of the seller and the finance company.

She has no place to turn. She went, not only to the lawyers, but the better business bureau and the legal aid. "No one seems to be able to help me," she says.

Many times working people return partly-paid-for goods in the belief that this will square off the debt, or because the machine does not work, or because they really did not save money on food by having a freezer. They found they still have to pay the whole bill though they no longer have the goods.

Sometimes people signed contracts for lessons or gymnasium courses, and even though a health reason may require them to drop out, even though the gym or judo club closed up, they still had to pay for all the lessons plus the finance charge. The things that go on are really incredible.

Florence Rice, a New York antipoverty worker, tells about a woman who bought a TV set. It turned out to be for DC current. She had AC in her apartment. The seller refused to take in back. She threw it out. The seller simply threatened to get a garnishee. The woman now is paying off a total of $516, at $7 a week, even though she has nothing to show for it. Can you believe consumer peonage?

Another woman bought a watch priced at $59. When she fell behind in payments she was garnisheed for $113 including finance charges and legal fees. Another jeweler valued the watch at $19. Is it any wonder that in riots in Detroit and other cities, rioters also destroyed installment records in local credit stores?

One can say that these people should be more careful, and should buy from reputable merchants. Without doubt such buyers are innocent and trusting. But the question before this country today, is whether we should permit laws that enable unscrupulous sellers to take advantage of innocence and trust.

It is noticeable that the States with the toughest garnishment laws have the highest bankruptcy rates including California, Ohio, Virginia, Michigan, and Minnesota.

I think the bankruptcy referees Friday presented a good case in presenting that information in detail.

Colorado, with much less population, had about 4,300 bankruptcies and wage earner plans in 1 recent year, compared to only 1,000 in Texas and Pennsylvania which do not permit garnishees. Virginia, with less population than Florida which does not permit garnishees, has eight times as many bankruptcies. Ohio, with about the same population as Texas, has about 50 times the bankruptcies.

Certain installment dealers and finance companies in various cities alone produce hundreds of garnishees. A study reported by Dr. Milton Huber, of the University of Wisconsin, found that in Milwaukee County, of 6,744 garnishees in 1 year, 805 of them were by one finance and loan company; 783 were by one credit clothing and jewelry store; 640 came from one furniture and appliance store.

Mrs. SULLIVAN. Mr. Margolius, I am going to call time for two reasons. I understand that you are recovering from a bout of tonsilitis and we want to conserve your voice so that we can discuss these points with you further and also we want to hear from Professor Morse. I know that all of the committee members have a lot of questions to put to both of you, so we will have Professor Morse summarize his statement and then go into the questioning.

Mr. MARGOLIUS. I just want to make one point for the record that the credit business would not suffer if garnishments are removed.

I have a letter from the manager of the Fort Worth, Tex., Credit Bureau who tells me that there is no more of a problem collecting debts in Texas which has no garnishees than in other States which do have garnishments.

Thank you very much.

Mr. SULLIVAN. We will have your entire statement placed in the record at this point.

(The full statement of Mr. Margolius follows:)

STATEMENT BY SIDNEY MARGOLIUS

My name is Sidney Margolius. I reside at 74 Davis Road, Port Washington, New York. I am a writer specializing in consumer economic problems. In addition to books, pamphlets and magazine articles, I write a syndicated consumer column published by 105 trade-union, consumer co-op, credit-union and other newspapers with a combined circulation of 14 million. I have devoted myself solely to reporting on consumer economic problems for over 30 years.

In the light of this experience, I would say to this committee that family money losses arising from high-pressure credit selling today have become a serious

national problem, damaging not only the families themselves, but causing a diversion of family resources that is helping to frustrate vital family and national goals such as advanced education, better housing and the anti-poverty program.

Never before have there been so many pressures on the public to buy on installments and to borrow money; never before have so many families used credit so extensively; never have they paid as high rates for it, and never have they been subjected to as many deceptions stemming from obsolete state credit laws which originally were designed to protect sellers and lenders, not buyers, and which some unscrupulous sellers have learned to use for outright deception.

For this reason, H.R. 11601, the proposed Consumer Credit Protection Act has significance beyond even the urgent need to give consumers honest and reasonably accurate information about installment and loan terms. This is a perceptive, intelligent, practical, public-spirited bill in the best national interest. Your sub-committee is to be congratulated for drafting and offering this bill which is as patriotic and practical as it is humane. This bill as it now stands would benefit America's families, help our national and local economies in a number of ways, and aid reputable businessmen.

This bill would especially benefit small businessmen who now must cope with hard-driving competition on one hand from national chains and mail-order houses who are inexorably pushing their extensive credit plans, and on the other hand, from a fringe sellers who divert a surprising volume of sales from scrupulous business through deceptive credit-selling methods. Scrupulous businessmen should welcome this bill. Some leading businessmen themselves have said credit reforms are needed. Any scrupulous business spokesman who fights this bill is fronting—either unwittingly or short-sightedly—for the disreputable fringe sellers.

It has become increasingly difficult for small businessmen to compete with the chains and mail-order sellers who peg their cash prices low, but then drive to get buyers to use their credit plans on which they make an additional profit.

The damage to consumers themselves is greater than many of us may realize. To a large extent—and this may seem a little strong to swallow at first—consumer exploitation has replaced labor exploitation as the real problem of our times. We would not permit the things to be done to people as workers that we allow to be done to them as consumers.

Consider this incident that happened to one working woman. A salesman knocked on her door and showed her a set of stainless steel tableware at a price of $65. He said she didn't have to decide immediately, but after delivery could take a few days to decide whether to keep it. When the tableware arrived, the woman signed what was described as a "receipt". But on closer inspection the set did not appear to be the same quality she had been shown. She wrote the seller to take it back. The only answer was a demand for payment.

The "receipt" turned out to be an installment contract. The woman went to the Legal Aid Society, which was willing to intercede. But her employer's personnel office called her in and told her that a garnishee had been filed for $120, including finance charges and legal costs, and that the employer would not tolerate garnishees. To keep her job she had to settle with the seller. She settled for $75 for a set of tableware which another retailer subsequently estimated was worth $15. This woman earns just $60 a week. So she really had worked one week without pay because of the $60 she had overpaid for the tableware.

If an employer had forced her to work a week without pay, we would all cry: "This is peonage". Congressmen would not tolerate labor peonage. But in many cases today we have substituted consumer peonage for labor peonage.

This is not an isolated example. Thousands of such incidents occur each week across the country, often involving much larger amounts. Some families even are forced into bankruptcy or on welfare because they are snared by deceptive sellers who use the coercive levers provided by most state laws to set their traps.

As is well known, there are more consumer bankruptcies today, than in the big depression of the 1930's. Such personal bankruptcies have increased every year for the past 14 years; in fact have jumped 240 per cent in the past ten years.

But even more widespread, though better hidden from public awareness, is the number of people whose wages are attached or garnisheed because of debts. Several million wage-earners a year suffer such garnishees. Various cities such as Chicago, Washington, Birmingham, Detroit, Akron, Portland (Oregon), and others, have reported anywhere from 12,000 to 100,000 garnishees a year each.

Often the debts for which these workers are garnisheed were incurred through deceptive selling tactics as evidenced both by examination of specific cases and because a high percentage of garnishees are filed each year by the same sellers and finance companies in various cities, such as Chicago, Detroit, etc.

Even when families do not reach the bankruptcy or garnishment stage, the habitual installment buying indulged in by about half of all families, causes a steady erosion of family income.

In the ten years from the mid-1950's to the 60's, the country's population increased 18 per cent and disposable income rose 59 per cent. But installment debts jumped 130 per cent. Not only are American families buying more goods on credit, including small items traditionally bought for cash, but they are paying high finance rates and taking longer to pay. A family that usually carries $2000 of installment debts very likely pays in the neighborhood of $300 a year in finance charges, or a total of about $9,000 over its major buying years. This family, if it is carrying a $16,000-$17,000 mortgage on its home at 6 per cent for 30 years, will pay an additional $20,000 just in interest fees on the mortgage. Altogether a typical wage-earner today works four or five years of his life just to pay interest fees on installment debts and mortgages.

I want to address myself particularly to two sections of the bill—the inclusion of revolving credit in the requirement that true annual interest rates be disclosed, and the prohibition on garnishment of wages.

There is real danger in omitting revolving credit from coverage. It is true that revolving credit represents only 5 per cent of all consumer credit. But it is the fastest-growing kind.

Sears Roebuck, one of the earlier and most active promoters of revolving credit, now does approximately as much business on revolving credit as on the traditional installment contracts. Sears now sells almost $4 billion worth of goods on credit (about 58 per cent of all its sales). About 40 per cent is for "soft goods" like clothing and domestic textiles which families traditionally bought for cash, but now often buy in revolving credit.

Spiegel's, a mail-order house owned by Beneficial Finance Company, actually does 90 per cent of its business on various types of credit plans including revolving credit.

Too, even though the Senate bill provides some safeguards against conversion of installment accounts to revolving accounts, more retailers are expected to shift over to revolving credit if they don't have to tell the true interest rates. The president of one retail furniture merchandising group already has advised his stores to set up revolving plans in view of the passage of truth-in-lending laws in several states, and the proposed federal law.

Some of America's largest merchandisers and manufacturers in effect have become combination stores and finance companies, including many who until a few years ago sold very little on credit.

Sears, Montgomery Ward, Penney's (traditionally a cash store and the last large holdout from credit), W. T. Grant, City Stores, Alden's, Gamble-Skogmo, and other large chains and catalog houses, now all own their own finance companies.

In reverse, some loan companies have been buying control of chains of stores which generate credit accounts for them. Beneficial Finance Co. now owns Western Auto Supply Stores as well as Spiegel's. Household Finance Company now owns the White Stores, Coast-to-Coast Stores, Ben Franklin stores and the Colby Furniture stores in Illinois—a total of over 4500 stores.

Most of these large retailers now are promoting revolving credit especially hard. Montgomery Ward, for example, devotes more than twice as much space in its catalog to its revolving credit plan than to its three traditional installment plans put together. I have no breakdown on the proportion of its credit business Ward now does through revolving credit, but Ward now makes 47 per cent of all its sales on credit even though it was a relatively late starter in pushing revolving credit. Even a variety chain like W. T. Grant which has broadened into a junior department store type of operation now does 25 per cent of its business on credit, especially pushing a type of revolving credit called coupon books for small purchases. The true annual rate on coupon books—which you spend like cash in the store—can amount to as much as 31 per cent for the smaller denominations.

You almost have to specify that you don't want to use a fee-charging revolving credit account when you seek to open an ordinary charge account these days.

One alert woman told a large New York department store credit clerk, "I want to pay my bills monthly. I don't want a revolving charge account." The clerk responded, "It's a good thing you told me, because we automatically put you on revolving credit unless you ask for a regular charge account."

In another case, a woman bought a $9 bedspread from one of the large mail-order houses. When the bill arrived it gave her a choice of paying the $9 in 20 days or paying it on revolving credit—$5 now and $4 the next month.

An Akron family who had made purchases of a number of small items on a revolving credit account from Alden's found themselves behind in payments because of a work cutback. One day a letter arrived from the mail-order house warning that they would have to go to the man's employer. While the family was worrying because they knew that the employer fires for a garnishee, in the next mail another letter arrived from the same retailer urging them to make more purchases on their revolving credit account.

Now I would like to mention just a few incidents to show the effect of this heavy promotion of revolving credit on American families.

A college-educated Atlanta housewife wrote me: "As we added up the interest we paid last year we found we were paying 18 per cent, and had been persuaded into extended payments by phrases in the catalog like 'No lump sum interest charge, only a small 1½ per cent a month service charge with each payment.'"

A Portland mother of 26, who has three little girls, wrote that she has gone back to work to help pay off accumulated debts of $4721. Her husband's take-home pay is $420 a month. They have 20 debts, including to six department stores.

A Haverhill, Massachusetts couple with only $300 a month income obligated themselves for monthly payments of $224 for bank notes and a revolving charge account, bank loans, plus accumulated bills for oil, insurance and other needs. "The creditors are getting hard to handle," the wife wrote me. "I am ready to jump in the river if I don't find a solution soon."

For the many young families who are led into serious overindebtedness, the effect often is a sense of despair and a shattering loss of self-confidence.

"Panic accompanies the writing of every check," the wife of a Lansing, Michigan, school teacher wrote me. "After two and a half years of marriage and two babies, we are paying 20 per cent of our income on our debts. But what happens when the house needs repair, the transmission in your car collapses and your child is hospitalized—all in one month?"

A young wife in Phoenix with two small children, still in her early twenties looks forward only to a lifetime of debt: "It has finally hit us hard enough so that we have to face the fact that no matter what, we will never get out of debt."

She and her husband married right out of high school. They were active and confident consumers. They bought so much on credit that she ended up going to work as a secretary, for a finance company, appropriately enough. "With my working, we decided we could get out of debt easily. But due to always seeing things we wanted, and with our 'good' credit, we got in deeper. With the second baby I lost my job. Now my husband is working only part time. We are constantly hounded by bill collectors."

Now there are additional pressures to buy on revolving credit through the bank credit-card plans being promoted extensively. Obviously, excusing revolving credit from disclosing the true annual interest rate would leave a very large loophole.

Of course young families will still buy on credit, and some will overbuy. But at least the Atlanta housewife and others would know beforehand what annual interest rate they will have to pay, and decide whether it is better to leave funds in a bank earning 4 or 5 per cent while they pay a presumed 18 per cent for revolving credit; whether it is preferable to pay 18 per cent for a credit card plan when they could take out a personal loan from the same bank for a true annual 10 or 12 per cent, or put more down, or pay moderate balances immediately, or use cash to buy small items instead of coupons "which you spend like cash,"—almost like play money.

Many excuses are being advanced for seeking exemption of revolving credit. Some of these seem to be a little academic. There would be nothing wrong with stating that there are free days and variations in billing as long as the seller complies with the requirement to state that when he does start charging for the credit, the rate is 1½ per cent a month or *approximately* 18 per cent a year.

The seller would be able to make it clear that if the buyer pays up in one month, for example, there is no charge.

The bill as written provides for reasonable tolerances and also permits the proposed administering agency to make adjustments and exceptions for any class of transactions if the agency finds this necessary to secure compliance. If a revolving credit seller maintains that his charge of 1½ per cent a month is actually lower in terms of simple annual interest, because of his method of calculating these charges, then—as I read this bill—he can make a showing of why his annual rate differs (if 12×1½ actually can differ from 18) and what tolerances, adjustments and exceptions may be fair and reasonable.

After the seller states the required formula he still has the right to make a reasonable and accurate explanation of why one plan may have advantages over another even though both charge the same periodic rate.

Another useful addition in the House bill is the inclusion of debts on which the finance charge is $10 or less. Otherwise not only many of the high-rate "payday loans," but such fees as an extra charge if you arrange to pay part of your auto insurance later, would not be covered. The insurance company would not have to tell you that a charge of $2 of repaying, say, $40 three months later, is really the equivalent of a true annual interest rate of 20 per cent.

Another danger is that the practice of loan companies in some areas, of making several small loans rather than one loan, will spread. Selma Cash Paty, a Chattanooga lawyer, reported a $39 loan renewed 18 times. The borrower got a total of $443 and repaid $653 including $63.88 in "investigation fees."

With regard to the proposed ban on garnishments, this ban would do more to eliminate many of the credit deceptions now used on working people than any other action Congress or the individual states might take. There are a number of potential tools of deception written into most state laws which high-pressure sellers use. These include the right to repossess and also get a deficiency judgement; the confession of judgement note which waives any defenses the buyer may have and the "holder in due course" provision which absolves the finance company or bank of any responsibility for the seller's lack of performance or even outright verbal misrepresentation, even though the finance company may be perfectly aware of what is going on.

But the garnishment is the lever of final coercion that makes most of these other tools of deception work. Often an unscrupulous seller does not even have to get a garnishee. He can merely threaten it and the victim often is frightened into paying even an unfair bill for fear of job loss. Often even the actual threat is not necessary when the victim knows that his employer fires for a garnishee, or at best condones only two or three.

Here is the kind of awful incident that has been repeated actually hundreds of thousands of times in recent years in referral selling schemes, food freezer plans, carpet selling schemes, overpriced home improvement jobs, fake correspondence schools and so on, with no way to stop these schemes as long as the garnishee law exists. A woman in Kansas City, Mo., wrote me:

"A salesman came to my house with a camera. The setup was like this. You pay $20 for the camera and that is all you have to pay. Then you send the company customers and the camera is supposed to be yours. I sent the company over 20 customers and received no credit. Now they say I must pay for the camera because I signed the paper. I have a witness that I told the man if there was any more money involved I could not take the camera. These people sold the papers to a finance company. They have come four times to the company where I work, to garnishee my wages. I sent the camera back because I told them I could not afford to pay such a price—over $400.

"The company has the camera but they say I still have to pay. I have talked to three lawyers and I get no help. They say I still have to pay. So far I have lost four days work over this matter, with all kinds of trouble at work. I am a woman of 50 with a 12-year-old child to support. I need the little bit I make for living expenses."

This woman is caught like a mouse in a trap. The trap is the state credit laws—stacked on the side of the seller and the finance company.

She has no place to turn. She went, not only to the lawyers, but to the Better Business Bureau and the Legal Aid. "No one seems to be able to help me," she says.

Many times working people return partly-paid for goods in the belief that this will square off the debt, or because the machine does not work, or because they

really did not save money on food by having a freezer. They found they still have to pay the whole bill though they no longer have the goods. Sometimes people signed contracts for lessons or gymnasium courses, and even though a health reason may require them to drop out, even though the gym or judo club closed up, they still had to pay for all the lessons plus the finance charge. The things that go on are really incredible. Florence Rice, a New York antipoverty worker, tells about a woman who bought a TV set. It turned out to be for DC current. She had AC in her apartment. The seller refused to take it back. She threw it out. The seller simply threatened to get a garnishee. The woman now is paying off a total of $516, at $7 a week, even though she has nothing to show for it. Can you believe consumer peonage?

Another woman bought a watch priced at $59. When she fell behind in payments she was garnisheed for $113 including finance charges and legal fees. Another jeweler valued the watch at $19. Is it any wonder that in riots in Detroit and other cities, rioters also destroyed installment records in local credit stores?

One can say that these people should be more careful, and should buy from reputable merchants. Without doubt such buyers are innocent and trusting. But the question before this country today, is whether we should permit laws that enable unscrupulous sellers to take advantage of innocence and trust.

It is noticeable that the states with the toughest garnishment laws have the highest bankruptcy rates including California, Ohio, Virginia, Michigan and Minnesota. Colorado, with much less population, had about 4300 bankruptcies and wage-earner plans in one recent year, compared to only about 1000 in Texas and Pennsylvania which do not permit garnishees. Virginia, with less population than Florida which does not permit garnishees, has eight times as many bankruptcies. Ohio, with about the same population as Texas, has about 50 times the bankruptcies.

Certain installment dealers and finance companies in various cities alone produce hundreds of garnishees. A study reported by Dr. Milton Huber, of the University of Wisconsin, found that in Milwaukee County, of 6744 garnishees in one year, 805 of them were by one finance and loan company; 783 were by one credit clothing and jewelry store; 640 came from one furniture and appliance store.

Jasper Rowland, Manager of the Akron Better Business reports: "We have two retail establishments and two used-car dealers who entice poor credit risks into further debts and then use the garnishee route to enforce their collections."

In one recent year just one Akron retailer filed 1500 garnishments. This and another store accounted for almost 20 per cent of all garnishments in Akron.

In Detroit, where 52,000 garnishments were filed in 1965, Jerry Dale reported in the United Auto Workers *Solidarity*, that the top filers included five leading small-loan chains and a group of large credit clothiers, credit jewelers, furniture and television stores.

The New York City Labor Commissioner in 1966 said that some installment sellers deliberately run their businesses on the basis of getting garnishee if a buyer misses just one payment.

If businessmen are against government intervention in their affairs, and in dealings between buyer and seller, then they should absolutely agree to eliminate garnishments. For garnishments are state intervention in its most drastic and naked form. This is government intervention on behalf of the seller and lender to compel a debtor virtually forcibly, to pay debt, without his agreement, often without even a fair trial by court, without usually a genuine examination of the seller's claims.

There just is no need at all for garnishments from any point of view that of legitimate business as well as consumers. Sellers and lenders in the few states which do not permit garnishees do not suffer any greater losses than those in others. Garnishees are not permitted in Texas. I have a letter on file from the Fort Worth Credit Bureau stating that Texas merchants have no greater credit losses than those elsewhere.

Nor does the credit business really suffer. Berkeley Municipal Judge George Brunn points out that the ratio of installment credit to total sales varies little among hard-garnishee law California, Colorado and Alabama; mild-law New York, and no-garnishee Texas, Florida and North Carolina.

H.R. 11601, the consumer credit protection bill your subcommittee has produced, is the real bill of rights for consumers, and equally of benefit to busi-

ness and the nation itself. Its passage would be the first real step yet taken toward eliminating some of the worst and most unnecessary evils that have plagued American families in modern times.

Mrs. SULLIVAN. Professor Morse, will you please summarize your statement?

STATEMENT OF RICHARD L. D. MORSE, PROFESSOR OF FAMILY ECONOMICS, KANSAS STATE UNIVERSITY, MANHATTAN, KANS.

Mr. MORSE. I am most appreciative for the opportunity to testify, particularly before this committee. I have known Mr. Annunzio through correspondence and our mutual interests in the Department of Defense directive. This bill couldn't come before a committee better chaired. I know the people of St. Louis are most indebted to the chairman for her dedication to consumer affairs and consumer interests. I had hoped my own Congressman, a member of the Committee on Banking and Currency, Mr. Chet Mize, a Representative of my district would be here this morning but I think the schedule change in my appearance did not coincide with his plans. I know that he will do everything he can to support this bill and I hope that he will recognize those parts of it which are consumer-oriented and those parts which do not fulfill the full consumer orientation of this bill.

I might also say I appreciate reading Mr. Halpern's letter in behalf of Senate 5. The bipartisan support for this bill is wonderful. I have gone around the country saying I don't see why such measures as this should be a party issue. We are all in these United States.

I will just summarize and put the full statement in the record.

There should be three documents—the first is the statement itself, the second is a memorandum dated August 5 and the third is a list of exhibits.

Mrs. SULLIVAN. Without objection, Professor, your statement will be included at this point and the supporting material will be placed in the appendix. (See p. 1067.)

STATEMENT OF RICHARD L. D. MORSE, PROFESSOR OF FAMILY ECONOMICS, KANSAS STATE UNIVERSITY, MANHATTAN, KANS.

Madame Chairman and Members of the Committee, I appreciate this opportunity to appear before you to testify on H.R. 11601, the "Consumer Credit Protection Act."

I appear in my private capacity and not as a representative of the University. However, I am confident that I represent fairly and adequately the views of the Kansas Home Economics Association, of which I am President, and which each year since 1959 has officially endorsed Truth in Lending.

We have waited many years for this bill to come before the House. But never did I dream it would come before such a competent committee. It is not by chance that Mrs. Sullivan is Chairman of the Consumer Affairs Subcommittee. For over a decade or so, I have heard St. Louis citizens speak proudly of her interest and activities in behalf of the consumer. Mr. Annunzio provided the stimulus for the Department of Defense Directive on consumer credit, a most significant advancement in Truth in Lending. One of the best speeches I have heard on consumer credit was given by Mr. Hanna. Mr. Halpern's letter in behalf of S. 5 contributed to the bipartisan support for this measure. And I know many consumers back home who feel confident that our capable Representative, Chet Mize, will ably represent our interests when this bill comes before the full committee in assuring that a good consumer-oriented bill is passed.

I commend the sponsors for initiating public discussion of various aspects of credit abuses which affect the lives of too many families. Full disclosure of

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

CONSUMER CREDIT COST AND ANNUAL RATE DISCLOSURE

I will now focus my statement particularly on the "Truth in Lending" provisions of the bill for two reasons. First, as a teacher I say we desperately need the standardization of terminology which this bill provides. Teachers are greatly handicapped. We must combat the false misleading and deceptive advertising with its come-easy, go-easy, live-a-little, commercialized consumer education. This is our competition—not for profits, but for developing a way of thinking and conceptualizing. We lack the basic and most elementary tool for efficient communication, a standard vocabulary. For example, at about the seventh grade level students learn about *interest*. They use the I=Prt formula to figure either the amount of interest, if the rate is given, or the rate, if the cost is given, for a given principal amount and time. Then later they learned that the cost is not *interest* at all, but a *finance charge, a service charge, a time-price differential*. . . . And they also learn that bank 6% car financing isn't just 1% more than the bank's 5% on savings. . . . And bankers now say simple interest isn't simple, that interest rates are deceptive, yet banks continue to advertise their mythical low bank rates for financing cars and plaster billboards with percentage rates on savings. . . . Then we hear from retailers and bankers that 1½% a month is not 18% a year. . . . So much classroom time is needed to bring a ray of light into this jungle of credit terminology, there is no time to discuss the Rule of 78's, discounts or points, much less focus attention on how to shop for credit and the major decisions of when and how to use credit wisely. So as a teacher of family finance, I say we desperately need the disclosure and advertising provisions of this bill.

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

OBSERVATIONS

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

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

If your economic position allows you to *save up to spend*, your monthly savings at 6% need be $50.84. But if you are always behind and use credit to *"save up" for what you've spent*, your monthly payments are 80% higher borrowing at 3% a month, or even 31% higher if you borrow at the credit union and pay 12%, that is, 1% per month, or $6.50 add-on. Even if the rate is the same, the payments are about 20% higher ($60.84 vs $50.84 at 6%.) This is how much more it costs to pay backward than forward, and even more so if the rate differential is high.

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

Credit Quotation Accuracy, by Norma J. Redeker from the Kansas State University Library.)

The reason for this is reflected in the cover picture of the *Truth-in-Lending* pamphlet showing a bank advertising 5% interest on Certificates of Deposit and 5% car financing. As the caption says, "Would you believe? This bank borrows and lends at 5% . . . and still makes a profit."

The implication of this double or half-talk is horrendous for the teacher trying to help students learn how to make prudent financial decisions. I conclude that the cost of educating consumers up to the point they can distinguish competent between "straight" and "curved" answers from creditors would be far higher than most school systems could get taxpayers to support. I submit it would be much more efficient to teach all the creditors how to figure credit costs and rates than to teach all the consumers who want to know or should know.

It is time we concern ourselves with methods for improving the efficiency of education. I assume there is no debate about the value of consumers learning how to price alternative credit services accurately when shopping for credit and its costs when they use credit.

3. There is substantial evidence that consumers can utilize to advantage all the information required by this bill. Consumers who know the down payment, the amount of each payment, the number of payments, the cost and the rate, make different and more confident credit decisions than when only some of these facts are disclosed. Furthermore, they will not all make the same choices; the lowest rate is not the most attractive for all.

I base this on my 1961 testimony, reported on pages 4–7 of the *Truth-in-Lending* pamphlet. If you know someone who doubts the need for dollar and rate disclosure, I suggest you play this game with them.

4. Now I wish to turn attention to the question of how to figure the rate? First, this question has been blown up all out of proportion to its importance. Why not turn the question around and ask: How do you figure the cost? Second, once the bill is established, rate charts and tables will be published that will give an accurate reading of costs, monthly payments and rate. They will apply to most contracts since most are regular in repayment terms.

But even the most irregular contract terms present no special problem if you start with the rate. I call your attention to page 20 of *Consumer Credit Computations* for a ridiculously absurd schedule of payments. I solved this with the use of a simple credit union guide issued back in the days when most credit union treasurers were volunteers working without machine calculators. Even with sophisticated data processing equipment, it is also simple to start with the rate. How else do savings institutions figure credit cost on money you lend them?

A more complicated procedure is to start with the cost and then figure the rate. How this is done is shown in Example Number 8 in Mr. Barr's testimony or Example 3 of Irregular Payments in the Annual Rate Tables booklet prepared by the U.S. Treasury Department.

5. Graduated or Step Rates have no place in a consumer credit disclosure bill. Most states now give legislative anuthorization for such rate schedules as 2½% on the first $200, 2% on balances of $200–$500, and 5/6% over $500. But if you need $800, what is the rate? It is a blend of 30%, 24% and 10%.

In my pamphlet, *Consumer Credit Computations,* beginning on page 12, I say:

"The problem is analogous to figuring the average price per gallon if one had to fill a tank with 800 ballons of gas. Available are these pumps: One pumps gas at 30¢ a gallon, another at 24¢ a gallon, and the third at 10¢ a gallon. He is required to use all three pumps until 300 gallons is delivered, and then the 10¢ pump can no longer be used. The remaining 500 gallons would be supplied by the 24¢ and 30¢ pumps, with the 24¢ pump cutting off after 600 gallons were in. The remaining 200 gallons would come from the 30¢ pump, which has been pumping from the beginning. And since most loans are refinanced before they pay out, the 30% rate is the most persistent."

I think this demonstrates sufficiently the hopeless problem the consumer confronts. It is a "money maker" for the creditor, but confusing to the consumer. I discuss this in detail in the pamphlet.

I bring it up here only to alert you to the problem. One of my recommendations (Number 6) in the attached memorandum, is to delete provisions for multiple rates.

6. There are at least eight methods for figuring the rate. In my S. 5 statement I submitted a table showing the difference in rates among five methods.

I am pleased the debate over methods is settled in favor of the true rate, the actuarial rate.

I want to emphasize a point often overlooked: *This rate is usually not an annual rate, but is customarily so expressed.* It's natural or basic rate is whatever period is used for figuring interest. This periodic rate is annualized by being multiplied by however many such periods there are in a year. This annualized periodic rate is the quoted *nominal annual percentage rate.*

A bank advertising 5% per annum compounded quarterly actually means it pays $1.25 per $100 per quarter. That is, its basic rate is the periodic rate of 1¼% per quarter. After a year at this rate, the $100 will be worth $105.09, a yield rate of 5.09%. *Thus, we see that a 1¼% per quarter at 5% actually costs the bank and pays the customer 5.09%.*

The critical and basic rate is the periodic rate!

It is customary to quote nominal annual rates. These annualized rates are the only feasible way of comparing quotations for transactions having different payment periods and principal amounts. So the bill requires, quite properly, that all rates, whether for contract closed-end credit or for revolving open-end credit, be expressed as a nominal annual percentage rate. Note: If you are concerned, as I once was, that the consumer might be deceived by a nominal annual rate that fails to reflect the higher effective or yield rate as a result of compounding, I refer you to page 30 in *Consumer Credit Computations.*

7. The actuarial rate table used by the DOD has not caused any noticeable shock effect. Most of the creditors Miss Leonard interviewed found the table neither difficult to understand, nor to use. It is functional, particularly with the assumption provided in Section 202(f)(1)(B) for an odd payment, and well within the tolerance, especially with the amendment for Section 200(f)(1)(c) which suggest in the attached memorandum. As Mr. Barr's testimony demonstrates, it can be applied to a variety of irregular payments.

8. Revolving credit is the easiest form of credit to adapt to an annual rate. On page 20 of my *Truth-in-Lending* pamphlet I show how simply a Sears statement could be adapted to disclose the annual rate and the balance on which it is imposed. In most cases *only a printing problem* is involved to disclose the annualized rate and the balance to which it is applied to obtain the finance charge.

9. The problem the retailers and bankers raise is more fundamental than annualizing the periodic rate. The opponents are engaged in a *public confession of how understandardized* their present *practices* are.

Charls E. Walker of the American Bankers Association, testifying before the Senate Banking and Currency Committee, June 23, 1967, raises the point when he says:

". . . Clearly, we think, that in the case of revolving credit, disclosure on a monthly basis provides the consumer with a *more accurate* statement of the finance rate than is possible with an annual expression." (Italics added)

The annual expression is merely the periodic rate multiplied by the number of periods in a year. Multiplication magnifies, but does not distort!

He may have had in mind the "free ride" arguments so that, as Penney's testified, their average customer is paying only 10½% and not the 18% the bill would require to disclose. (Of course, I contend that Penney's charges 18% on all the credit they charge for; they get 0% on all other "credit").

If so, there are two points: (a) the operation of savings accounts at banks is very similar to that of revolving credit accounts. Neither the bank nor the customer knows, and there is no contract to specify how and when the money will flow into and out of savings. This is just like open-end credit accounts. Customers who withdraw before the interest bearing date give the bank a "free ride" use of their money, unless the bank pays interest to date of withdrawal, in which case the bank's rate advertising is "more accurate." Also the customer who saves as of the first of the month or quarter gives the bank 10 more days use of money than the customer who deposits on the 10th. Furthermore, when the bank advertises 5% and pays out amounts per $100 varying from $0 to $5.09, is the bank's advertising of its annualized quarterly rate accurate?

The first Consumer Advisory Council was quite explicit in its recommendation that the rates for credit should be comparable with those used by savings institutions. And this has been a cardinal principal expounded by the proponents of this bill.

If the "inaccuracy" to which the ABA objects is a result of the variety of systems in use by savings institutions with open-end savings plans or creditors

with open-end credit plans, and if this lack of standardized procedures is what makes the rates directly incomparable, their objection is valid. Yet, since it seems not to trouble them with respect to annualized rate disclosure on savings, why should it on credit?

Most of us are familiar with the varieties of systems in use by banks and savings institutions—daily interest, days of grace, early withdrawal privileges, payment to date of withdrawal, etc. But most of us, at least I, had not been aware of the variety of revolving credit systems. I call your attention to the six methods described on pp. 26–27 of my *Truth-in-Lending* pamphlet. You will note the costs range from $2.28 to $5.44. The same 1½% per month rate is applied to the same six-month account. The disclosure of 18% is not what causes these discrepancies, for each charges 1½% per month on every penny *subject to a credit charge under that system.* Nor are these discrepancies attributable to inaccuracies. They are a result of the billing system.

It is true that one customer could get his credit service at $2.28 while another at about twice this. Likewise, one customer could save at one bank and earn $0 while another would earn $5.09.

I do not propose that this Committee consider legislation to standardize banks' methods of paying interest on open-end savings accounts, nor do I propose standardization of open-end credit accounts. But this would be a way of meeting the ABA's concern for the inaccuracies of annualized rate disclosure on open-end accounts. Is standardization what they want?

Since we are concerned here with a matter of public policy, I think it only fair to point out that the so called, "adjusted balance" system employed by Penny's and, according to previous testimony on 40% of revolving credit, is lower in cost because they credit every dollar in cash payment or in returned goods, as though it had been paid as of the first of the month; whereas other stores credit such payments only if sufficient to pay up in full that month's beginning balance. The retailers have submitted testimony to prove they lose money on such accounts. I raise the question of whether this type of *loss leader* is desirable. It seems to me that this places the small businessman, whose access to replacement capital is more limited and at higher cost at a disadvantage. Should the cash customer subsidize the slow and deliberate-paying customer? This observation has nothing to do with the 18% disclosure, *per se.* Yet, it should give cause for concern to those who believe the 18% disclosure would be unfair to stores with liberal credit policies. Whereas in fact, they might better be concerned about how unfair such policies are to cash customers and the implications for small business.

10. My last point relates to the argument that this is a matter for the states to regulate. According to an American Bankers Association executive, well over 50 percent of all consumer credit is extended by lenders which are not subject to Federal regulation. So even if all Federal authorities adopted the provisions of H.R. 11601, most credit would not be covered. I believe wholeheartedly in the preservation of state's rights. But now that we have such tremendous inter-state retail organizations as Sears, Wards, Penney's and credit institutions which span the United States or vast sectors of it, it is idle to believe that individual states can exercise effective and desirable authority without conforming to other states. I have lived in New Jersey for 16 years, Ohio for 2, Wisconsin for 3, Illinois for 3, Iowa for 4, California for 2, Florida for 8 and Kansas for 12. Many others have moved more than I. Why should we learn 50 different concepts of interest, finance charges, service charges, with one set of terms applied to motor vehicles, another to real property, another to cash loans, another to household goods. "A pound is a pound the world around" the saying goes; isn't it time we define for every day use throughout these United States the annual percentage rate? In 1964, a target date of 1966 was set for developing a final draft of a uniform or model credit law. In 1967, there seems little prospect of a single annual percentage rate disclosure from that source. The only alternative is passage of H.R. 11601.

RECOMMENDATIONS FOR IMPROVEMENT OF H.R. 11601

I submit for your study a memorandum giving nineteen recommendations that I believe would improve an excellent bill. It is my MEMORANDUM dated August 5, 1967. In addition, I wish to commend you for not adopting all the provisions of S. 5:

1. The instalment open-credit provision would have made no sense to the consumer. Her need for an annual rate does not change whether the item she buys

has a lien on it or not, or whether she pays off 50% of the purchases or 60% in 12 months. This arbitrary classification would complicate administration, encourage business to increase the number of accounts, and not serve consumers.

The $10 minimum was not necessary. Rates can be applied just as easily to small amounts as to big ticket items; credit unions and small loans companies grew up making small loans, and using the actuarial rate. I am not convinced that the poor who allegedly would be denied credit to avoid disclosing a high rate such as 104% would be benefited by having such credit available anyway. Such high cost credit has a way of developing an insatiable appetite for more credit. And if the rate is high because the purchase is relatively small, revolving credit will meet that need. Furthermore, it creates an unproductive administrative problem of defining a single sale or loan for purposes of enforcement.

3. First mortgages might be exempted since an annualized monthly rate is so customarily disclosed. Yet, by the same argument, it could so easily be disclosed. Why then is there need for its exemption?

The problem lies in that closing costs and discounts are often used to fatten the purse of creditors not satisfied with the stated annual rate. The wide variations in closing costs was noted in a resolution adopted in 1964 by the Consumer Advisory Council recommending study and policy review. (See *The Washington Daily News*, June 11, 1964, and the official press release from the Office of the Special Assistant to the President for Consumer Affairs PCCI–64–28). *House and Home* followed this up with a very perceptive article, which I commend to your attention, not only because it illustrates the problems so well, but it shows that the problem has existed for many years. Solution has not been reached through study. Thus, I am impressed with the virtue of lumping all costs into one sum—interest, points, lender's fee, credit report, appraisal fee, and all other costs a cash buyer would not have to pay—and express this finance charge relative to the principal amount as a single annual percentage rate. This rate would be not only meaningful and useful to the consumer, but would help illuminate differences in efficiencies with which closing operations are conducted. It is significant that *Changing Times* considered the matter of points to be of sufficient interest to publish a lead article in the June issue. (attached)

I believe that disclosure of dollar costs would shock consumers, but not discourage home buying. In fact, it would generate a wholesome respect for the power of interest which is too often overlooked in contrasting the cost of home ownership with renting. For example, I conclude after my discussion on pages 32–4 in *Shopping for Credit*, that for only 29c more a day you could own your own $15,000 home after 40 years of payments rather than continue as a renter of a $15,000 home if money is worth 5½%.

The power of compound interest is demonstrated on pages 30–32 of *Consumer Credit Computations* where I discuss, not only the amount of time needed to double your money, but its relevance to the population explosion.

CONCLUSION

Specifically, in my judgment, this will be a fully consumer-oriented bill if it:

1. Broadens finance charges to include all of the charges that profit the creditor and accompany credit, and for which the consumer becomes liable if he borrows or buys on credit, including:
   Official fees, appraisal fees, credit reports, and insurance
2. Broadens the disclosure coverage to require the annual percentage rate be expressed on all consumer credit, including:
   First mortgages
   Small purchases under contract credit
   Small ticket items or quick repayment credit under revolving credit.
3. Requires the annual percentage rate to be expressed as a single rate, not compromised by fixed charges, and represented by the % mark.
4. Delete language that will encourage loopholes, add to administrative expense, grant favored treatment to a particular class of creditor or a particular type of transaction.
5. Requires rate disclosure prior to the extension of credit, such as in advertising, and full disclosure at the time the credit is extended.

In conclusion, I want to assure you that although I feel very strongly about the points included in this statement and the changes I recommend, I share your conviction that this legislation is too greatly needed and too important to warrant further delay for perfecting amendments.

Mr. MORSE. Thank you.

I wish to explain my position in appearing here today. I come primarily as a teacher. Back in the seventh grade people learned a little formula, I equals PRT. They go out into the real world only to find out that interest isn't interest at all, it is a service charge or something of this sort. Then they learn that when a bank advertises 5-percent on a car loan, this isn't the same 5-percent rate they are paying on their savings.

For example, I was able to get a beautiful picture that appears on the front cover of my pamphlet, "Truth in Lending." It shows a bank advertising certificates of deposit at 5 percent and behind it on the wall of the bank is a billboard with car keys and an enticing "Yours for only 5 percent interest."

"Would you believe, this bank borrows and lends at 5 percent and still makes a profit?" reads the caption. I originally thought of having two Russian individuals walking down the street. I though it would be better to have two kids here. The bank borrows and lends at 5 percent and makes a profit. Can you believe that? This has gone on for years. Back in 1964 we had banks offering to finance cars at 3 percent when they were paying higher than this on savings deposits. I refer to this in the exhibits.

I refer specifically to the article which U.S. News & World Report featured. It is the next to the last exhibit where the first Consumer Advisory Council was concerned with the methods by which interest rates or finance rates were being disclosed. I think it is rather significant that back in 1964 a publication which was not known to be particularly radical should have seized upon this as being so newsworthy.

But as a teacher, this is the kind of flack with which we have to deal in trying to help consumers make sense in this credit world. I know there is tremendous interest in consumer education. I understand that the Governor of Illinois yesterday or recently signed a bill to institute consumer-credit education in all of the schools of Illinois.

We don't even have a vocabulary. We don't have a standard dictionary of terms. This committee has asked for a glossary and if I may I would like to insert a glossary into the record at a later time which may help you clarify some of the terms.

Mr. SULLIVAN. Without objection we would like to have you do that.

(The information referred to may be found in the appendix, p. 1093.)

Mr. MORSE. I will work on it this afternoon.

As a teacher we need this bill very desperately because we need to know what is meant by annual percentage rate. We need to know what a finance charge is so we can discuss it intelligently in the classroom. We need more time to talk about more important issues

such as to how to use credit wisely and when to use it. These are the real issues we ought to be spending our time on.

Secondly, I would like to place emphasis on the truth-in-lending aspects of this bill because this is where I have spent most of my professional time outside of the classroom. I might say, in fairness to myself, that I haven't gone into this study of credit because of any special prejudgment. It is only because questions have come up in the classroom and questions have come up elsewhere where people say, "How does this work?"

As a result I have learned how revolving credit doesn't work or does work, and the fact that rates of credit are usually only half right.

I, therefore, have 10 observations to make, and I will skip through them as rapidly as possible.

The first is a rather technical one—demonstrating the mathematics that are involved. I look at credit as saving up after the purchase rather than before the purchase, so as a credit user you are always saving up for money you have spent. Even if you can get money at the same interest rate it costs approximately 20 percent more. So, the poor do actually pay more.

The second point is that in today's market the consumer who wants to know the annual rate on installment credit and asks for it—I repeat, wants to know and asks for it—only gets a figure that is approximately half right. This is the present status of affairs. We have documentation of this; it is in my pamphlet. I have here a master's thesis written by a student summarizing 5 years of quotations. There is no question that when a citizen walks into a financial institution or anyplace dealing with installment credit and asks what is the rate that is being charged in annual percentage rate, he is going to get an answer which is half right. The third point relates to the concern that people might be confused with all of this information. Perhaps they could be told too much.

At the Senate hearings we ran a game which was most successful, I believe. It is given on pages 4 and 7 of this pamphlet, "Truth in Lending." We established the point that as an individual gets more information, more than just the downpayment and number of payments and amount of the payment, but also the cost and the rate—he does two things—one, he changes his decision as to which is the better buy when given pairs of these and, secondly, not only does he change that but he becomes more confident that the last decision he made was the correct one.

So more information, the kind of information which this bill would require to be disclosed will result in more confident credit shopping.

The fourth point relates to the matter of figuring the rate. I would observe first that this is a question which is way out of proportion to its importance. Equally important is the other side of the coin: How does one figure the cost, given the rate? I think that Mr. Barr's testimony has backed off the opponents, the crapehangers who said, "How are you going to figure the rate for the schoolteacher, the farmer, and that sort of creditor with irregular payment needs?" In the pam-

phlet I show a most crazy case of irregular payments—on page 20 of the pamphlet—and show that if you start with the rate, then you can figure the cost.

You don't always have to start with the cost to figure the rate. You can start with the rate. The credit unions have done this for years. They have done it without machine calculation and they have been able to figure the cost. This is no mystery.

A point that I would like very much to call to the committee's attention is my fifth point concerning this matter of graduated or step rates. They have no place in a consumer credit disclosure bill. Maybe you don't know what I am talking about. I have here from the Consumer Finance News a sort of editorial of a Mr. Redfield—then president—detailing how, in 1963, some 12 States had changed their laws. As an example, the State of West Virginia's old law was 1½ percent on the first $180 and 3½ percent on the next $300 and up. This is a two-step rate. They now have $19 add-on on $200, $15 on $600, $12 add-on on $800 or 3, 2, 1, and a half percent step rates. It is a little bit like public utilities.

Mrs. SULLIVAN. Would it help after your No. 5 explanation that that be added?

Mr. MORSE. Yes; I would like to have it added.

It gives a historical perspective of what he calls progression, but I call it regression; that is, how the industry has been able to get into the various State laws—dollar add-on, precomputed and graduated rates.

Mrs. SULLIVAN. I think without objection we will have that added after No. 5.

Mr. MORSE. I am tempted to read this example here but it is in the text. In a sense it is like the gentleman or any one of us who would drive up to a filling station that uses three pumps running simultaneously, one at 30 cents a gallon, one at 24 cents a gallon, and one at 10 cents a gallon. After pumping a certain number of gallons, all pumps running at the same time, the cheap pump cuts out. Then after another certain number of gallons the next lower price pump cuts out, so then the high rate pump continues.

About this time, then, it is time to refinance so the debtor tends to stay in the high rate system, that is one thing. But secondly and more from the point of view of this bill, what is the price that you are paying for gasoline?

You drive up and ask your station attendant to run both the ethyl and regular gas into your tank at the same time and say what is the average price? It is pretty hard to shop intelligently when you have this kind of mixture of rates.

The textbooks would indicate that it is a horrendous problem—most difficult to figure what the blended rate is.

I give as one of my recommendations in the attached memorandum, dated August 5, how this could be done and I don't think it would be any great task to knock out the graduated rates, or if they want to use them let them use them but also let them make the blended rate known.

This is recommendation No. 6 on page 3 of my memo.

The sixth observation is that there are at least eight methods for figuring the rate. I wish to emphasize that it is tremendous that we have now moved off of this issue as to what system to use, constant ratio method, et cetera, down to the actuarial rate. This is real progress.

I would like to emphasize that although we refer to this as the annual rate, what really happens is that this annual rate is merely the annual expression of a more basic rate.

For example, savings banks now advertise 5 percent. They don't pay 5 percent—really—but if they are advertising 5 percent compounded quarterly—it is really 1.25 percent a quarter.

Mr. HANNA. I want to ask you, right at this point when you make a distinction between rate and yield—because I think what you are saying bears right on that, does it not?

Mr. MORSE. Yes, it does.

There is no trickery involved here; a 5-percent compounded quarterly will yield $5.09 or 5.09 percent. The nominal annual rate is 5 percent per year. It is based upon the time when you figure the interest—if interest is figured, in that case, quarterly and 4 times 1.25 gives you the nominal rate, in name only, and the bill does provide for this nominal annual percentage rate disclosure.

Mr. HANNA. What you are suggesting is that it would be an actual rate then that would be expressed if you went actuarially on the yield—the yield gives the annual rate?

Mr. MORSE. The yield is what you will take home. The nominal rate is what you would be quoted. Going back to the first Consumer Advisory Council report we recommended that the rate be similar to that used by savings institutions. We are keeping the savings bank system.

Mrs. DWYER. Mr. Morse, which is the most accurate rate for the customer?

Mr. MORSE. The customer——

Mrs. DWYER. What he takes home, 5 or 5.9?

Mr. MORSE. Customers will take home zero dollars because they might withdraw just the day before payroll. The bank doesn't know what yield the individual is going to get only under certain circumstances. But customers know and the bank knows—they know that we are going to pay at the rate of 1.25 percent per quarter. This is an accurate statement. If you leave your money there it will accumulate interest and will pay 1.25 percent per quarter. This quarterly rate is the natural or nuclear rate. This is the basic unit. Now, you can express this in annual terms by multiplying by 4 which would make 5 percent.

Mrs. DWYER. How many savers really know this?

Mr. MORSE. Judging from much of the advertising, particularly by the savings and loans that have now advertised—I have a quote here is my pamphlet from a west coast savings and loan—this is a few years ago—all paying 4.85, but because of their compounding you can make 4.94, except from one.

One of them—here it is—is advertising it is paying 4.97. All the others pay 4.94 because they compound 4 times a year while this one compounds 365 times a year and gives 4.97.

Mrs. DWYER. Isn't it true, Mr. Morse, what the saver really wants to know is how much interest they will be paying?

Mr. MORSE. But the consumer—what he needs to know is what are the tools he has to work with as he makes his decisions. He doesn't know at the time that he puts his money in the savings account that he is going to get the full $5.09 per $100. He knows if he plays for keeps and keeps it there for the full 365 days he will get that yield. But he could have an emergency and withdraw the account so he needs a tool that he can put to use if and when needed. He needs to know all of these factors which bear upon the savings.

One factor is the 1.25 percent per quarter; another is that he has 10 days of grace or doesn't have the 10 days and if withdrawn before the quarter ends he will lose interest. This is where I go on back to the American Bankers Association, represented by Mr. Charls Walker, who testified in the revolving credit case that he thought that in the case of revolving credit the 1½ percent disclosure was more accurate than its annual expression.

He says disclosure on a monthly basis provides a consumer with a more accurate statement of finance rate than is possible with an annual expression.

Now, I don't know what he is really saying here. Evidently he doesn't believe that the annual expression of savings banks is accurate.

Mrs. DWYER. Isn't he saying the same thing that you are saying? Should it be told monthly or quarterly?

Mr. MORSE. It is traditional in America. And as Mr. Barr testified, even the Treasury's 90-day bills are quoted in terms of annual rate. Annual rate is the common denominator, just like many things are expressed in pounds or tons.

In the area of money and credit we traditionally speak in terms of annual rates. I pay 6 percent on my house mortgage. I actually don't. I pay a half percent a month. Those are my monthly payments. And it is annualized in terms of 6 percent per year.

As long as we know what we are doing we are not being inaccurate. This is known and I understand this to be a nominal annual rate.

Mr. Hanna has pointed this out. This is a nominal rate. This is not the yield or what it is going to cost the bank. As I pointed out, a bank that pays 5 percent may pay zero percent. I have had that unfortunate circumstance when I have needed money in a savings account and had to withdraw before the interest is paid. In regard to this matter of accuracy, then, we need to know how many days we are going to keep it in, when we are going to put it in, when will we withdraw it and then we can have in accurate playback of what we are going to get from that so-called 5 percent.

We have grown up with this system of quoting nominal rates. And that is all.

I think I have said all I have to say on this in that part of the statement. The rest of the statement deals with revolving credit, that you are going to take up maybe later on.

I see Mr. Klein is going to be testifying. I think he can do a better job here than I on this matter.

I would like to emphasize one point, that they charge 1½ percent on every penny of credit subject to their system's credit. You were talking with Mr. Margolius about Penney's system. I have a Penney contract here. And I see nothing in the agreement about an adjusted balance or any other kind of balance. They don't go into all of these details.

They charge on balances they really charge for. I pay 1½ percent on what they charge for and, annualizing it is 18 percent. Yet they seldom charge me anything. I escape. I try to scoot out before the charge time comes. But whatever balance they catch me with, I pay 18 percent on.

My last point—well, before that, I can't skip over my comments about the small business people. Really, those who are concerned with the plight of the small businessman ought to take a good look at this testimony from Penney's.

Theirs is a loss leader. Many State statutes prohibit loss leadering. Penney's really gives credit up to 30 days and then they say, in effect, any other dollar that you pay in the next 30 days we will give you credit as of the first of the month. They can't borrow money at this zero rate. They have to replace their capital. So this is a loss leader. Why aren't the small business people in here fighting for this bill?

My last point hits at the State's rights issue. Frankly, I have lived—this is personal testimony—but I have lived in New Jersey for 16 years, Bergen County, and Ohio for 2, Wisconsin for 3, Illinois for 3, Iowa for 4, Florida for 8, Kansas for 12 and this is just what happens to a fellow that goes into academic work, joins the Navy and does a few other things. I don't think I am unusual in this respect.

A pound is a pound the world around. Why can't an annual percentage rate be the same? Look at my record of seven different States, each with different concepts as to what is interest, service charges—each with different laws for cars, for revolving credit, others for credit unions, banks, and so forth.

Frankly, this complexity is an insult to the American intelligence. I don't know whether we need a Federal system but we need some joining together to get this terminology straightened up so one can trade around the country without these trade barriers, and they are trade barriers of ignorance.

If we want to go back to State's rights, then we must start carving Sears, Penney's and Ward's into 50 different parts so we can handle them on State's basis. They are national and their interests are national in scope. This is one of the chief reasons why we need national legislation.

Finally I want to compliment you for leaving out the installment open-end provision. This makes no consumer sense. If I know the rate is 18 percent or 1½ percent a month, either way, there is no difference whether I have a lien on that property or don't have a lien on that property. From the consumer point of view it doesn't make any sense to have different kinds of credit. The $10 minimum, that's wonderful that you knocked that out. Mr. Bennett in the Senate used to cite his famous battery case which was 104 percent as an example of a small credit transaction that should be exempt. Any service station could have said, "Here is the battery, our interest rate is 2 percent a week." He would have come out with the same answer.

If a service station attendant can figure 2 percent sales tax he can figure a 2-percent financing on the battery, too. I think it is a shame Mr. Bennett got through the long history of Senate hearings with that silly sort of case. That is a 104 percent annual rate.

Thirdly, with respect to first mortgages, I have quite a bit to say here, but I would like to say first that back in 1964 the Consumer Advisory Council was greatly concerned with home closing costs, and the variations of it around the country.

Specifically, our recommendation was that these variations in home closing costs throughout the United States be subject to study. How sensitive an issue it was is indicated by the fact that it was picked up by House and Home magazine, a very stable and sophisticated journal.

I have included a copy of that article from House and Home of August 1964. Specifically I thought their companion article, "How Bill Levitt Frees Buyers of Closings Costs" was most appropriate because it shows how Levitt was able to get closing costs down from $576 to $213.

This matter of closing cost has been kicking around for at least 3 years. We haven't done much about it, that I know of, except study it a little bit more. There is tremendous variation from place to place, but as I say in my testimony, what it boils down to is that the lender who can't make enough money through interest alone must make money some other way, and the result is points, discount, closing costs, and so forth.

I reviewed a case for the attorney general of Kansas in which the individual would have been better off if he had borrowed money for anything less than 200 percent after all of the costs were figured. But the individual needed the loan and the lender wanted to lend the

money to him. They cut the same piece of property into four quarters, and they surveyed it four times so there were four survey costs for the same piece of property.

This is the kind of crazy business that goes on. I say throw first mortgages back into the bill and what will happen is that the blended rate will be disclosed. If the lender can't get a sufficient return from interest, he will get it out of the surveying or appraisal fees or some other system. But as far as I am concerned, as a consumer, let me know the blended rate.

Time is upon us, so I think I will conclude here, Madam Chairman, and stand ready to defend any of these points.

Mrs. SULLIVAN. I think we all have a number of questions that we want to put to both of you gentlemen. You both have made excellent statements.

Mr. Margolius, from your wide readership in so many union and other newspapers, you have probably been in a better position over a longer period of time than any other person to tell us about the problems of the individual in coping with the foolishly tragic use of credit by people who were tricked or enticed into going into debt heavily over their heads.

We discussed extensively, during our hearing with the bankruptcy referees last Friday, the vicious practice of using garnishment as a selling tool—as the main ingredient of determining a buyer's potential as a credit risk. Certainly it is true that most reputable firms use this weapon only as a last resort—and then, only sparingly. But we touched only briefly on the deficiency judgment resulting from repossessions. Tell us, from your knowledge and information how this usually works—where the buyer has lost possession of the product but owes fantastic amounts on something he no longer has. And tell us how you think we can cope with it.

You gave us some examples in your prepared statement.

How can he cope with this? What does he do?

Mr. MARGOLIUS. The buyer at this point has no way of coping with it because the credit laws are established altogether on the side of the seller. There has been some question raised about whether this new credit bill would be a Government intervention in private enterprise. The garnishment is the most naked form of Government intervention. It is Government intervention on the side of the seller. Time after time, it works this way.

A woman had bought a vacuum cleaner in New York City. It didn't work well and she brought it back to the seller to have him repair it. He refused to repair it and said that service was not in the contract. So she left it there. She saw no point in taking it home. She got a notice that she had been garnisheed.

Incidentally, she never received the actual summons. There is a good deal of incidence of "sewer service" in the States that have garnishees,

although States like Colorado, Illinois, and Ohio don't have "sewer service" because when you have cognovit notes, who needs sewer service. The debtor already has waived his defenses.

In States like New York there are instances which the U.S. Attorney General is now investigating. This woman never received proper court notice. All she got was a notice that her wages had been garnisheed.

Mrs. SULLIVAN. What do you mean by "sewer service"?

Mr. MARGOLIUS. The process server is supposed to serve the notice on the debtor that he is being sued on this contract but he never actually sees the debtor. This happens many times. They found, for example, cases in which process servers had served notices on debtors in New York at addresses where they hadn't lived for years. In this typical case of the vacuum cleaner the woman agreed to pay $80 for, she finally had to pay $120 for that and doesn't have the vacuum cleaner to show for it.

Let me tell you about this woman worker on the East Side of New York who bought furniture for $800. She had paid $350 off on it when she fell ill and fell behind in the payments. The furniture was repossessed. She was then presented with a new bill for $800 because the furniture brought very little on the resale and with the repossession and legal costs and warehousing costs she now owed $800 and didn't even have the furniture to show for it. She not only lost the $350 but had to pay for the full balance. That happens time and time again.

Mrs. SULLIVAN. There is no way, you say, for them to cope with this at all?

Mr. MARGOLIUS. No way at all.

In Colorado one of the vacuum cleaner companies selling vacuum cleaners on referral plans for $400, no less, ran their ads under job wanted ads. This woman answered an ad thinking she could make a little extra money to help her husband. The salesman came and told her all she had to do was send them customers and they would give her $20 for each referral but he asked her to take the cleaner and sign the receipt to show she had the vacuum cleaner. They found 70 cases like that with the seller advertising in the Denver Post, a fine respectable newspaper.

The reputable businessman doesn't use garnishment as much as the disreputable ones. But respectable institutions are financing high-pressure sellers all the time. A big bank in Buffalo, N.Y., had a half million dollars of food freezer contracts. A big bank in Detroit financed referral-plan carpet sellers. So did a large bank in Texas and so on. So the respectable institutions seem to close their eyes to what is going on.

Mrs. SULLIVAN. One way they might have some help in coping with this is if we give them the tools through this legislation to be

able to buy more intelligently. We are not going to stop people from wanting things they cannot afford, but at least when they do buy it they should know what it is going to cost them and what percentage of the cost they are going to have to pay for using somebody else's money to satisfy their wants on credit.

Mr. MARGOLIUS. If we take away the garnishee we take away the most important lever of the deceptive seller.

Here is one case:

There must be as many different types of gouges as there are poor gullible people who, through haste, are being taken—

One woman recently wrote me.

My husband enrolled in September, 1966 for a correspondence course in air conditioning, heating, etc. (with a "trades institute" in Chicago). He was sent a couple or three little booklets. The course and some parts and kits were to cost $495. We paid the well-trained salesman $25 and were to pay $15 a month. Besides having so many other bills piling up, and not being able to pay the $15, my husband found the course to be short of what the fast-talking salesman made it sound to be.

Now this outfit has been sending threatening letters. They want $193 within 10 days to cancel the enrollment. We have paid $55. This would make a total of $248 for nothing. It is so ridiculous my husband has told them to go ahead and turn it over to their collection agency. We are plugging away at our honest debts and really struggling, as are many people to pay for goods actually received.

Most working people are not well informed on their rights. Nor do they know what to do when these pressure tactics and scare letters are used. A man's job is all he has to provide a little security for his family. My husband is almost 49. He is wondering if they will try to jeopardize his job.

Note that last sentence—this man is being frightened into paying that bill because of the threat.

Mr. WILLIAMS. I find these stories very enlightening. They remind me of many of the letters I get in my own congressional office. However, the letters I get I investigate. I have found out that the facts as described in the letter are not facts at all. They are fantasies.

Now, this testimony would be much more helpful if these things had been substantiated. Furthermore, Madam Chairman, you have just made the statement as I believe is in the record that we can't stop people from buying that which they cannot afford. We can let them know the interest rate they are going to be paying. Mr. Margolius makes the statement if we take the garnishee away we are going to be taking away the greatest tool that the unscrupulous seller has to use.

You are talking about people who are overextending themselves and can't pay.

Mr. Margolius is speaking about taking something away from the seller. So I think we have a little conflict here.

Mrs. SULLIVAN. I am sorry the gentleman from Pennsylvania wasn't here Friday. Because I think he would have had his eyes opened.

Mr. WILLIAMS. You can rest assured I will read the record of Friday and I hope I will find more substantiated statements than I hear here this morning.

Mrs. SULLIVAN. These were Federal court officials who have over 50 years of experience as referees in bankruptcy.

Mr. WILLIAMS. Permit me to say I hope their statements have been substantiated to a greater extent than some of the things I have heard here this morning.

Mrs. SULLIVAN. Dr. Morse, you will certainly be interested—and perhaps a bit surprised, too—to know that the American Retail Federation has been using your data on revolving charges in an effort to prove to us that it is impossible to figure the annual percentage rate on such charges. They have sent around an excerpt from one of your publications, showing at least six different methods used by retailers in making the 1½-percent monthly charge—on the beginning balance, on the end-of-the-month balance, on the previous month's balance counting payments during the month, or not counting them, and so on.

Does all this add up to the federation's claim that 1½ percent per month is not 18 percent a year?

Mr. MORSE. They have not honored me with a copy——

(The information referred to follows:)

AMERICAN RETAIL FEDERATION,
Washington, D.C., August 11, 1967.

Hon. LEONOR K. SULLIVAN,
Chairman, Consumer Affairs Subcommittee,
Rayburn Building,
Washington, D.C.

DEAR CHAIRMAN SULLIVAN: As a result of the American Retail Federation testimony on truth-in-lending, some Subcommittee members apparently have the impression that all retailers use the same method for computing service charges on revolving credit accounts. This is not correct. The attached will clarify the situation.

H.R. 11601 will force retailers to tell customers they will be charged 18 percent per year on revolving credit when, in fact, this is not so. Dr. Richard Morse has indicated six different methods used to compute 1½ percent monthly service charges on revolving credit accounts and we feel that the Committee should be aware of these independent systems.

Cordially,

EUGENE A. KEENEY.

6 METHODS USED TO COMPUTE 1½-PERCENT MONTHLY SERVICE CHARGES ON REVOLVING CREDIT ACCOUNTS (STANDARDIZED 6-MONTH ACCOUNT)

Method	Month	Previous balance	Credits		Charges	Balance before service charge	Service charge	Closing balance
			Payments	Returns				
	(a)	(b)	(c)	(d)	(e)	(f)=b−c−d+e	(g)	(h)=f+g
Method I: No option. Service charge, 1½ percent of current balance at end of month. (g)=1½ percent (f)	January			$10	$30	$20.00	$0.30	$20.30
	Feburary	$20.30	$20	30	120	90.30	1.35	91.65
	March	91.65	80	40	90	61.65	.93	62.58
	April	62.58	10		10	62.58	.94	63.52
	May	63.52	10		10	63.52	.95	64.47
	June	64.47	10		10	64.47	.97	65.44
Total							5.44	
Method II: 30-day option. Service charge, 1½ percent of previous month's ending balance less payments and returns. (g)=1½ percent (b−c−d) if (b)>(c+d)	January			10	30	20.00		20.00
	February	20.00	20	30	120	90.00		90.00
	March	90.00	80	40	90	60.00		60.00
	April	60.00	10		10	60.00	.75	60.75
	May	60.75	10		10	60.75	.76	61.51
	June	61.51	10		10	61.51	.77	62.28
Total							2.28	
Method III: No option. Service charge, 1½ percent of previous month's ending balance. (g)=1½ percent (b).	January			10	30	20.00		20.00
	February	20.00	20	30	120	90.00	.30	90.30
	March	90.30	80	40	90	60.30	1.35	61.65
	April	61.65	10		10	61.65	.93	62.58
	May	62.58	10		10	62.58	.94	63.52
	June	63.52	10		10	63.52	.95	64.47
Total							4.47	

Method IV: 30-day option. Service charge, 1½ percent of previous month's ending balance. (g)=1½ percent (b) if b>(c+d).	January			10	30	20.00		20.00
	February	20.00	20	30	120	90.00		90.00
	March	90.00	80	40	90	60.00		60.00
	April	60.00	10		10	60.00	0.90	60.90
	May	60.90	10		10	60.90	.91	61.81
	June	61.81	10		10	61.81	.93	62.74
Total							2.74	
Method V: 30-day option. Service charge, 1½ percent of previous month's ending balance unless paid in full. ("All or none"). (g)=1½ percent (b) if (b)>(c).	January			10	30	20.00		20.00
	February	20.00	20	30	120	90.00		90.00
	March	90.00	80	40	90	60.00	1.35	61.35
	April	61.35	10		10	61.35	.92	62.27
	May	62.27	10		10	62.27	.94	63.21
	June	63.21	10		10	63.21	.95	64.16
Total							4.16	
Method VI: 30-day option. Service charge, 1½ percent of previous month's ending balance less payments (but not returns). (g)=1½ percent (b–c) if (b)>(c).	January			10	30	20.00		20.00
	February	20.00	20	30	120	90.00		90.00
	March	90.00	80	40	90	60.00	.15	60.15
	April	60.15	10		10	60.15	.75	60.90
	May	60.90	10		10	60.90	.76	61.66
	June	61.66	10		10	61.66	.77	62.43
Total							2.43	

Dr. Richard Morse, a vocal proponent of Mrs. Sullivan's bill, H.R. 11601, made a survey of 19 retail stores in 8 states to demonstrate the various types or methods of assessing service charge on revolving credit account. The survey is reported and contained in a booklet entitled "Truth-in-Lending", published by the Council on Consumer Information. The above chart is found on pages 26–27 of that pamphlet.

All of the above retailers would be forced under H.R. 11601 to tell customers they will be charged 18% annual rate. Query: *How can the customer who pays $5.44 and the customer who pays $2.28 both be paying 18%? The fact is neither are and one pays less than half the rate of the other.*

Mr. ANNUNZIO. Will you yield at this point before the professor answers?

I would like Mr. Margolius to answer Mr. Williams. He asked you a question; can you substantiate the facts?

Mr. MARGOLIUS. I really resent that, Mr. Williams. You didn't ask me if I could substantiate it or not.

Mr. WILLIAMS. I will ask you now. If you have substantiation, I don't know why you did not bring it out before I had to ask you.

Mr. MARGOLIUS. The case of the——

Mr. ANNUNZIO. On the letter of the woman from Chicago—can you substantiate this letter?

Mr. MARGOLIUS. Do you want to read the letters?

Mr. WILLIAMS. I assume the letters state what you state.

Mr. MARGOLIUS. The case of the Denver woman who bought the vacuum cleaner worth $70 on the referral plan. That was investigated by Gerald Kopel, a member of the Colorado State Legislature and editor of the Bankruptcy Newsletter which is a nationally used newsletter.

The case of "sewer service" investigated by Assistant Attorney General Frank Pannizio of New York City and he said that in 612 cases the post office could not locate 201 persons at addresses where process servers swore they had served them.

I am an old journalist, Mr. Williams, and I am not likely to use cases that can't be proven. I have got all kinds of documentation, letters and so on.

Mr. WILLIAMS. Out of 600 and some addresses they couldn't find anybody at 205 addresses. What period of time had elapsed in between the time that the complaint was filed and this investigation took place?

Mr. MARGOLIUS. I don't know. I would have to go through this.

Mr. WILLIAMS. That is important—in a period of 6 months a lot of people can move. What addresses were used? Were they the addresses the purchaser gave to the person extending credit?

Mr. MARGOLIUS. That is not the point. The process servers said they had served the people at these addresses. The process servers swore they served them at these addresses but the post office could not locate 201 persons.

Mr. WILLIAMS. What period of time elapsed? I am interested in the time the process servers were supposed to serve the process. You say you don't know and I say that is a very important factor in this investigation.

Mr. BINGHAM. Point of order.

Mrs. SULLIVAN. Let's go on with the questioning. I want to say this: In my own files—and these are from my people in St. Louis—I have

complaint after complaint from people who have experienced just such a thing as you have described, Mr. Margolius. When they come to me I immediately send them to our circuit attorney and I have had them come back after investigating and say, "Yes, what the people said was true." The people who victimize consumers are often within the law and there isn't anything we can do unless we change the law.

Mr. MARGOLIUS. They are caught like mice in a trap, Mr. Williams, they are. I have hundreds of cases in my files from legal aid attorneys and others.

Mr. WILLIAMS. I will defer this until my time to ask questions.

Mrs. SULLIVAN. Dr. Morse, will you answer my question?

Mr. MORSE. I have just seen the statement from the American Retail Federation.

In the first place they don't quote me completely and I would like to give the conclusion—there is nothing wrong with my figures at all. But they do emphasize, I have emphasized in their query: "How can the customer who pays $5.44 and the customer who pays $2.28 both be paying 18 percent?" The fact is neither are and one pays less than half the rate of the other. That is their statement. My statement is, that they are all paying 18 percent on the credit for which they are being charged.

Then, I conclude with what they didn't say—I said thus: "Unless the base is uniformly defined * * *" and this, Madam Chairman, your bill does not do. This bill does not regiment business and I would underscore this. This is what they are asking for.

Mrs. SULLIVAN. To regiment?

Mr. MORSE. Evidently. All your bill is doing is saying, whatever rate you are applying to whatever base you use, you must call it—you must disclose it. If you are using a monthly rate of 1½ percent, it is annualized as 18 percent. The bill says nothing about how to figure that base. If you want to give them a 30-day free ride, 60-day free ride, 90 days, give them days of grace and so forth—adjusted balances, beginning balance, whatever balance. Your bill only asks that these, too, be disclosed.

So I say in my pamphlet: "unless the base is uniformly defined, stores will continue to adjust their billing methods"—and here I imply why they adjust them—"to accommodate their merchandising and accounting methods and customer responses."

I would like to see them asked why these variations prevail today. I think their answers would be, as I suggest, a result of the various patterns—we think our customers like it this way—we merchandise through credit. We have IBM or some other data processing, so we can't do it some other way. They each have their own reasons for variations. The bill could require them to standardize this.

Mrs. SULLIVAN. It does not do that.

Mr. MORSE. It does not. But if the retailers want to press this point even further, then they are going to force a bill which would standardize these procedures. And I hope this doesn't come to pass.

Mrs. SULLIVAN. I wanted you to see the letter and comment on it. Mrs. Dwyer?

Mrs. DWYER. Thank you, Madam Chairman.

Professor Morse, if the Sullivan bill is passed there certainly will be an 18 percent annual rate and no free ride, is that statement true?

Mr. MORSE. No.

Mrs. DWYER. What is your answer?

Mr. MORSE. My answer is given in the literature that I have distributed as exhibits—if I can find my exhibit—here it is—Sears, Roebuck. This is my interpretation of your question applied to a specific company. I show, on page 20 of my truth-in-lending pamphlet, a Sears billing, and in my prepared statement I say essentially all that is involved is a printing problem. You will find it here. I think this Sears bill is tremendous. Look how much information Sears gives its customers. It tells them what they still owe—$56—they can go in hock another $34 and still pay $10 a month. With their credit rating they could borrow $194 more, but this will disturb their monthly payment pattern of $10. This is really disclosure of four critical decisions which the consumer has to make.

They give the service charge of 96 cents. But how is that figured? They don't tell. The bill—all the bill would require is to have printed: "Monthly service charge is 1½ percent (18 percent per year) of the previous balance." The previous balance is shown here in this top box, so they would have told how it was figured. That extra printing is all the bill would require.

Mrs. DWYER. If the consumer feels that he is paying 18 percent, wouldn't all the retailers be forced to make the 18 percent if they wanted to or not?

Mr. MORSE. Retailers are engaged in understanding their customers. I don't know how consumer will feel initially or over a period of time after being told they are paying 18 percent.

Secondly, I do not know how retailers will adjust to this attitude as manifested by the consumer. But I know retailing is capable of adjusting to the disposition of the people. I don't think there is any trickery involved here. I repeat to you that this is the same kind of message, this same kind of language, the same kind of communication that consumers now have, and the public has from quotations for savings accounts and on home mortgages.

Mrs. DWYER. What incentive would it give to a retailer to give any free ride at all?

Mr. MORSE. Yes, it would.

Mrs. DWYER. If the 18-percent charge goes into effect?

Mr. MORSE. They will just put on the statement, "Trade with us, don't pay for 30 days. Our credit doesn't start until 30 days after the billing." They will advertise this without deception—just as savings and loans are advertising now, "We pay daily interest." This advertising for savings got a little out of hand, as your recall.

In my Senate testimony I included a clarification on this point by the three agencies, FDIC, Federal Reserve Board, and Home Loan Bank Board as to what is meant by "simple interest." It had gotten out of hand.

But disclosure of 18 percent would not require cessation of the 30-day free ride. As a matter of fact, they might increase it to 60-day free ride. This is merchandising. They will do that which they think will best represent them to their customers.

Mrs. DWYER. Do you know whether retailers charge less than 18 percent? How many do charge less than 18 percent?

Mr. MORSE. Mrs. Dwyer, I am a little bit boxed in. I think this is a question the industry should answer. I don't have the resources to survey all of the various procedures. I walked into this matter of revolving credit cold. I used to give public lectures and be asked such questions as "What happens if I pay up on the 15th of the month?" But I began serious study of it at the suggestion of Mrs. McNaughton, then a staff member of the American Home Economics Association. She said, "Dick, you have done a good job of figuring how car financing works; how about getting students to figure out revolving credit?" I almost flunked two students before I found out they were right and I was wrong. I had worked out a sample billing problem in such a way the retailers figured out there was no charge. Then I began to learn what this 30-day free ride is about all.

I don't know whether you would be interested, and I don't mean to fill the record, but I have a report of some practices. After the Senate hearings I went home and compiled it. I sent it to Mr. Proxmire. I canvassed Topeka, Kansas City, and Manhattan, Kans., and I happened to be down in Dallas, so I got together all the variations of different stores and this is it, summarized. I can't answer your question in terms of what is present practice because it is such a terrific amount of variation. None give—the top rate is 1½ percent—this is answering your question. I think some give 1¼. Pennsylvania law is going to limit it to 1¼.

Some have a graduated system whereby, if it is 1 percent or three-fourths percent on larger balances—a double system—I have already spoken of that problem.

Mr. WILLIAMS. Could we have that document in the record to which Dr. Morse is referring?

Mrs. SULLIVAN. If he wishes he can submit it and we will check it over.

Mr. MORSE. This is a letter I wrote Senator Proxmire.

Mr. WILLIAMS. Thank you.

Mrs. DWYER. Dr. Morse, there is a great deal of competition in the credit market?

Mr. MORSE. Terrific. But——

Mrs. DWYER. Under existing law?

Mr. MORSE. Yes. I grew up in the days when we didn't have Little League ball games. We had a lot of competition then. But I think it is very organized at the present time and still much competition. The terms of the trade in consumer credit are not sufficiently clear that you have clean competition in credit from the consumer's point of view.

Mrs. SULLIVAN. Ninety days is still cash, isn't it?

Mr. MORSE. One of these stores gives 90 days cash.

Mrs. SULLIVAN. Mr. Gonzalez?

Mr. GONZALEZ. Thank you, Madam Chairman.

First I wish to take this opportunity to—the first I have ever had to thank and congratulate Mr. Margolius for the tremendous job he has done over the course of years. I think my first acquaintance with his work was reading his articles in the Machinist magazine years ago

in which many, many interesting and very educational facts and points and articles brought to the attention of some of us the need to inform and I don't think the intangible work of writing an article can fully be described in the total contribution that it has made in concrete terms. So I take this opportunity to thank you on behalf of many people who would not have a chance to acknowledge your work.

I want to thank you for your support of the garnishment provision of this bill. I am intensely interested in that although my State long ago, as early as 1875 by constitutional inhibition, prohibited garnishment of wages and services.

Why, may I ask you, does not the union movement nationally take a more militant and aggressive attitude toward the need for this legislation?

Would you be able to hazard a guess?

Mr. MARGOLIUS. I think they do. I think that perhaps tactically they felt it would be better just to get this much of the bill through at this time. I think that they are very concerned about the garnishee problem. They are concerned because workers get fired. And in a number of States bills have been introduced to bar firing of workers for garnishees; for example, Ohio, New Jersey, and other States. But only two States have managed to pass this. Hawaii recently passed a full ban for firing for garnishee, a law which was secured by the Hawaii State Federation of Labor. New York has a modified law in which a worker can't be fired if he has just one garnishee in 12 months.

Unfortunately, these laws don't work too well and I think I can criticize them because I myself proposed this way of trying to stop garnishee firings. I don't think it stops it because I understand from an assistant corporation counsel in New York City, Mr. Henry Stern, that small employers still don't want to bother with garnishees even if the law says they can't fire the employee. There are other ways to get rid of an employee. They don't want to bother with garnishees because of payroll problems.

So the only solution has to be to eliminate garnishments altogether. If it doesn't come now it will come 6 months or a year from now but in the meantime several more million people will be affected by it. Probably 5,000 to 6,000 people, as we sit here today, are getting hooked on plans which are based on the threat of a garnishment to make the final collection.

Now, Mrs. Sullivan asked before about deficiency payments and I have a well-documented case here, Mr. Williams. This is from the city of Chicago, a study made by Jerome Schur for John S. Boyle, chief judge of the Circuit Court of Cook County. They have a pretty rough problem there because they permit confession of judgment notes and they have 600 of these notes being filed a day. The lawyers put them through on an assembly line basis. The investigator found that very often they didn't even bother with the personal signature. The lawyer just rubberstamped the court notices as they put them through. Many of these are based on used-car contracts and used television sets. About 25 percent are based on clothing which is a pretty serious problem when you get down to where people are buying clothing on credit and being garnisheed for clothing purchases. In the case of used cars,

the investigator studied 164 suits and he found that even after the downpayment, the monthly payment, and the repossession, sale proceeds—when the car has been seized and sold—even after those proceeds, the average buyer still owed more than half of the original price of the car. (The document referred to may be found on p. 1142.)

So he had a big deficiency judgment against him. This is what they are suing on. They then have the garnishee to use against him. I don't know if you can get a garnishee through this year or not but the situation is there. I am documenting it as best I can.

Mr. WILLIAMS. Were all of these people delinquent in their payments at the time?

Mr. MARGOLIUS. Yes, sure. This is just a generalization and you will forgive me for that.

Mrs. SULLIVAN. Is this to be counted against your time, Mr. Williams, or that of Mr. Gonzalez? He has been recognized.

Mr. WILLIAMS. My question has been answered.

I am sorry.

Mr. GONZALEZ. I wanted to thank Mr. Margolius. My time has expired.

Mrs. SULLIVAN. I have received a statement from the National Federation of Settlements & Neighborhood Centers in New York which I think is an appropriate one for placing in the record at this point because it relates to problems cited by Mr. Margolius. It expresses the view that the proposed ban on garnishment would influence merchants to be more cautious in extending credit to families which cannot meet the terms without extreme suffering.

(The statement referred to follows:)

STATEMENT OF THE NATIONAL FEDERATION OF SETTLEMENTS AND NEIGHBORHOOD CENTERS, NEW YORK, N.Y.

I am Gladys Duppstadt, Secretary for Social Education and Action for the National Federation of Settlements and Neighborhood Centers, 232 Madison Avenue, New York, New York 10016. I wish to speak in favor of H.R. 11601, the proposed "Consumer Credit Protection Act."

The National Federation of Settlements has 246 member agencies, and services 16 more, operating 399 neighborhood centers in 94 cities, 30 states and the District of Columbia. Twenty-two metropolitan or regional federations of neighborhood centers are affiliates also. In addition, National Federation operates a National Training Center based in Chicago. The National Federation of Settlements works to improve neighborhood conditions favorable to family life and helps its member centers throughout the nation to serve their neighborhoods effectively through a wide range of direct and advisory centers. Most of our member centers are engaged in consumer programs, and have been over many years.

Our support of H.R. 11601 is based on a social policy reaffirmed at our business meeting in Chicago May 1966, as follows: The Federation will support consumer education activities and legislation for the consumer's protection, including appropriate representation of consumers in the federal, state and local governments, and more intensive investigation and study of consumer problems, especially installment buying and other forms of credit financing.

A widely read book, also used as the subject for a documentary film, "The Poor Pay More, Consumer Practices in Low-Income Families" by David Caplovitz was based on a joint study and program from three of our member houses, Henry Street Settlement, James Weldon Johnson, and Union Settlement. These particular settlements were located in New York City, but Mr. Caplovitz described buying habits practiced by many of our low-income neighbors and dilemmas they encounter from overuse of credit in the 93 cities we serve.

While all three Titles of the proposed legislation reflect problems we have encountered for many years, we believe that national laws are necessary to

reinforce the educational efforts we, and similar groups, have been making to train our neighbors to shop wisely, to examine the quality of goods being purchased, and to try to know the actual terms and conditions for any credit transaction.

A common tool we have used in our educational program is the institution of credit unions. A few families have been helped by credit unions formed by neighbors under guidance of our settlement houses and have seen the advantage of knowing exactly what one is bargaining for when borrowing money. However, we feel that our efforts have been but a small step in the right direction.

We feel that the legislation in Title II prohibiting garnishment of wages will benefit our members. Usually we hear of a garnishment after the person has lost his job because he had his wages garnisheed several times and his employer dismissed him in anger. We would hope that this section would influence merchants to be more cautious in extending credit and to provide realistic terms which can be met by a struggling family. Many of the people we have seen dismissed were heads of young families who needed household goods, but who had many obligations because of children, and who were trying to work and improve their own skills and education through extra jobs, but could not "make ends meet."

We urge that the proposed Commission on Consumer Finance in Title III include strong spokesmen for consumer's interests.

Mrs. SULLIVAN. Mr. Wylie?

Mr. WYLIE. Thank you, Madam Chairman.

Mr. Morse, if I may ask you a couple of questions.

You indicated in your statement that the banks aren't really telling the truth when they say that you draw 5 percent interest on your money. You cited an example from your own personal experience where you had to withdraw money prior to the time the interest was added so that you didn't get any interest.

Am I stating that fairly?

Mr. MORSE. I raised the question I used as my point of reference, Mr. Charles Walker's statement, that an annualized expression of the monthly rate is not as accurate as the monthly rate is. I turn this around and point out that a savings account is really like an open end revolving account.

They don't know when I'll save. I am not on contract to save so much a month or so much a week. They don't know when I am going to withdraw it. It applies like revolving credit account. They say they are going to pay 5 percent and they add other words such as they are going to pay it compounded quarterly.

Mr. WYLIE. If the interest was stated on a quarterly basis rather than annual basis, would it be more accurate?

Mr. MORSE. It would not be more accurate or less accurate. One is the annual expression of the quarterly rate and given the way in which our seventh grade mathematics books and whole tradition has been built up.

Mr. WYLIE. Would it be more accurate if interest rates were stated on a monthly basis?

Mr. MORSE. Not if they compound quarterly or compound daily.

Mr. WYLIE. You are contradicting yourself, I think, Mr. Morse.

Mr. MORSE. No, sir; at least I don't mean to be. What I am saying is the basic unit rate is whenever the interest is counted and this is the accurate unit rate. Then it is annualized.

Mr. WYLIE. I don't know if we can find it but in reference to a question from Mr. Hanna, is it possible to read Mr. Hanna's question back?

Mr. MORSE. It is clear in the writings, very clearly stated that the nominal annual rate is different from the yield rate or effective rate.

Mr. WYLIE. It would be more accurate, though, if interest payments could be stated on a shorter period basis. That is the point I am making. If the interest rate is based on a monthly rate so the banker would say "the interest rate is 0.41 percent plus"—you divide by 5 percent by 12.

Mr. MORSE. You put me into a bind, Mr. Wylie. Let me ask, for example, are bananas sold at 15 cents a pound, when I don't really buy exactly a pound of them, any more accurate than the actual price that I really pay for the bananas? I never really pay 15 cents. Bananas just don't come to weigh out exactly on the nose to be a pound. Or gasoline at 30 cents a gallon; is that inaccurate?

Mr. WYLIE. You brought the subject up. I don't think you are being any more accurate when you say interest paid at 5 percent per annum than it would be on the revolving credit if you required the retail stores to say we charge 18 percent per annum. That is the point that I am coming to, of course.

Mr. MORSE. I didn't—in answering your question I did not come up with this—the question of accuracy was raised by the bankers themselves and not by me.

A penny an ounce is 16 cents a pound, and a penny an ounce is no less accurate than 16 cents a pound is.

Mr. WYLIE. Isn't the customer more interested in the dollars and cents charged rather than the interest rate charged?

Mr. MORSE. Is the customer?

Mr. WYLIE. How much money he pays out on his account in interest or service charges?

Mr. MORSE. Depends where the customer is in the stage of his decisionmaking.

Mr. WYLIE. Then——

Mr. MORSE. If I may explain—when I am looking for gasoline I read the big billboard sign that says 30 cents a gallon, and if another one says 32 cents a gallon and if I am looking for lowest priced gas, I will drive into the station posting the lowest price per gallon. Now I still don't know how much I am going to buy or pay. He is not going to be satisfied, and I am not going to be, and we will not have reached an accommodation until I get the gas and he gets paid for it.

Mr. WYLIE. But there is no analogy there. That is like comparing apples and oranges. If a man goes in and buys 5 gallons of gas at 35 cents a gallon, you know how much the cost will be in cash. But if he has a revolving charge account, he doesn't pay cash—he can pay off part of the amount due. If he doesn't pay off the full amount interest is added and you got an entirely different situation.

Mr. MORSE. I know that the rate is 1½ percent a month or expressed at 18 percent a year whenever I have to pay it.

Mr. WYLIE. But you don't know how much interest you are going to get on your bank account even though it says 5 percent annually. I have had the same situation. I have had to withdraw, put in and withdraw from a savings account. I don't know whether I am going to get 5 percent, 4½ percent or what in actual yield. But at the end of the year the bank will tell me how much I have gained in dollars and cents.

This is another point that I have been pursuing with some of the other gentlemen. The Internal Revenue Service allows us to deduct an amount in interest costs of 6 percent or the actual amount paid whichever is lesser.

Mr. MORSE. This is an area that I know nothing about.

Mr. MARGOLIUS. It happens to be a source of great resentment among consumers that the Treasury Department does that.

Mr. WYLIE. We have been pursuing the possibility of getting that regulation changed. I thought it would be better if it were stated in the form of dollars and cents, in cash, actually paid out in interest during the year rather than having it based on an annual percentage rate.

Mr. MORSE. May I answer the question by saying what is important depends on where you are in your decisionmaking. The kind of decisions to be made by a man sitting down making up his income tax form are not the same kind as made when shopping for credit. The man who is shopping for credit is not the man using credit. The decision then—rate is most important when you are shopping, looking the field over. When you are using credit, cost is important. And when you are paying income tax, that is another matter.

Mr. MARGOLIUS. On this Treasury Department deal they were convinced to do this by the finance companies who did not want them to allow consumers to deduct the entire finance charge because that then would be considered interest and the finance companies always wanted to maintain this distinction between a time price and interest. So the businessman can deduct interest, whatever interest he pays, but the consumer is not permitted to.

Hopefully that situation will not last too long.

Mr. WYLIE. My time has expired.

Mrs. SULLIVAN. Mr. Hanna?

Mr. HANNA. Thank you, Madam Chairman.

I, too, want to say these gentlemen have contributed very substantially to this committee's knowledge on this subject.

I would like to make a couple of observations.

First of all, in your vast experience, both of you, you know that in the law many times we have placed things that are supposed to be a shield and they turn out to be sword. I think that is true in the whole course of garnishments and particularly I am aware of what happens in mechanics liens law.

I have made a study of this mechanics law. I never will forget the retired marine colonel who had all of the accoutrements of that fine background telling me in colorful marine language the story of how he got a swimming pool involvement on his property. He was sold a swimming pool for $3,000 with the understanding that he would get 10 percent off if he paid immediate cash, which he did. The swimming pool company sent a subcontractor out to make the hole in the back yard after he raised cain after paying the $2,700. Another 3 weeks he raised some more hell and they brought the steel and dumped it in the hole. Then the company went broke. He found out that he had a mechanics lien on this property of $240 for digging the hole and—$700 for digging the hole and $50 for steel delivery. He ended up having to fill the hole which cost him $240 and rehabilitate the backyard, $225, and had to pay to have the steel hauled away.

So his out-of-pocket expense was $1,590. He was out really $4,290 and he didn't have a pool at all. All of that was legal.

So, I can assure you that the application of the law did not follow—it is handled partially in some regards.

As far as the discussion that we have had about the rate yield, I think this has been very helpful and I would draw your attention on page 86 of this article in the U.S. News & World Report. The thing that interested me wasn't in the article at all but on page 86 there is an ad in there for the savings and loan company there.

Now, that tells you something between applied rate and the yield. But further than that it gives you some additional information here because it tells you also they pay the postage for the deposit, and in addition to that I can remember at a time when they would give you a certificate if you made a deposit of a certain amount. So that it seems to me the total picture of credit, Madam Chairman, does not begin and end with the statement of a fixed rate of interest because you are going to be having these on his charge accounts.

Let's talk about the "free ride." Lots of times it is not a free ride. It is an option for a free ride. It says you will get 30 days additional free credit if you pay on a specific date. If you don't you don't get the free ride. So, there are the symptoms to me, there is a whole plethora of different kinds of things that can occur prior. I want you to comment on this: what do you think will happen if we were to have this fixed annual rate, and I agree it could very well be legislated. There is nothing complicated about it.

But what do you think would happen in terms of the competition between the various stores in relation to price, to charges like these credit charges, because you can give free credit if you have your price right and your finance charges—you could give free credit and still come out with an amount of money—aren't we dealing here in a matter that doesn't begin and end with a statement of a fixed rate of interest insofar as the load is going to be on the consumer and what the avenues of exploitation are for the seller?

Will you please comment on that?

Mr. MORSE. You are not talking about the other part of the bill dealing with the 18 percent ceiling, are you? You are talking about revolving credit.

Mr. HANNA. Revolving credit.

Mr. MORSE. Mr. Hanna, I don't think it would make a ripple of difference. I have shown how Sears could show this by merely imprinting on their bill. Many of them are now quoting 1½ percent. And I have yet to be impressed with the fact that people are going to shudder too much when told it is going to be 18 percent. And if this bill passes they will learn how their cars are being financed—they are going to get accustomed to knowing their rates are well above 6 percent.

I don't think this would make a whit of difference.

I didn't answer Mrs. Dwyer's point very clearly. One other criteria that I use which I think is very important is that, information should be expressed so that the customer can check back on the creditor. I think they can supply sufficient information that consumers can verify their own statements. This Sears bill gives all that information, yet

in regard to that service charge of 96 cents, who would know whether that 96 cents was appropriate. There is nothing on their bill here giving the rules of the game as to how they figured it—1½ percent of what?

I would like to be able to check back for errors in bookkeeping. It does irritate me that my saving and loan pass books don't tell me on which one of these balances or by which rates they figured my interest.

Frankly, in answer to your question, I don't think it would make an awful lot of difference, but would disclose very useful information to the consumer.

Mr. HANNA. It does occur to me because I am convinced that credit is only used to affect the volume of sales. The only reason those people are talking about it is just the same reason that a feed company acquires a chicken ranch. They found out they can make more money on their corn putting it through the chicken than selling it through corn. They found out they can make more money on their know-how and extension of credit than putting that through a piece of merchandise than they can just selling the credit. Looks to me like one and the same thing.

Mr. MORSE. They also found they can make money through insurance too. That is something we haven't talked about. I hope you will get that back into this bill. I have recommendations with respect to insurance.

Mrs. SULLIVAN. Mr. Williams?

Mr. WILLIAMS. Thank you, Madam Chairman.

I would like to compliment you two gentlemen on your presentation this morning. I don't agree with some of the things you said, but I do think your presentation has been well prepared.

Mr. Margolius, some of these questions we were talking about, on page 8 of your statement you refer to a woman who bought a TV set, was made for d.c.—direct current—even though she had a.c. in her apartment and she threw out the television set. And, of course, this sort of thing raises some questions in my mind as to how accurate this case might be.

First of all, is there any area of New York City where they have d.c. current?

Mr. MARGOLIUS. Yes. This happened several years ago. Gradually the city has been converted.

Mr. WILLIAMS. I think the conversion was completed.

Mr. MARGOLIUS. It wasn't a number of years ago. There still were a few sections that were d.c.

Mr. WILLIAMS. You say the buyer refused to take back the TV. Had the TV been damaged at all while it was in the purchaser's home?

Mr. MARGOLIUS. That I can't state. That might give him an out if there were. But there was no testimony by either the antipoverty worker who investigated the case or——

Mr. WILLIAMS. You are familiar with the fact that you can buy a converter at a rather nominal price that will convert d.c. to a.c. and vice versa.

Did the dealer offer this woman a converter for her set?

Mr. MARGOLIUS. No; and you have to understand that type of dealer. That type of dealer—that type of door-to-door solicitor or canvasser is interested in getting the person's name on the contract, whether it is

for a $12 set of plastic dishes that he sells her for $51 or for a second-hand television set or even clothing and wigs as they found in Chicago many times.

Mr. WILLIAMS. I would like to suggest that the dealer—if he didn't offer her a converter she could have purchased one easily. I fail to understand why she threw the television set out. Obviously she is paying for something she cannot then have.

Mr. MARGOLIUS. He didn't go after her for years. In fact, she moved and he found her again when she applied for credit. Again, she was getting into the same trap. She wanted to buy a few pieces of furniture on credit and the credit report went to the New York City Credit Bureau and that is when the first dealer found it.

Mr. WILLIAMS. I know she is not paying for it willingly. But in your statement she says she is now paying for something when she has nothing. She threw the television set out and this is the reason she had nothing.

Mr. MARGOLIUS. That is right.

Mr. WILLIAMS. There is one point that I would like to develop a little more.

As far as this 18 percent annual interest rate on revolving charge account—because we have had conflicting testimony. Assistant Secretary of the Treasury Barr and he made the statement that these department stores cannot operate on less than 18 percent in his opinion.

On the other hand, we have had testimony from others, including a representative of the Federal Trade Commission who made the statement that he believed, and it turned out later that he had no proof of it, that many of these department stores were making more money out of credit than out of the sale of goods. But I think most of us recognize that credit unions are a good thing and for the most part credit unions are not making much money. Some of them have a small surplus and that is about the size of it, but they are charging 12 percent a year.

In most cases, many cases they are paying to their depositors a lower interest rate than the prime interest rate. And also many of them have voluntary help, low overhead for office space and that sort of thing. So, it seems to me that at 12 percent a credit union is working in a situation where to duplicate the same situation the department store would have to charge an interest rate of closer to 15 or 16 percent.

Do you agree with this?

Mr. MARGOLIUS. It might have to be more. It doesn't have to be 18 percent. I don't think they are making more money on the credit than they are on the merchandise; no.

But Sears Roebuck Acceptance Corp. and the other subsidiary running mates of the retailers, all are showing a profit.

Mr. WILLIAMS. What do you think from your experience would be the break-even point for a department store operation on revolving charge accounts?

Mr. MARGOLIUS. If they cut down the cost of the operation and don't offer credit for a $9 bedspread I think probably they ought to be able to get down to 15 or 16 percent.

Mr. WILLIAMS. Thank you.

Mr. MARGOLIUS. They can charge 18, that doesn't matter. All we are asking is that they tell us what they are charging.

Mr. WILLIAMS. You must bear in mind that in cutting down the cost of the credit, they have to reduce their incidence of loss because this is a tremendous factor.

Mr. MARGOLIUS. There is one State recently—either Oregon or Wisconsin—where they require that one of the banks operating a bank credit card plan reduce the rate from 18 to 15 percent because it bumped up against the State usury law. It was either Oregon or Wisconsin. They did it and they are still operating. So, that is a similar plan to a department store plan. We want to remember that when the revolving credit first started it was one half of 1 percent a month and it has gradually come up. After the war it came to 9 percent and 1¼ and now 1½. When the banks started the credit club plans they started out charging 1 percent. It was Chase-Manhattan. I think you are right, they can't operate at 1 percent. Chase-Manhattan has not gone into the credit card business as First National City has, because Chase says they can't do it at 12 percent a year, they tried it and had to go out, and they won't do it at 18.

Mr. WILLIAMS. One quick question for Mr. Morse.

You made the statement that the poor are paying more for merchandise because they can't pay cash. I would like to suggest to you that so many middle-income families are using credit and paying more because credit isn't free under any circumstances.

But we have heard a lot of testimony, a lot of comment from some committee members about the plight of the poor—they seem to be paying more and getting inferior merchandise. It is my own belief that one of the reasons for this is because the merchants in poorer areas do have a greater incidence of loss and if they don't recover these losses in some way all the other customers are going to pay more so we are just hurting the other poor people in that area who aren't paying their bills.

As long as garnishments are used properly I fail to see why the honest small merchant that this country is doing everything to help through the SBA, we have people out advising them, we are lending them money and everything else, I don't see where they shouldn't have the protection of garnishment to collect money from people who just aren't going to pay?

Mr. MARGOLIUS. Rudolph Severa, manager of the Greater New York Credit Bureau, a very experienced man in retail credit, and former credit manager of Macy's, says that credit well granted does not require a wage assignment. For the sake of a few honest merchants who may need that, and who have other collecting devices they can use, you will turn a lot of people over to the unscrupulous operators.

Mr. WILLIAMS. I don't agree with that gentleman's statement because in poor areas, many people who are now good risks will be a poor risk the first of the next month.

Mr. MARGOLIUS. One of the benefits of getting rid of garnishments is that credit will be more carefully granted. Here is a statement from a credit bureau in a Pennsylvania city complaining that merchants are granting credit too loosely in order to make sales.

Mr. WILLIAMS. The loss of credit to some people in poor areas might start a riot.

We might not overlook that one.

Mrs. SULLIVAN. If you will yield for a comment. Mr. Williams, hasn't your State abolished garnishment for over 100 years?

Mr. WILLIAMS. My State has never had garnishments.

Mr. MARGOLIUS. It is a thriving State, Mr. Williams.

So is Texas, so is Florida, so is North Carolina, which similarly do not permit garnishees.

Mr. WILLIAMS. I appreciate your kind comments. Having lived there all my life I know we have many areas where we have problems.

Mrs. SULLIVAN. I am sorry I interrupted you, Mr. Williams. However, I believe your time has expired.

Mr. WILLIAMS. I would just like to ask Mr. Morse.

Mr. BINGHAM. Regular order, Madam Chairman. I think that we should be strict in the rules and you are too gracious. Some members of the committee have been abusing the privilege of speaking out of turn.

Mrs. SULLIVAN. In view of the time, would you give Mr. Morse that question and then, when he gets the transcript he may answer it for the record?

(Mr. Morse submitted the following letter pertaining to Mr. Williams' line of questioning:)

KANSAS STATE UNIVERSITY,
DEPARTMENT OF FAMILY ECONOMICS,
Manhattan, Kans., August 17, 1967.

MRS. LEONOR K. SULLIVAN,
Chairman, Consumer Affairs Subcommittee,
Committee on Banking and Currency,
House of Representatives,
Washington, D.C.

DEAR MRS. SULLIVAN. I am writing in reply to Mr. William's question concerning the poor credit user and why merchants should not have the protection of garnishment to collect money from people who just are not going to pay (page 792 transcript).

1. The reference in my statement of the poor pay more was strictly mathematical. I contrasted the differences in monthly payments between those who save after their purchases by using credit and those who save before their purchases by paying cash.

2. I call attention to the article attached to my statement reprinted from *The (Kansas) Consumer Credit Journal:* "36% too much? * * * too little?" The creditor, by charging a high rate, in effect collects premium from his customers to insure against the risk of credit losses from that class of credit customers. There should be a close relationship between rate and risk.

One of the benefits of this bill will be to clarify communication in the credit market so a better stratification of credit risks will prevail. The presence or absence of the right of garnishment will be only one of the many factors to be considered in tipping the scale as to whether a creditor with a reputation of charging certain rates will or will not lend or sell on credit to a class of customers with a given reputation of repayment habits.

Because the situation is so fluid, creditors not protected by having garnishment available will be less inclined to lend to people "who just *aren't going to pay*" and thus be able to make credit available at a lower rate to people who just *are going to pay.* As a matter of public policy, is it not desirable to discourage extensions of credit to people who just aren't going to pay? The only losers would be bill collectors, proraters and others associated with pathogenic credit practices; the result would be no loss to society.

Those creditors who extend credit to risky consumers unlikely to pay debts would charge a high enough rate to spread risk (insure) against losses.

What I am saying is that garnishment is only one factor affecting the creditor's losses; (1) The loss potential started when the credit was extended. (2) The rate charged by the responsible creditor should have been sufficiently high to cover the average cost of losses, and (3) Availability or non-availability of

garnishment becomes only one of many factors for the creditor to consider in appraising the loss potential of credit as it is being extended. If the creditor is denied the use of garnishment, he will not become disadvantaged, but relieved of considering this in establishing the credit worthiness of credit applicants.

3. I am not a student of wage assignment and garnishment. However, I am impressed by the abuses of present procedures affecting both the consumer and the employer. Furthermore, I am impressed by the recommendation of the Committee of the Ontario Legislation on Consumer Credit made June 10, 1965 opposing "blanket or automatic type of wage assignment" and recommending legislation "prohibiting any assignment or order, for payment of any salary, wage or other compensation for services or any part thereof earned or to be earned." (See recommendation number 15, paragraph 308 on page 44).

In conclusion, I do not think it proper to view garnishment strictly as a "protection" for the creditor without also considering the rate; both relate to risk assessment.

Sincerely yours,

RICHARD L. D. MORSE, *Professor and Head.*

Mrs. SULLIVAN. Mr. Annunzio?

Mr. ANNUNZIO. Thank you, Madam Chairman. The hour is late so I just will ask two questions that I want answered for the record.

Before I ask the questions I want to extend my deep appreciation to Mr. Margolius for his very constructive statement and the worthwhile cases that he brought to the attention of this committee. I want to extend my appreciation to my friend Professor Morse who has aided us so much on the Domestic Finance Subcommittee when we were studying the high usurious interest rates being charged to servicemen on automobiles.

I want Mr. Margolius to know my own feeling on garnishment of wages. There are four titles to H.R. 11601. If we lose all the titles and retained only the garnishment section we would be doing more for the consumers of America than has been done at any time during the history of this country. The record bears this out.

I think in your articles, that the American Federation of Labor does need a little bit of prodding. They have State organizations if we leave out Alaska and Hawaii, you have 48 States that have State organizations. Every one of these organizations have conventions. I am quite certain in every one of these State conventions they have already passed a garnishment of wages resolution and it is unfortunate that the national body in Washington has no policy.

Professor Morse, I know that you have made a study of the DOD directive on truth in lending. Will you tell this committee what some of the results of that study have been? Will you also tell us about the loopholes in this directive?

I specifically want you to mention the mandatory provision, and to dwell on this provision. I want to assure you that I am still pursuing the DOD on the mandatory disclosure provision.

Mrs. SULLIVAN. Did you say he could submit that for the record?

Mr. ANNUNZIO. Yes

Mrs. SULLIVAN. When you get the transcript you may answer it.

Mr. MORSE. If I may just submit the recommendations and first seven pages of this report on the DOD directive.

Mrs. SULLIVAN. All right, if you will do that.

(The material referred to may be found in the appendix, p. 1097.)

Mrs. SULLIVAN. Mr. Bingham?

Mr. BINGHAM. Thank you, Madam Chairman, and I would like to thank my colleague for yielding me time.

I have felt from time to time that those of us who were trying to stay within the 5-minute rule were being penalized a little bit by efforts of others to secure exceptions to the rule.

I would like to compliment both gentlemen on their statements.

Mr. Margolius, I think it would be a fair statement, would it not, that much of what you had to say about the abuses that have made life miserable for small creditors deal more with the garnishment provision of the bill than the truth-in-lending provisions as such?

Mr. MARGOLIUS. The more flagrant abuses do arise from the garnishee power, yes.

Mr. BINGHAM. Some of the things you were saying seem to me to reflect the problems of enforcing our statutes against fraud—the difficulties of providing legal services to the poor and such things as that that would not be dealt with in this bill.

Mr. MARGOLIUS. The whole problem hinges on the fact that it is impossible to prove verbal fraud. It is the salesman's word against the customer's.

Mr. BINGHAM. You don't have any proposal for us for legislation at the Federal level to deal with that problem, do you?

Mr. MARGOLIUS. I certainly do. I hereby proposed a cooling-off law, a revocation of the holder in due course provision and a provision that a seller can repossess or sue for deficiency judgment; but he can't do both.

Mr. BINGHAM. I would welcome anything from the gentlemen either in the record or by letter—any proposals for additions to this bill.

Professor Morse, I have been looking through your proposed amendments and I must say I am tremendously impressed with the amount of work and care with which you have studied this particular bill and made some specific suggestions.

Some of them seem to be extremely well taken and I think you have attacked particularly the problem of the annual percentage rate on open end credit transactions with remarkable ingenuity. I have been concerned about the fact that even the existing provision in H.R. 11601 doesn't quite meet the problem because of some of the discrepancies that exist in the way in which the bills are submitted and so forth.

And I think your proposed language might be a great improvement.

I would like to ask you a little bit more about your position on the graduated or step-rate problem and ask, Mr. Margolius, too, if he would comment on that. I take it that your proposals here on graduated or step rates would make it almost impossible for them to be used, because they would have to vary their monthly percentage charge every month to reflect the different blend.

Mr. MORSE. I think I can come up with little nicer language. I don't propose eliminating them. They may use them but let them disclose to the consumer a single-blended rate.

Mr. BINGHAM. That might vary month to month according to the blend of the charges posed; is that right?

Mr. MORSE. Whatever rate they are charging. My position would be, if they find it convenient in their business to use graduated rates, this is an internal bookkeeping system. Maybe they prefer to use this system. As far as the consumer is concerned, however, the single rate is the meaningful rate.

Mr. BINGHAM. I understand what you are trying to get at. Wouldn't you agree that as a practical matter, referring to page 4 of your memo, on your suggestion for a blended rate, depending on the amount of the balance during the previous month, that the blended rate given to the consumer might vary from month to month? I would suggest that would be probably a system that would not be workable.

Mr. MORSE. It varies now month to month. They would merely post a schedule of single rates that would apply as I suggest here, if the balance is over $500, it is the 18-percent rate. Actually for computer operations it automatically gets sorted into its proper rate category. They might find it simpler not to have such a complicated system as I suggest here.

Mr. BINGHAM. That is my point.

Mr. Margolius, what do you think about the graduated rates? Do you feel the pressure should be on them to do away with them?

Mr. MARGOLIUS. In the case of small loans?

Mr. BINGHAM. A certain percentage, if the balance is $500 or less and so on.

Mr. MARGOLIUS. Yes. The Pennsylvania State Labor Federation has made a particular point of that. They point out that unbeknown to the consumer the lowest rate part of the debt is paid off first and the highest rate part is paid off last. So there is concern about that.

Mr. BINGHAM. Do you want to add to your comment?

Mr. MARGOLIUS. I haven't given it enough thought.

Mr. BINGHAM. I mean Mr. Morse.

Mr. MORSE. I caught onto this in reading the testimony of the New York State Banking Department. Their study alerted me to the problems that are a result of graduated rate system. It gets just too complicated to paraphrase here, but discussion begins on page 14, with respect to step rates in my pamphlet No. 18, "Consumer Credit Computation." You may wish to look at that discussion, for it gives the reason for my concern.

Mr. BINGHAM. Do I understand that that is the general practice, that the highest charge, highest rate is the last to be paid?

Mr. MORSE. Yes.

Mr. BINGHAM. Thank you very much.

Mrs. SULLIVAN. Thank you. I have two questions that I would like to read into the record for you, Professor Morse—and you can answer them later—and two for you, Mr. Margolius. Unfortunately time does not permit your answering now, so I will just read them into the record.

First, it seems to me, Dr. Morse, that the American Bankers Association would probably be as good an authority as any on monthly versus annual rates, since their members deal in this subject everyday. And the ABA witnesses told us, in answer to my question, that once the basis is determined by the store on how it assesses its charge of 1½ percent, that particular charge is at an annual rate of 18 percent. It covers a specific 30- or 31-day period—one-twelfth of a year—regardless of when that period actually starts.

Would you agree?

Next, does H.R. 11601 require any amendment in your opinion, Dr. Morse, to provide a means for the retailer to compare and contrast his revolving charge system with a competitor so that, while both cite an

annual rate of 18 percent, the customer can nevertheless gage which gives him the better break on free or grace periods, or on the crediting of payments or returns? In other words, does H.R. 11601 provide sufficient leeway for the Federal Reserve Board to issue regulations which allow, or permit, or encourage, full disclosure of these differences within an identical annual rate?

And now I want to ask Mr. Margolius: In your column you always make it clear to consumers that paying cash is usually a preferable way of buying because credit costs the store money and somebody has to pay for it. How do you get for the cash customer some of the benefits of the savings he affords the retailer? I've heard many complaints from people who resent paying the same amount for a restaurant check, for instance, as the party at the next table which charges it, thus forcing the restaurant to pay 7 percent to the credit card company to collect.

Should the cash customer complain—and what good does it do?

Finally, Mr. Margolius, what was the name of the bank in Buffalo which was financing the freezer deals you mentioned?

If you two will answer those questions when you get your transcripts, I will appreciate it.

(The following information was submitted:)

KANSAS STATE UNIVERSITY,
DEPARTMENT OF FAMILY ECONOMICS,
Manhattan, Kans., August 18, 1967.

Mrs. LEONOR K. SULLIVAN,
Chairman, Consumer Affairs Subcommittee, Committee on Banking and Currency, House of Representatives, Washington, D.C.

DEAR MRS. SULLIVAN: I. You have asked whether I would agree with the reply given you by the ABA witness.

Yes, I agree that 1½% for a period, which is 1/12 of a year, regardless of when that period starts, is at an annual rate of 18%.

To underscore this I quote from my statement on S. 5:

"The nominal annual rate expresses the periodic rate multiplied by the number of periods in a year. The annual rate is—

"twelve times the monthly rate;
"fifty-two times the weekly rate;
"four times the quarterly rate; or
"three-hundred-sixty-five times the daily rate.

"The equivalent annual rate, so conceived, is just as informative and real as the motorists knowledge that he is traveling at a rate of 60 miles per hour by looking at the speedometer, regardless of whether he travels the full hour at this rate or goes the full 60 miles."

II. Your second question asks whether H.R. 11601 provides sufficient leeway for the board to issue regulations which allow or permit or encourage full disclosure of the differences within an identical annual rate.

I see no need for a change in H.R. 11601 in this respect. Section 203(d)(2)(C) and (D) and Section 203(d)(3)(H) explicitly require disclosure at the outset of the method of fixing the charge, and with each billing, notice of the opportunity for free credit. Furthermore Section 204 authorized the board to establish procedures under (a)(2) whereby the required information be set forth conspicuously and clearly.

However, should the committee follow my recommendation No. 11, they may wish to also give the Board authority to set a minimum or fixed amounts as finance charges. However, I believe the Board would have this authority under Section 204 (c) since such cases would be of a special class of creditors.

Another alternative would be to authorize the board to stipulate the method of assessing charges, but I do not believe this authority is advisable or needed at this time.

Respectfully submitted.

RICHARD L. D. MORSE, *Professor and Head.*

Mrs. SULLIVAN. And now, we have one other witness who is scheduled to be heard this morning, Mr. Louis Rothschild, executive director of the Menswear Retailers of America.

If you would like to be heard now until the bells ring calling us to the House floor, we would be happy to have you testify at this time. Otherwise, I am willing to come back at 9:30 in the morning instead of 10, so that you could be heard then.

Mr. ROTHSCHILD. If the chairman would be kind enough I would appreciate the opportunity to appear at 9:30 tomorrow morning or whatever time suits the chairman.

Mrs. SULLIVAN. We have other witnesses scheduled this afternoon and they are all from out of town, so if you can come tomorrow morning early, it would be better.

Mr. ROTHSCHILD. Fortunately I am in Washington and I can meet at your convenience.

Mrs. SULLIVAN. If you will appear tomorrow morning at 9:30 I will try to have as many members as possible join me then in hearing your statement. In the meantime, we will now recess until 2 o'clock this afternoon.

(Whereupon, at 12:25 p.m., the committee recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION

Present: Representatives Sullivan (presiding), Bingham, Dwyer, Wylie, and Williams.

Mrs. SULLIVAN. The subcommittee will come to order.

Will effective truth-in-lending legislation—a law which covers all types of consumer credit transactions—destroy American business or seriously interfere with the free-enterprise system? What happens when customers learn the truth about the interest rates or service charges they are asked to pay for credit? Do they stop buying or borrowing? Do they begin calling legitimate businessmen and bankers crooks and highways robbers? Is business forced to such redtape and regimentation that profits disappear and businesses have to close their doors, or hire armies of bookkeepers and mathematicians to make impossible calculations?

These are some of the questions which have been posed so far in our hearings on consumer credit legislation. This afternoon, we have a chance to obtain some authoritative answers to these hypothetical questions, because in the Commonwealth of Massachusetts the questions are no longer hypothetical and the answers are becoming available on the basis of—not conjecture and guess but—actual experience.

We are privileged to have with us two officials of the Commonwealth of Massachusetts directly connected with the administration and concept of the Nation's first broadly based truth-in-lending statute, Dr. Edward R. Willett, chairman of the Department of Finance and Insurance of Northeastern University at Boston who serves as chairman of the State's statutory consumers council: and the Honorable Robert L. Meade, assistant attorney general of Massachusetts and chief of the consumer protection division in the attorney general's office. They are here to tell us how the two major laws recently enacted

by Massachusetts on installment and other credit sales and credit transactions are actually working.

Accompanying them is a public-spirited Massachusetts businessman, Mr. Willett Smith, credit manager, Lechmere Sales Co., Cambridge, who is qualified to tell us from his own experience the effect of such legislation on retail business. The witnesses are accompanied by Mr. Dermot P. Shea. What is your official position, Mr. Shea?

Mr. SHEA. Executive secretary of the State consumers' council, Madam Chairman.

Mrs. SULLIVAN. We also have with us this afternoon Mr. Robert J. Klein, economics editor of Consumer Report magazine, published by Consumers Union of the United States, Mount Vernon, N.Y.

Mr. Klein, I wonder if you would come up to the table, also.

Mr. Klein was here last Tuesday waiting to testify, and graciously agreed to come back again today. He tells me that he can summarize his testimony in 15 minutes. Then we will hear from you three gentlemen, and after that the subcommittee will be ready to question all of you.

Mr. Klein, would you give us a résumé of your statement?

STATEMENT OF ROBERT KLEIN, ECONOMICS EDITOR, CONSUMER REPORTS MAGAZINE

Mr. KLEIN. Madam Chairman and members of the committee, my name is Robert J. Klein. I am economics editor of Consumer Reports magazine, published by Consumers Union, the nonprofit product-testing organization.

Consumers Union long has favored a great many of the objectives of the Sullivan bill. We are pleased that it would include first mortgages, though we favor a rate reflecting all the credit charges at a mortgage origination, including credit reports and appraisals if required by the mortgage lender. We applaud including credit life insurance premiums in the finance charge and annual rate disclosure, though we think certain other insurance costs, such as commissions earned by auto dealers on car insurance in a finance deal, should be included. We agree that no $10 minimum should be set on finance charges required to show the annual rate. We have urged and still urge the abolishing of wage garnishments and confessions of judgment. There are several other inequitable collection practices that need congressional attention, lest the National Conference on Uniform State Laws draft a weak-kneed Uniform Consumer Credit Code. We therefore favor a national commission to study credit laws. We endorse the Sullivan bill's concept of an active Government enforcement role.

Consumers Union feels it can best contribute to your work on the bill by pointing out its most serious weakness as we see it.

Consumer credit, its uses and abuses, has come in for frequent discussion in our magazine during the past decade. CU members, being quite highly educated and fairly well off as a group, rely less on installment credit than most people do. But our members do use credit. When last polled on the subject, in 1965, about 25 percent of them said they were buying automobiles on the installment plan. About

30 percent of them were paying finance charges on revolving credit charge accounts.

Despite our members' special interest in managing their money wisely, there is strong evidence that many of them cannot fathom the problem of buying credit at something like its lowest available cost. A few years ago, for example, the National Bureau of Economic Research polled 800 CU members on their credit experiences. Here are some of the findings:

Only a small minority of the respondents even hazarded a guess as to the interest rate on their debts. Those people who did guess cited interest rates that averaged about 8 percent per annum. But other information they had supplied on their loans indicated that, on average, they had paid a true annual rate of 23 percent. Only a few respondents either knew or correctly guessed the true interest rate on their loans. That knowledge had paid off rather well, it appears. Those who did know, or guessed right, had paid an average of 12 percent on loans of under $500, while those who would not even hazard a guess had paid an average of 37 percent—three times as much.

Readers write in to us quite often about their credit problems. Their letters usually express confusion, exasperation, and downright distrust of the creditor. If this group of consumers, who can accurately be characterized as a consumer elite, is confused, it would be our guess that the vast majority of credit users is hopelessly confused.

Senate passage of S. 5, the truth-in-lending bill, represented a 92-to-0 vote of confidence in the ability of consumers to shop wisely for credit when given the essential facts. The Senate bill falls short, unfortunately, of requiring all the information consumers will need if they are to compare costs. The biggest loophole in the bill, by far, is its treatment of revolving credit. Most department stores, mail-order houses and banks would be permitted to continue stating a monthly interest rate instead of an annual rate. The monthly rate is deceptively low, and anyone who doubts that people are deceived by it has only to browse through the transcript of the June 23 hearing on revolving credit before the Senate Banking Committee. Lender after lender shouted "discrimination" and forecast a large advantage for those who would still be allowed to quote a monthly rate.

Some will say that revolving credit is only a small fraction of the total consumer installment debt. That's true. It represents about 5 percent of a $75 billion total balance due. But as you know banks and gasoline marketers are only lately entering the revolving credit business en masse. Some members of the banking industry speak their determination to get a bigger piece of the consumer credit action, and Federal Reserve Board findings indicate that the banks are indeed moving strongly into the picture. The bank credit card looms as the poor man's version of the American Express or Diner's Club card. The big difference is that the bank card charges a monthly service charge, usually described as small, though actually it is 1½ percent a month, which may be equivalent to 18 percent per annum, or, quite likely, considerably higher.

Exemption of revolving credit from annual rate disclosure would be very likely to accelerate the growth of credit in that form. An increasing portion of total installment debt would be contracted without ben-

efit of the consumer's knowing the true annual rate or even the approximate annual rate. The interest of truth in lending—to help consumers stabilize the economy by the rational use of credit—would be largely defeated.

Merchants and bankers used a shrewd argument against annual rate disclosure on revolving credit. They said that a charge account customer often gets the use of their money for longer than 1 month—sometimes for almost 2 months—at a service charge of 1½ percent. Thus, they argued, the service charge is a fee, not a periodic rate, and even if it were looked on as a rate it would translate to less than 18 percent per year. Their argument has a clever premise. Up to 59 days of credit are available interest free, but only on condition that the balance is paid in full by the 59th day. It it is not paid in full, time runs backward to the date of purchase. Well, maybe an accountant can really make the calendar run in reverse, but one name for their magic is account juggling.

The only reason for our mentioning it here is that there are many different sets of rules for juggling revolving credit. Different stores and banks use different rules, and they are not just playing games. A revolving charge account can cost considerably more at one place than at another, though both seem to be charging the same interest rate. Professor Morse of Kansas State University illustrated the situation dramatically in a recent pamphlet. He showed six revolving credit billing systems, all in current use, and he showed how service charges can run more than twice as high in some stores as in others.

The Senate truth-in-lending bill attempts to deal with this problem by requiring revolving credit lenders to explain their billing systems. H.R. 11601 takes the same approach. But explanations presently offered by the major mail-order houses fail to clarify their billing systems well enough for consumers to understand them, and we seriously doubt that any verbal explanation will permit consumers to identify the store or bank with the least costly system.

But I shall try to explain the problem to this committee, using the billing methods of Sears, Roebuck and Montgomery Ward, which I am told are identical, and that of J. C. Penney. I have prepared a written exhibit to go with this because I realize how hard it is to follow a discussion involving a great many numbers. Our exhibit shows calculations based on the premise—a fair one, we believe—that the J. C. Penney interest rate, charged on the adjusted monthly balance due, equals 18 percent per annum.

The basic difference between the Sears-Wards method and the Penney's method is in the definitions of the amount of credit outstanding. To give you a simple example:

Suppose I buy something for $100 at each store, and I charge it. Sometime within the next 30 days or so they will each send me a bill. It will show an opening balance due of $100. It will tell me to pay the $100 or, if I want to go on the installment plan, to pay only $10. Let's say I pay only the $10. Next month, of course, I can expect to be assessed interest—or, as they prefer to say, a service charge or a time-sale price.

Sure enough, when next month's bills arrive, each shows a service charge. Each bill shows what happened to my account during the past

month. There was an opening balance of $100, a payment of $10 and a balance due of $90, plus service charge. But the service charge on the Sears and Wards bills is $1.50, whereas on Penney's bill it is $1.35. Here is why: Sears and Wards charge 1½ percent of the opening balance, in this case $100. Penney's charges 1½ percent of the actual balance due after deduction of payments and credits, in this case an adjusted balance of $90. Sears and Wards actually charged me $1.50 on $90 due, or 1.67 percent or 20 percent per annum interest rate. What's more, as the balance of my account decreases month by month, Sears and Wards will be charging me a higher and higher rate, until, on my next-to-last payment the rate will be 39 percent. At the very least—assuming that new purchases restore each month's opening balance to very nearly $100, but no more than that—the annual rate will be about 20 percent. Penney's rate, on the other hand, is always 18 percent.

But that's only the most conservative way to make the comparison. Suppose that, when that first bill for $100 comes, I look in my checkbook and decide that I can afford to pay $50 on account—a good and thrifty thing to do, you would agree. But not Sears and Wards. They will penalize my thrift on the very next bill. Their service charge remains $1.50, no matter how much I pay them, short of the whole $100. That's $1.50 on a $50 balance due, mind you, and it comes to a 3 percent monthly rate, a 36 percent annual rate. Penney's would charge only 75 cents, the usual 18 percent per annum.

We at Consumers Union are not here to plug J. C. Penney or knock Sears and Wards. We are here to tell you consumers need full disclosure of the annual rate—the true annual rate—on revolving credit charge accounts. That 36 percent per annum example I just cited is not drawn from the rarefied atmosphere of an ivory tower. Let me quote to you but one of quite a number of letters from our readers:

> I have recently been the victim of unethical practices and I think your other readers might appreciate a warning in your magazine. As you know, Sears, Roebuck and Company charges an announced rate of 1½% interest a month on the unpaid balance. I discovered recently that the credit department in our local store was only applying a portion of the money I paid them. . . . For example (and this is exactly what they did to me), I had an unpaid balance of $80.00 and made a payment of $50.00. This left me a balance of $30.00—the interest on which should have been 45¢. When I got my monthly statement, however, I found my service charge was 3 times as much as it should have been * * *. This unethical practice meant in my case that they were, in effect, charging me an interest rate of over 5% a month or 60% a year. I have noticed that other chain stores (like W. T. Grant) will do this if they can get away with it. I certainly hope you will find some way of drawing this dishonest policy to the attention of your readers.

The way I figure it, they charged him 48 percent; not 60 percent. Let me hasten to say that the writer of that letter came to unfair conclusions about the way Sears, Grants, and others may be conducting their business. But it is not hard to see how he came to think that he was receiving unethical treatment. He is not alone in this harsh judgment. A number of similar letters are appended to our written testimony. They keep coming in, and in our opinion they should be a source of alarm both to the retail and banking communities and to the Congress.

The point is that hardly anybody can fathom the billing methods of revolving credit. Help is needed, and the need will become more and more pressing as banks and stores, spurred on by the availability of computerized billing systems, contend for revolving credit business. H.R. 11601 takes the important step of restoring the annual rate disclosure requirement for all revolving credit. Something more is necessary. It is our proposal that the Federal Reserve Board be assigned by this legislation to tackle the billing problem and to find a fair and accurate way of expressing the differences in cost as differences in the annual rate of charge.

We recognize that it won't be a simple problem of rules making, but the problem must be dealt with. It exists, and J. C. Penney, in a suit aimed against the Massachusetts rate disclosure law, comes right to the point. I quote from the suit:

> Despite the differences in actual finance charge rates charged by the Plaintiff Penney and certain of its major competitors, all are required to state the identical "simple interest per annum rate."

End of quote. Notice Penney's reference to "actual finance charge rates." Those words let the cat out of the bag. There really is a finance charge rate. Penney's knows it, Sears and Wards know it. Only the consumer is left in the dark.

It would seem to be in Penney's best interest to have some simple yardstick for compulsory labeling of revolving credit prices at competing stores and banks. It would unquestionably be in the consumers' best interest and in the public interest. Surely a way can be found to fashion a yardstick that measures in terms of the annual rate. One approach might be to standardize the billing system for all revolving credit accounts. Another might be a thorough statistical analysis of the various systems, with the aim of establishing their relative cost to the borrower. Perhaps the most logical avenue of attack, though, would be to let the public see what any well-managed retail business or bank must already be able to see—the overall annual percentage of gross yield on revolving credit outstanding. Each lender presumably has a fair idea of his own yield, and probably shares with others in the grade a knowledge of how various billing methods would affect the yield.

To sum up, we submit that the consumer shopping for revolving credit should be given the right to know that which the lender already knows. As so often is the case, the consumer is the only one in the deal who is deprived of complete information on its terms. He very badly needs to be let in on the rate secret.

Plainly, unless this Congress puts the Federal Reserve Board to work on the problem of setting standards for revolving credit annual rate disclosure, you will be leaving unfinished business for some future Congress. The time to finish the business is now.

Thank you.

(The complete statement of Mr. Klein and the exhibit referred to follow:)

STATEMENT OF ROBERT J. KLEIN, ECONOMICS EDITOR, CONSUMER REPORTS

My name is Robert J. Klein. I am economics editor of Consumer Reports, a monthly publication of Consumers Union of the U.S., Inc., located at 256 Washington Street, Mount Vernon, New York. Consumers Union is a nonprofit mem-

bership organization chartered in 1936 under the laws of the State of New York for the purpose of providing information and counsel to consumers about goods and services and about the management of family expenditures. The financial support of the organization comes from its more than one million members, subscribers and newsstand buyers of its publications. Consumers Union accepts no support from any commercial organization. Consumer Reports carries no advertising.

In addition to testing and reporting test results on products, Consumer Reports provides information on other aspects of the consumers' problems. Nearly every issue contains articles on economic matters as they affect the market place, and legislative and other governmental developments which consumers ought to know about for their own protection and welfare.

Consumers Union's close attention to the current obstacles to rational use of credit date back to 1957, when the late Mildred Edie Brady, an eminent member of our staff, wrote the first of several pioneering articles on the subject. It was CU's judgment then, as it is now, that full disclosure of interest costs held out by far the best promise for stabilization of the national economy, which, then as now, suffered erratic growth partly because of the use of installment credit to hypo sales in periods of surplus inventories. For example, in several recent years the consumer debt has expanded most steeply in the late months of the auto model year, July through September, as dealers frantically attempted to dispose of their heavily floor planned new car quotas. The sales tactics are familiar—slashing of the quoted prices, with the dealer's profit retrieved through high credit charges concealed in easy (so-called) monthly payments.

Mrs. Brady reported on the failure of Federal consumer credit controls under Regulation W during the Korean conflict. There were simply too many ingenious ways of concealing credit in other costs. Let the market have a chance to work, she said. Give the consumer the information he needs in order to borrow rationally, and he will help the credit economy to regulate itself.

The readers of CONSUMER REPORTS are not a typical cross-section of consumers. By their very interest in our publication, they show a special interest in managing their income wisely and a consciouness of the difficulties involved. They are, as you might imagine, better educated and better paid than the average American. It's no surprise, either, that they rely on the installment plan less frequently and less heavily than most consumers do.

Yet they do use credit. Response to our Annual Questionnaire for 1965 showed that 25% of the respondents were paying off automobile loans. Most noteworthy to these proceedings, 58% of our questionnaire respondents in 1965 used 30-day charge accounts and 29% used revolving credit charge accounts. A steady stream of letters to the editor recited complaints against these accounts, indicating glimmerings of awareness that the service charges are not as small as the buyer was led to think. Several such letters have been appended to this testimony. They reveal a state of serious confusion—serious for the credit merchant and serious for a consumer-oriented economy. If this elite group of consumers is confused, we would think the vast majority are hopelessly confused.

Senate passage of the Truth-in-Lending Bill last month represented a 92–to–0 vote of confidence in the ability of consumers to shop wisely for credit when given the essential facts. Those facts concern the true price of money, whether borrowed directly from a lending institution or indirectly through the purchase of goods and services on the installment plan.

Except in the realm of consumer credit, the price of money is everywhere expressed as an annual interest rate—the percentage of principal the borrower must pay for a year's use of someone else's money. Truth-in-Lending legislation would simply give consumers the same information that has always formed the basis for nonconsumer borrowing. For the first time in the history of this buy-now-pay-later economy, consumers would be able to make accurate price comparisons in shopping for most types of credit. The one major exception—and it could easily become a gaping hole in the dike—is revolving credit.

Fortunately, the House of Representatives still has an opportunity to repair the leak. H.R. 11601 already goes part of the way toward requiring the type of annual rate disclosure that would most help consumers to compare revolving credit costs with those of credit from other sources. Serious problems would nevertheless continue to confront the consumer, in his attempt to compare the costs of competing revolving credit contracts. As you know, charge accounts have long been a promotional tool of competing department stores and mail-order

houses. The contest for revolving credit business has recently been much intensified by the large-scale promotion of bank revolving credit cards and revolving credit checking account schemes. Later in this testimony, we will attempt to show that accurate cost comparisons among the various, often-competing, revolving credit plans will require more information than merely the equivalent annual rate derived from a stated monthly or other periodic rate.

It is a great virtue of H.R. 11601 that it opens fresh avenues of approach to problems of installment-credit users scarcely touched on in the six years of Senate hearings and debate. Highly praiseworthy, for instance, are the bill's proposed remedies for the consumer who faces high-handed collection and repossession methods; it is time to raise serious questions about the workings of legal mills grinding out judgments, repossessions, garnishments and wage assignments, for which state, county and local taxpayer must foot the administrative bill.

Some excellent studies have been made into the social ills and the rank inequities visited especially on the underprivileged consumer by these collection methods. I would call the committee's attention especially to a report to the Mayor of Chicago, the Hon. Richard J. Daley, by Jerome Schur, special assistant to Chief Judge Boyle for Consumer Credit. The report released on December 15, 1966, examines confession of judgment complaints filed in the Municipal Division of the Circuit Court of Cook County during two weeks in June 1966. The study uncovered interest rates for used cars as high as 283%. Finance charges on money advanced to pay insurance premiums ranged up to 97%. The premiums themselves were found to be as high as $794 for 12 months' accident, credit life and health coverage. The study found that the courts had routinely processed judgments based on improperly drawn, incomplete or otherwise illegal credit contracts.

(For this report see p. 1142.)

If Mr. Schur's report is not yet a part of your record, it should be, albeit that record is already rich with evidence. I refer especially to the 1965 Hearings of the Subcommittee on Domestic Finance into servicemen's credit problems. One outgrowth of those hearings was the Department of Defense directives on standards of fairness and full disclosure of credit terms offered to members of the Armed Forces. The directives represent a very big step toward a Truth-in-Lending Bill. House Banking and Currency Subcommittees are thus performing indispensable work toward the achievement of truth and equity in lending.

THE ECONOMIC GOALS

The strengths and weaknesses of the bill as it shapes up thus far can be properly understood only in terms of the purposes underlying it. Behind the progress of the Truth-in-Lending Bill is a vital need for marketing tools to help stabilize a most turbulent sector of the national economy.

Total short-term consumer debt has been growing at a furious pace. In the past 15 years, it has quadrupled to a present level of around $95 billion. About $75 billion is installment debt, on which repayments last year were $73 billion. By comparison, total personal income has only a little more than doubled in the same 15 years, and now stands at about $505 billion, after taxes. Plain arithmetic thus says that about every seventh dollar in the average pay envelope is spent before it's earned.

And plain arithmetic understates the case. You must add interest charges to about $12.5 billion per year. You must also take into account that only about half of the nation's wage earners have short-term installment debts. Installment debt alone, plus its interest, is generally estimated as laying prior claim to one dollar of every four in an *average debtor's* pay.

Some observers of the economy fear that, with so large a part of future income committed in advance, any serious rise in unemployment or drop in wages would snowball into a major recession. For many people would have all they could do to make their payments; they would be in no position to increase their debts, and their cash buying power would be harshly curtailed. Nevertheless, the present long-term economic boom has been stimulated by the huge and expanding wave of consumer credit. It is therefore understandable that nobody in the Government has come out against the fast-growing consumer installment debt as such.

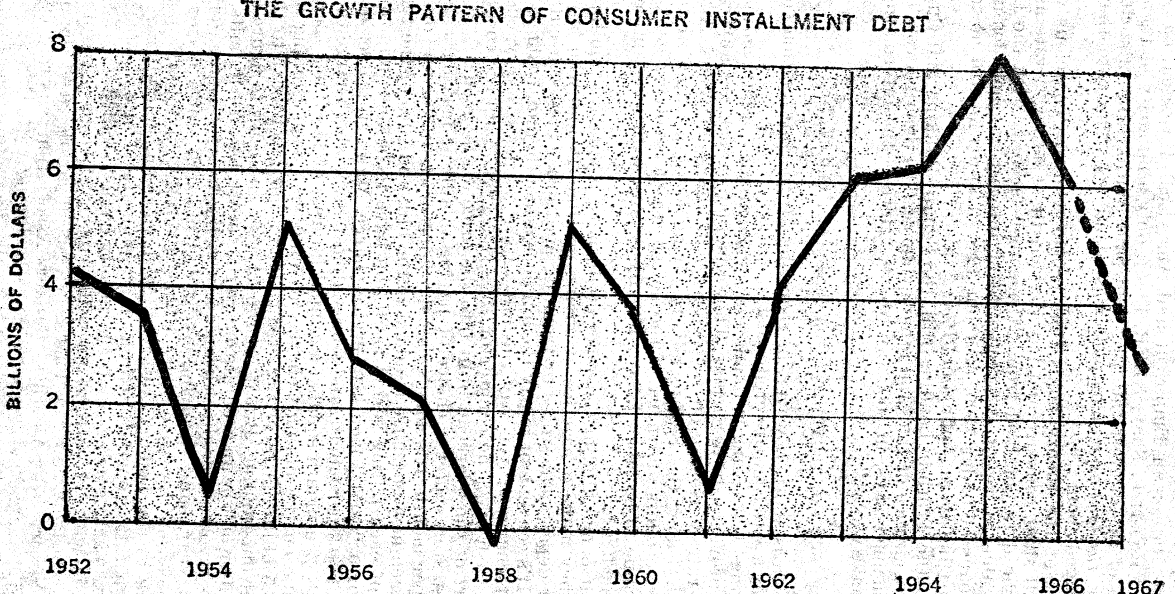
It's the turbulent fluctuations in credit expansions that cause official concern. Like Robert Louis Stevenson's little shadow, the rate of increase in consumer credit sometimes shoots up taller like an India-rubber ball, and sometimes get so little that there's none of it at all. The pattern of sharp rises and falls over the

past 15 years is shown in the accompanying graph. It traces three periods of extraordinary credit growth. After the first two peaks, in 1955 and 1959, the rate of borrowing fell to around the break-even point, where, over a year's time, the total of new borrowing very nearly equaled the total of repayments.

Do purchasing intentions normally fluctuate so wildly? Or does some outside force radically change them?

Looking back from the vantage point of the recession year 1958, CU saw signs of the lender's hand at work. "Seven million high-priced autos were moved out of dealers' inventories (in 1955) in one of the biggest sales blitzes of all time," we noted, "and some 60% or better of those cars were sold on the cuff. Moreover, one of the tools of the blitz was an extension of installment contracts to 36 months. Other sellers, competing with autos for their share of the consumer dollars, also offered terms of nothing down and 36 months to pay for rugs, furniture, etc."

The chief symptom of recession is a slackening of economic growth. Thus, in 1958 there was no increase in the Gross National Product. Credit expansion hit another new high in 1959, followed by almost no credit expansion in 1961. Again, the trough on the graph was accompanied by a sharp tapering off of economic growth. To put it mildly, more orderly use of credit might have a less unsettling effect on the general economy.



Wild waves of growth on the rising sea of installment debt have been economic storm signals. The graph line traces only the growth; the debt itself quadrupled from $18.7 billion in 1952 to $74.6 billion in 1966

The Truth-in-Lending Bills make no bones about it. Their first-mentioned purpose is "economic stabilization." Underlying full disclosure of credit costs is a two-part theory to which CU has long subscribed. First, disclosure of true annual interest rates will make people more sensitive to the high price they pay for most installment loans. When 800 CU members reported a few years ago to the National Bureau of Economic Research on recent credit deals ("Consumer Sensitivity to Finance Rates: an Empirical and Analytical Investigation" by F. Thomas Juster and Robert P. Shay, NBER, 1964), only a minority of them said they had any idea of the interest rate they had paid. Within that minority, the average rate they *thought* they had paid was about 8%. The rate they had actually paid averaged about 23%.

The second part of the theory holds that people who are conscious of the price of credit will shop, compare and buy that credit at as low a rate as they can find. Again, the data obtained from CU members accords with the theory. Those who were able to report the true rate of interest on their loans paid an average, for loans of under $500, of about 12%. Those who had no idea of the rate paid a startling average of about 37%.

In its report on the Truth-in-Lending Bill, the Senate Banking and Currency Committee took cognizance of that and other evidence. The Senate's vote of confidence in the consumer says, in so many words, "Here is the information you need. Now don't make waves."

SPECIAL TREATMENT FOR REVOLVING CREDIT

The Senate bill falls short, however, of requiring all the information consumers will need if they are to compare credit costs.

At Senate hearings last spring, a number of opponents of the bill concentrated their fire on one provision in particular. They sought to knock out any requirement for annual rate disclosure on revolving credit charge accounts. And they largely succeeded. Under the Senate bill, revolving credit as applied to most department store accounts and most of the new wave of revolving bank credit cards would continue to be labeled, as it usually is now, with a deceptively low monthly percentage figure.

Revolving credit is one kind of consumer credit most people are familiar with, whether or not they make a practice of buying on time. People who buy at all regularly in most department stores or from big mail order houses usually open charge accounts. It's convenient to pay the bill once a month, and, besides, there's usually no credit charge if you pay the bill within 30 days. Every customer, whether he pays cash over the counter or says charge it, foots the costs of 30-day credit as part of the overhead built into the price of the goods.

Of course, most stores offer a choice of paying in full or making a payment of, usually 10% per month. It's what's called a "line of credit" or an "open-end" credit account. Each new purchase is added to the bill, and 10% of the total balance at the end of each billing period is all you have to pay ad infinitum—all, that is, except for a "small" monthly service charge. Many states set a service charge ceiling of 1½% per month, and stores almost invariably charge the maximum. A rate of 1½% a month equals an annual interest of 1½ times 12, or 18%.

The balance due on the nation's charge accounts has been running at $10.5 billion. About $3.5 billion is revolving credit. That's not much next to the total installment credit outstanding. But it is probably not an accurate figure at present, and it certainly won't be an accurate one in the future, because it omits, among other things, the revolving credit schemes now being heavily merchandised by banks. Until last year, bank revolving credit was probably not a major factor, although it has been on the scene at least since 1950. But in only the past year or two, according to the Federal Reserve Board, the number of banks issuing credit cards or operating open-end check credit plans reached 627, plus several hundred local banks acting as agents for large city banks' credit plans.

"The enthusiasm with which the supposedly conservative banking profession has greeted this relatively new consumer service is unparalleled in the pages of modern banking history," the American Bankers Association was told by a Chicago banker. And he explained why: "We are beginning with this first step to recapture a larger share of the credit business which heretofore conceivably could have fallen into nonbanking hands by default."

The bank credit card, unlike the department store card, can be used to charge purchases at many different stores—as many as can be recruited by the spon-

soring bank. It is the poor man's version of the American Express or Diners' Club card. As The Wall Street Journal has reported, "Bank cards are issued largely to lower-income consumers * * *."

A number of Midwest banks, operating jointly, "mailed mounds of credit cards unsolicited to each other's customers and former customers, some 4 million families in all," the Journal said. C. A. Agemian, executive vice president of the Chase Manhattan Bank, told why in a recent speech:

"If you want to get cardholders, your card has to have value. The cardholder needs stores to use it at. If you want to attract merchants, you have to be able to show or promise them a healthy looking number of cardholding shoppers. What comes first, the chicken or the egg? To choke off competition, you must flood the market with cards. Everybody gets cards from every bank he does or does not do business with. People who may have a capacity to repay $500 may have received cards from various banks that could permit them to charge up to $3000 or $4000!"

Where the final Truth-in-Lending law to exempt bank, department store and mail-order charge accounts from annual rate disclosure, it would quite obviously withhold from the consumer an important tool he needs to shop wisely for credit. Yet the Senate bill exempts those accounts, in most instances.

If the exemption is allowed to stand, only the monthly rate will be disclosed on most revolving credit deals. To compare the price of revolving credit with that of other forms of credit you would have to convert the monthly rate to an annual rate by multiplying it by 12. Many people don't know that, however, and they might assume that a 1½% service charge is lower than, say the 12% annual rate generally charged by credit unions. There is thus some likelihood that the exemption would help accelerate the growth of revolving credit.

To escape annual rate disclosure for revolving credit, merchants and bankers used a shrewd argument on the Senate subcommittee considering Truth-in-Lending and you will doubtless hear it repeated. A charge account customer, they said, often gets the use of their money at 1½% for more than one month. Someone who buys something shortly after his monthly bill has been made out, for instance, would have as long as 59 days of free time before incurring a service charge, because he would not receive his next bill, with the new item posted on it, for up to 29 days and would have 30 additional days after that to pay it. Therefore, the argument goes a 1½% service charge does not accurately translate as 18% per annum and is usually lower.

The argument has a cute premise: Up to 59 days of credit time are available interest-free, but only on condition that the bill is paid in full on the 59th day. If you don't pay in full, time runs backward to the date of purchase.

Well, maybe an accountant can really make the calendar run in reverse. But one name for that sort of magic is account juggling.

The only reason for mentioning it here is that there are many different sets of rules for juggling revolving credit. Different stores use different rules, and they are not just playing games. A revolving charge account can cost considerably more at one store or bank than another, though both seem to be charging 18% annual interest.

Professor Richard L. D. Morse of Kansas State University has illustrated the situation dramatically in a recent pamphlet (see appendix A). He demonstrates six different revolving credit billing systems, all of them examples of systems in use, and he showed how service charges can run more than twice as high in some stores as in others.

The drafters of the Senate Truth-in-Lending Bill recognized this obstacle to credit price comparisons. Their solution is to require each revolving credit contract and monthly statement to explain its billing system. The Federal Reserve Board, which will have to write the necessary regulations, has its work cut out. Here are excerpts from the contract applications of three mail-order houses explaining their billing systems:

Sears, Roebuck and Co.: "an amount of time price differential computed at 1½% of the balance at the beginning of each monthly billing period until the full amount of all purchases and time price differentials thereon are paid in full."

Montgomery Ward: "a time price differential or service charge of 1½% per month on the opening monthly balance of my account on amounts up to $500 and 1% per month on amounts in excess of $500."

J. C. Penny Co.: "a time price differential ('service charge') computed by applying the rate of 1½% to the unpaid balance of the cash sale price and any unpaid service charge on each of my monthly billing dates (pursuant to

your then current billing schedule) commencing with the second monthly billing date following the date of purchase * * *."

Professor Morse, being an expert on such things, was able to show that a certain six-month series of transactions costing $2.28 in service charges at Penneys could cost $2.74 at Sears or Wards and upwards of $5 at some other stores. Most people wouldn't get the message right away. A number of them, including a professor of economics and a professor of philosophy, have written to CU within the past year or so. One person wrote: "I hate to admit after many years of using my Sears account that I was never aware of paying such a high rate of interest."

One of the main areas of confusion plaguing consumers has to do with the amount of his balance due to which the revolving credit service charge rate is being applied. The following letter from a Consumer Reports reader eloquently expresses the confusion, which in this instance led to an unfair but nonetheless understandable presumption of unethical treatment:

"I have recently been the victim of unethical practices and I think your other readers might appreciate a warning in your magazine.

"As you know, Sears, Roebuck and Company charges an announced rate of 1½% interest a month on the unpaid balance. I discovered recently that the credit department in our local store was only applying a portion of the money I paid them and giving me credit for the balance. For example (and this is exactly what they did to me), I had an unpaid balance of $80.00 and made a payment of $50.00. This left me a balance of $30.00—the interest on which should have been 45¢. When I got my monthly statement, however, I found my service charge was 3 times as much as it should have been.

"When I complained to the credit manager, he first lied to me and then explained that he had done me the service of crediting my account with only $10.00 of the amount I had paid. The balance was applied as credit that I could use later. This unethical practice meant in my case that they were, in effect, charging me an interest rate of over 5% a month or 60% a year.

"I have noticed that other chain stores (like W. T. Grant) will do this if they can get away with it. I certainly hope you will find some way of drawing this dishonest policy to the attention of your readers."

R. N.,
Bowling Green, Ky.

A number of similar letters are appended to this testimony. They keep coming in quite regularly, and in our opinion they should be a cause for concern both to the retail community and to this subcommittee.

The point, of course, is that hardly anyone can fathom the billing methods of revolving charge accounts. Help is needed, and the need will become more and more pressing as banks and stores, spurred on by the availability of computerized billing systems, contend for revolving credit business. H.R. 11601 would put revolving credit back under full-disclosure provisions. With slight amending, it could assign the Federal Reserve Board to tackle the billing problem.

We recognize that it would be no simple problem in rules making. But it must be solved. J. C. Penney, now claims, in a suit aimed against the Massachusetts rate disclosure law, that "Despite the difference in actual finance charge rates charged by the Plaintiff [Penneys] and certain of its major competitors, all are required to state the identical 'simple interest per annum rate.' The Plaintiff thereby suffers substantial injury to its business by reason of the misleading and distorted rate which results from the use of the statutory formula, the statement of which misleads Plaintiff's customers and prevents them from being informed as to the substantial savings to be gained by Plaintiff's regular charge account plan."

It would seem to be in Penney's best interest as well as its customers' to have some simple yardstick for pricing the revolving credit at competing stores and banks. Consumers Union is convinced that a satisfactory way can be found to solve the problem. Several come to mind: a single standardized billing system for all revolving credit accounts would be one approach, though certainly not the most desirable from the standpoint of innovation. Another approach might be a thorough statistical analysis of the various billing methods, with an eye to establishing their relative cost to the borrower. Perhaps the most logical avenue of attack, however, would be to view the matter the same way any well-managed retail business must already be viewing it—in terms of its yield. Testi-

mony by retail executives at the Senate hearings leaves no doubt that they know approximately how much of their charge account volume consists of purchases on revolving credit. To that volume they can apply an annual rate to project their gross service charge revenues. If, as appears to be the case, the actual cost of revolving credit varies significantly from store to store, then there must be different rates of yield. Each store presumably has a fair idea of its own yield, and probably shares with others in the trade a good understanding of how various billing methods would affect that yield.

May I quote an excerpt from the "Financial Rate Translater and Guide to Legal Installment Sales Rates," published by the Financial Publishing Company of Boston for their use by the credit industry:

"Traditionally the return on money invested is stated as annual interest rate on the funds actually in use. For monthly payment loans the interest rate per month is 1/12 of the annual interest rate. In these tables we shall call this *annual* interest rate the actuarial rate * * *. The *actuarial* rate expresses the true return on investment * * *."

Gentlemen, we submit that the consumer shopping for revolving credit, or any kind of credit, should be allowed to share the knowledge belonging to those doing the lending. As so often is true, the consumer is the only participant in the transaction who is deprived of full information. He very badly needs that information. One unwise deal, after all, means little to a business conducting transactions by the thousands. But one unwise credit deal can be ruinous to the individual across the counter.

Plainly, if the present Congress does not set the Federal Reserve Board to work on the problem of differentiating amount actual revolving credit rates, you will be leaving unfinished business for some future Congress—business that needs attending to right away.

CLOSING OTHER LOOPHOLES

Consumers Union is especially pleased to see that H.R. 11601 closes other loopholes left in the Senate bill as it treats rate disclosure. We will mention here a few of the failings of S. 5.

First mortgages on houses are exempt from disclosure regulations. It is true that mortgage interest is already stated as a true annual rate. But certain fees are usually left out of the rate picture—such as mortgage placement and appraisal fees, credit report fees and points, or discounts, paid by the purchaser. According to recent figures from the Federal Home Loan Bank Board, just the placement fees and points on conventional new-home mortgages are now averaging almost 1% of the amount of the loan. In effect, the interest rate is higher than it looks. It should be fully disclosed. H.R. 11601 only partly remedies the situation. In our opinion, it should count appraisal fees and credit reports as part of the finance charge on a mortgage.

Premiums for credit life insurance would not be considered as finance charges or included in the annual interest rate. Yet many lenders and credit merchants require you to buy insurance for their protection. Unless the option to buy is the borrower's, credit life insurance premiums should be counted as part of the interest rate. H.R. 11601 does the job.

Insurance commissions earned by used car dealers when they sell an accident policy as part of the credit package on a car sale would not be counted in the interest rate. Some dealers have close ties with insurance agencies and pad the price of car financing with overpriced premiums. If accident insurance is part of a car deal, the dealer's take should be included in the interest rate. H.R. 11601 does not include it.

There is no regulation of credit advertising. Familiar and phony slogans like "low bank rates" and "no money down—easy monthly payments" would continue to gull the unwary. Massachusetts law requires credit merchants to post the true annual interest rate in any advertisement making reference to credit terms. Federal law should follow suit. H.R. 11601 does the job quite admirably.

If the finance charge is $10 or less, the lender doesn't have to disclose his annual interest rate. Example: A vacuum cleaner salesman knocks on the door with an offer of an $80 machine for $10 down and 12 monthly payments of $6.65. The payments total $89.80. The finance charge is $9.80 for $70 for one-year installment credit. The well-concealed true annual interest is 25%. Truth-in-Lending should apply to small deals as well as big ones. H.R. 11601 does the job.

The Senate bill would not go into effect until July 1, 1969. There is no reason, according to testimony at the Senate hearings, why the effective date could not be set much sooner after enactment. H.R. 11601's effective date of July 1, 1968 seems quite reasonable for most provisions of the bill.

Credit sellers could judge their rate disclosure by stating it as dollars per hundred rather than as a percentage until January 1, 1972. H.R. 11601 dispenses with such nonsense as this.

Confidence in the consumer will be rewarded best if he is given a good yardstick, if *all* credit sellers must adhere to its standard of measurement, and if the standard is invoked as soon as possible. This requires a Federal Truth-in-Lending Bill without holes.

APPENDIX A

REVOLVING CREDIT BILLING SYSTEMS

Service charges on revolving credit accounts vary widely from store to store and from bank to bank, even though the stated interest rate is usually the same. The explanation for this apparent contradiction is fairly simple. The service charge is the product of the balance due times the monthly interest rate. But different department stores, mail-order houses and credit-card banks have different methods of determining the part of your monthly balance against which a service charge is assessed.

A recent survey conducted by Richard L. D. Morse, professor of family economics at Kansas State University* makes two things quite clear. First, it is next to impossible to tell which revolving credit account offers the best deal. "Methods of figuring service charges were too complex not only for the local management to understand and relay to customers who wanted to know how it would work in practice, but for national [store chain] offices to interpret in terms of an annual percentage rate of service charge," Professor Morse wrote.

Second, store-to-store differences in credit costs can be quite significant. The Morse survey isolated six billing methods, each arriving at a different total of service charges for a given series of hypothetical transactions. The customer began with a clean slate—no balance due—on the first of the year. He then did business with the store as follows:

	Purchases	Returns	Payments
January	$30	$10	
February	120	30	$20
March	90	40	80
April	10		10
May	10		10
June	10		10

Here, from lowest to highest, is the total of service charges, at 1½% per month, depending on which of the six billing methods is applied:

Method: Option to pay in full within 30 days of the billing date without incurring any service charge. Interest rate is applied to the previous month's closing balance, less any payment and returns. Total service charge—$2.28.

Method: Same as preceding except returns are not credited before the interest rate is applied. Total service charge—$2.43.

Method: Same as preceding except neither returns nor a payment is credited before interest rate is applied, unless the total of returns and payment equals or is higher than the previous month's closing balance. Total service charge—$2.74.

Method: Same as preceding except returns are never credited to the previous month's closing balance. Total service charge—$4.16.

Method: No 30-day option to pay in full without incurring a service charge. Interest rate is applied to the previous month's closing balance. Total service charge—$4.47.

Method: Same as preceding except interest rate is applied to the balance at the end of the current month. Total service charge—$5.44.

*"Truth in Lending," The Council on Consumer Information, 15 Gwynn Hall, University of Missouri, Columbia, Mo. 65201.

Although typical, the six billing methods by no means exhaust the possibilities. And all variations, with the possible exception of return credits, are open to bank revolving credit plans. Obviously, you can't make the most economic use of a charge acount unless you understand its billing system thoroughly. But, as Professor Morse found, the essential facts cannot readily be obtained.

APPENDIX B

The following is a selection of letters written to Consumers Union by readers in 1966 and 1967, all complaining about revolving credit billing methods.

* * *

Reading your magazine has made us increasingly aware of deceptive practices such as the one mentioned in the following letter.

MACY'S,
Customer Relations,
Herald Square, New York, N. Y.

Dear Sir: Your letter of 1/21/67 confirmed the fact that your service charge of 1½% per month is applied to items at their initial billing. This in fact means that, on the initial billing, customers having a C–T type account are actually paying up to 45% per month service charge depending on the date they charge items in relation to your billing date.

I can only assume that some loophole in New York law permits this seemingly usurious practice as this is not true of *any* of the several extended payment plan accounts which I hold in New Jersey, e.g. Sears, Bambergers, Chase. *All* the other accounts charge a 1½% per month service charge on the unpaid balance from the previous billing.

Accordingly, I am herewith returning my Macy's charge plate together with a check for $57.87 to cover the balance due on my account. Please close my account immediately. I realize that this misunderstanding is most likely my own fault as I should have read the *fine print* more carefully. However, I wonder how many of your C–T account customers realize the true amount of service charge they are paying. Let the buyer beware!

P.G.,
Summit, N. J.

* * *

In your May [1967] issue a reader brought to your attention confusing statements issued by Sears Roebuck & Co. in regards to interest charges.

I was recently surprised to learn that the Sears method of charging interest on 30-day or revolving accounts is not what it appears to be. Most customers and most Sears employees, including those in the credit department, assume that the method used by Sears is the same as that used by other department stores and by oil company credit card systems. This is not true. Sears does not charge 1½% per month on the unpaid balance. It charges interest on the total amount of the previous billing, regardless of the size of payment made, exclusive of a full payment.

As an example: a purchase of $100 is made and a billing is sent to the customer. The customer then pays $50. The next billing shows a $50 balance due plus $1.50 (1½%×$100) service charge, not $0.75 (1½×$50) as one would expect. Thus, it is theoretically possible for a customer to pay the full $100 and then receive a billing with a balance of $0.00 but an interest charge of $1.50. Fortunately, Sears does not go that far in this unscrupulous practice.

I hate to admit that after many years of using my Sears account I was never aware that I was paying such a high rate of interest. How many of your readers are aware of this?

W. L.,
Norwalk, Calif.

* * *

To add more fuel to your truth in lending campaign, it may be of interest to your readers that even such an otherwise reputable store as Sears may charge interest rates as high as *72 per cent* per annum. Sears basic rate of interest on a revolving charge is 18 per cent per annum (1½ per cent per month) but it is based on the end of month balance. If a customer bought a $200 item on January 23 and was billed for this on January 30, and he paid $100 on the same day, he would pay 1½ per cent on $200 or $3, the equivalent of 72 per cent simple interest per annum.

If this is what reputable stores are charging, what are the less reputable doing?

R. T.,
Pittsburgh, Pa.

* * *

Enclosed is a copy of my letter to Klein's Department Store requesting that they close my account and stating the reason therefore. I am confident that Klein's will not give me much trouble over this, but it occurred to me that thousands of customers accept these charges without realizing the true interest, especially if the "minimum" service charge is applied where the time payment plan is actually being used.

[The enclosed letter follows]

PRESIDENT,
S. Klein on the Square,
Stamford, Conn.

SIR: The enclosed statement reflects a balance which is comprised entirely of service charges. Since I pay my entire purchase invoices due on the 15th day of every month, I do not pay or honor service charges. Unfortunately, I am quite busy and I must select one monthly remitting date for all accounts (this is the 15th.). If your organization finds it convenient to choose the 15th, or 17th, as a billing date that is your concern. However, I will not honor erroneous service charges arising from this practice.

The enclosed statement contains a service charge of $0.50 on a balance of $4.25, all of which consists of previous erroneous service charges. This comes to interest *annual* of *141.7* charged on prior interest. This usurious practice of Klein's is by far the worst I have encountered in all my experience with department stores, discount stores, credit cards, etc. You are competing successfully with the loan sharks if this type of item is generally collectable in your experience.

I am destroying my charge card. Please close my account and I refuse to be responsible for any charges after the above date.

[End of enclosed letter]

Another practice that I have noticed, is that some stores will compute the service charge on the entire balance carried forward from the previous month, even though they may have entered a credit for a substantial payment. Thus charges are made on the amount remitted which obviously should not be included in the time balance.

S. W.,
Philadelphia, Pa.

* * *

I had a revealing experience with the Sears Roebuck credit system recently. It involved the purchase of two chairs on January 12th, and the monthly statement on the 18th that listed them accurately at $175. We were temporarily short, so I figured that a check for $100 would leave only $75 which at 1½% for a month would cost me about $1.13. So on February 2nd we mailed a check for $100. Imagine our surprise when the statement arrived on February 18th. It showed a balance owned of $75 which was correct, and a service charge for $2.63!

Inquiries at the local store established that the charge was figured on the previous month's balance, that is 1½% on $175. I protested that the initial $100 had been paid well within the 30-day limit for cash-charge conditions but the only response was that the system was set up on the previous month's balance. I finally reached one official who read a regulation to the affect that since this was my first experience with their system, they would refund the fee charged on the $100 that I had paid, but they could not be this generous the next time.

After reaching the hierarchy in the Chicago office, I established that my first payment was unusually large and thus the system slipped and charged me what seemed too much. They would be glad to adjust this, and if ever this occurred again, just call. I was left with the impression that if we had paid just $20, they would have assessed me for 1½% of $175 and I would not have noticed the difference, in the February billing.

Upon reading the fine print in the catalog, it is clear that Sears does indeed charge 1½% on the previous month's billing without adjusting for what was paid by the customer on that statement. The balance, however, on the next statement reflects what is truly owed—not the basis for calculating the service charge. It appears that Sears actually does much better than 1½% on service charges. Had we not complained, we would have paid 3½% for $75 for a month.

By contrast Penney's catalog says 1½% of the unpaid balance. Is Sears openly conducting a deception about their true service charge percentage, or is this just called sharp business? After doing our buying there for 30 years, we are not so sure about our Sears charge card. Have you any comments on this unusual way to do business?

R. L.,
Mount Prospect, Ill.

* * *

Although aware of the exhorbitant interest rates charged by department stores, I purchased a new house and needed about $1,500 worth of odds and ends to make it livable. I compared the interest rates of several companies and noted the following in a Ward's catalog: "I will pay . . . charge of 1½% per month on the opening monthly balance of my account on amounts up to $500 and ¾% per month on amounts in excess of $500." This made sense—much like the all-electric home does—the rates decrease as increased use is made of the service. I assumed that the cost of carrying an account was absorbed in the higher rate for the first $500 and then reasonably expected the lower interest as an expression of their lower costs. Thus, I placed all $1500 in purchases with Ward's rather than seeking to divide the purchases among several stores.

When the bill came I found that I was charged interest at the full 1½%. Upon inquiry, I was told that the figures in the catalog pertain only to people who live in Missouri. I insisted that their catalogs (which arrived via mails unsolicited at my home) induced me to make the indicated purchases. Their reply was that when I first made a catalog order I was handed a small card to sign which had different interest figures on it—namely that I would pay 1½% of the unpaid balance regardless of how high it went.

Letters to Ward's are rewarded by condescending letters which refuse to even consider the possibility of misleading. In recent months I purchased another $2500 worth of merchandise, nothing to be sure from Ward's.

Having long been a reader of Consumer Reports I should not have permitted myself to be trapped into these high interests. But, I had assumed my investigation of the rates as printed on the back of the contracts attached to the catalog was adequate. Apparently not.

G. M.,
Edmond, Okla.

* * *

I would like to call your attention to what appears to be usury practiced by Montgomery Ward in their billing system. This company adds interest at the rate of 1½% per month to the unpaid balance existing at the beginning of a billing period without deducting payments made during the billing period. In effect they are charging interest on money which has already been paid on the account during the billing period and prior to the billing date. Why don't they calculate interest on the balance remaining on the account at the end of the billing date?

As an example, the following is my bill dated 5–25–67.

Last month's balance	$157.82
Service charge added	2.37
Payments & credits	118.82
New balance	41.37

The $118.82 was paid on the account during the billing period yet interest is still charged to it. The actual interest rate charged on this bill is almost 6% per month calculated on the balance remaining at the end of the month.

I have already written Montgomery Ward regarding this practice but, as expected, I have received no reply. I am sure Montgomery Ward would be among

the first to state that government controls are not needed in this area, but I would advise them to institute fair practices prior to such a statement.

R. M.,
Ann Arbor, Mich.

* * *

Have any of the readers experienced Sears Roebuck's latest trick to increase their carrying charge?—Simple—just don't bother to post credits to your account until after the billing date. In this way they can collect your money and charge you interest on it also. It must be very prevalent as I caught it 3 times in 1 year on my account. Needless to say it's now closed.

W. S.,
Glenview, Ill.

* * *

Why don't you mention the deceptive billing practices currently used by such large companies as Sears. Not only can't you read their statements (unless you look VERY closely) but they add their "carrying charges" whether or not the bill is paid in 30 days!

I have already returned one credit card from a local chain (Valu-Mart) because they added carrying charges upon carrying charges, and I no longer shop at their local outlet.

Currently (due to a change in billing practice from local to Los Angeles) I am fighting the same battles with Sears. At present I "owe" them $1.28 in carrying charges over the past two months although I paid the bills within 10 days of receiving them. Although I have written two letters, with a third to go out with this mail. I have yet to see the courtesy of an answer. I may miss the convenience of shopping by phone, but Sears will probably get their credit card back too! The convenience is the only reason why I have a card anyway.

Incidentally, I do not have a Montgomery Ward credit card. Their latest practice is to add carrying charges immediately. There is another local outfit that charges *you* for the dubious "pleasure," before you even buy, of having their credit card!

Maybe I'm naive, but have 30 day charge accounts gone out of style? I may become a cash customer completely, and forget about writing checks. I just don't like being taken.

M. C.,
Federal Way, Wash.

CONSUMERS UNION EXHIBIT—SEARS, ROEBUCK OR MONTGOMERY WARD REVOLVING CHARGE ACCOUNT—SERVICE CHARGES AND INTEREST RATES ON A $100 PURCHASE—MINIMUM MONTHLY PAYMENT AS INDICATED ON THE BILL, SERVICE CHARGE OF 1½ PERCENT

	Opening balance	Payment	Balance due	Service charge	Ratio of service charge to balance due	Monthly interest rate (percent)	Annual interest rate (percent)
1st month	$100.00	$10.00	$90.00	$1.50	$1.50/$90.00	1.67	20.0
2d month	91.50	10.00	81.50	1.37	1.37/ 81.50	1.68	20.0
3d month	82.87	10.00	72.87	1.24	1.24/ 72.87	1.70	20.0
4th month	74.11	10.00	64.11	1.11	1.11/ 64.11	1.73	21.0
5th month	65.22	10.00	55.22	.97	.97/ 55.22	1.76	21.0
6th month	56.19	10.00	46.19	.84	.84/ 46.19	1.82	22.0
7th month	47.03	10.00	37.03	.71	.71/ 37.03	1.92	23.0
8th month	37.74	10.00	27.74	.57	.57/ 27.74	2.05	25.0
9th month	28.31	10.00	18.31	.42	.42/ 18.31	2.29	27.0
10th month	18.73	10.00	8.73	.28	.28/ 8.73	3.21	39.0
11th month	9.01	9.01	-------	-------	----------	-------	-------
Total	-------	-------	-------	9.01	----------	-------	-------
Average	-------	-------	-------	-------	----------	-------	23.8
This type of billing method applies service charge rate to the opening balance—There is no service charge if payments and returns equal the opening balance, but if the customer makes a larger part payment than required, interest rate is higher than above, for example	100.00	50.00	50.00	1.50	1.50/ 50.00	3.00	36.0

CONSUMERS UNION EXHIBIT.—J. C. PENNEY REVOLVING CHARGE ACCOUNT—SERVICE CHARGES AND INTEREST RATES ON A $100 PURCHASE SERVICE CHARGE OF 1½ PERCENT

	Opening balance	Payment	Balance due	Service charge	Ratio of service charge to balance due	Monthly interest rate (percent)	Annual interest rate (percent)
1st month	$100.00	$10.00	$90.00	$1.35	$1.35/$90.00	1.50	18
2d month	91.35	10.00	81.35	1.22	1.22/ 81.35	1.50	18
3d month	82.57	10.00	72.57	1.09	1.09/ 72.57	1.50	18
4th month	73.66	10.00	63.66	.95	.95/ 63.66	1.50	18
5th month	64.61	10.00	54.61	.82	.82/ 54.61	1.50	18
6th month	55.43	10.00	45.43	.68	.68/ 45.43	1.50	18
7th month	46.11	10.00	36.11	.54	.54/ 36.11	1.50	18
8th month	36.65	10.00	26.65	.40	.40/ 26.65	1.50	18
9th month	27.05	10.00	17.05	.26	.26/ 17.05	1.50	18
10th month	17.31	10.00	7.31	.11	.11/ 7.31	1.50	18
11th month	7.42	7.42					
Total				7.42			
Average							18
This type of billing method applies service charge rate to the balance due. There is no service charge if payments and returns equal the opening balance. The interest rate is the same regardless of the size of any part payment. For example	100.00	50.00	50.00	.75	.75/50.00	1.50	1

Mrs. SULLIVAN. Thank you, Mr. Klein.

Mr. Willett, please make your statement next, and then Mr. Meade, followed by Mr. Smith. Then we will question all of you.

STATEMENT OF DR. EDWARD R. WILLETT, CHAIRMAN, CONSUMERS' COUNCIL OF THE COMMONWEALTH OF MASSACHUSETTS

Mr. WILLETT. Thank you.

My name is Edward R. Willett. The purpose of my appearance here today is to give testimony on the truth-in-lending laws of the Commonwealth of Massachusetts. I have the honor of being the chairman of the Consumer's Council which is a statutory body in the executive government of the Commonwealth of Massachusetts, I am also chairman of the Department of Finance and Insurance at Northeastern University, Boston, Mass. Finance has, for the past 20 years, been my area of specialization in the field of economics with special interest in investment and personal finance.

The Massachusetts Consumers' Council, the first statutory body of its type in the country, functions as the advocate of the citizens of the Commonwealth on all matters pertaining to consumer interest. In essence the council acts as an ombudsman in the area of consumer protection. It is this council, in cooperation with the legislative leaders of the Massachusetts General Court, which led the fight for the successful enactment of the first truth-in-lending statute in the country.

Mr. Dermot P. Shea, the executive secretary of the council, who is here with me today acted as the council's legislative agent during the 2-year fight for the enactment of this legislation. Actually the truth-in-lending legislation is covered by two chapters, "An Act Regulating Certain Retail Installment Sales and Services" (acts, 1966—ch. 284) and "An Act Requiring the Disclosure of Finance Charges

in Connection With Extensions of Credit" (acts, 1966—ch. 587). This legislation covers, in addition to other consumer protection features, the entire spectrum of consumer finance including revolving credit and credit cards. While the legislative battle was pending the opponents of truth in lending stated among other things it was "unworkable" * * * "unconstitutional" * * * "discriminatory" * * * "will require an army of mathematicians" * * * "bookkeepers" * * * "damaging to business" * * * "simple annual interest just won't work in a store" * * * "impossible to compute percentage interest" * * * "cause a drop in sales" * * * "impossible and absurd to figure carrying cost" * * * "too great burden on the banking industry and not necessary," and so forth. I am certain this committee has heard all this and much more.

In Massachusetts everyone of the dire prophesies made have not come true. You have received the statement from the Banking Department of the Commonwealth of Massachusetts. You will also hear today further testimony supporting this view.

As an economist, I am not aware of any indication that the Massachusetts truth-in-lending laws have had any negative effect on the economy of our Commonwealth. Indeed there is valid reason to believe that the effect has been beneficial and that the benefits will increase over the years. Furthermore, as one who has devoted many years to the study of finance and firmly believes in our form of free enterprise system, I believe that the general effect on financial firms and the general economy has been and will be beneficial.

It seems to me that every move to strengthen our system by protecting the legitimate entrepreneur from the questionable practices of the unscrupulous, must benefit the business system of our country. Every move to more fully inform the consumer and enforce fair treatment should serve to increase public faith in our system and increase its strength.

I am pleased that truth-in-lending legislation has been passed by the U.S. Senate. It seems unfortunate, however, that certain exemptions were made in the Senate bill, S. 5, especially the exemption of revolving credit plans. That distinguished American, Senator Paul H. Douglas, the father of the truth-in-lending principle, emphasized this in his recent testimony before this committee when he said that the consumer should be told that revolving accounts, offered at the prevailing rate of 1½ percent a month, actually comes to 18 percent a year. With this knowledge, he said the buyer might prefer to borrow money elsewhere at a lower rate to pay off his account. This type of account has become extremely popular in this country and its omission would leave a wide gap in consumer protection legislation. We in Massachusetts have followed Senator Douglas' advice on this matter and would respectfully suggest that the Congress might also heed his recommendation. Certainly Massachusetts has made him a prophet with honor.

Truth-in-lending legislation is especially significant at this time. It is unfortunate that the greatest financial abuses appear to occur in transactions involving our citizens who are the least educated and

in the lowest income segments of our population. An editorial in the Worcester (Mass.) Sunday Telegram of August 6, 1967 stated in part that "The high casualty rate among such 'buy now, pay later' stores was significant in the recent riots." As Mr. Malcolm C. Webber, chairman of the Commonwealth of Massachusetts Commission Against Discrimination states in the accompanying letter attached, "while not condoning, I do not believe it is by accident that nationally and locally during the recent riots, there was much burning and looting of loan companies and stores with reputations for unscrupulous business practices."

In Mr. Webber's letter he goes on to point out that truth-in-lending legislation has served to improve this situation. I concur in this opinion: "The ethical merchant and money lender are no longer forced to consider the institution of questionable practices to compete with those who are less scrupulous. Those who use misleading claims and cruel deceptions as a normal business practice are now in violation of the law and a decline in such practices is apparent" to the State Banking Department, the Consumers' Council and other State agencies such as the office of the attorney general.

Revolving credit and credit cards are covered by our statutes. In connection with revolving credit all that our acts require is that the customer be informed on his bill that the annual rate of interest is being charged. The following is a sample of the wording in boldface type on the back of the bill of one of Boston's largest department stores:

NOTICE TO BUYER

1. You may at any time pay off the full unpaid balance under this agreement.
2. When computed in accordance with the provisions of Chapter 255D of the General Laws, the simple interest per annum rate that approximates most closely the finance charge percentage rate is 18 percent on balances of $500.00 or less, and 12 percent on the excess over $500.00.

This is all the law requires. While the maximum rate must be stated, there is nothing to prevent a store from indicating that the percentage rate will be less depending upon the purchasing and payment cycle established by the customer. We do not require them to give the complete breakdown of such charges, but only the maximum rate. Incidentally, you might be interested in knowing this suggestion for the handling of revolving credit problems came to the Consumer's Council from one of the leading business journals in the country. All of the arguments proposed by the prophets of disaster if such legislation was passed have proven to be false.

Madam Chairman, these consumer protection laws passed in Massachusetts because the public interest was recognized by the leadership of the General Court, speaker of the house, the Honorable John F. X. Davoren, and the president of the senate, the Honorable Maurice A. Donahue, and the chief executive, Gov. John A. Volpe who signed these laws. As chairman of the Massachusetts Consumers' Council I earnestly recommend that the Congress adopt strong truth-in-lending legislation similar to that existing in our Commonwealth.

(The letter referred to follows:)

THE COMMONWEALTH OF MASSACHUSETTS,
COMMISSION AGAINST DISCRIMINATION,
Boston, August 1, 1967.

MR. DERMOT SHEA,
Executive Secretary, Consumers' Council,
100 Cambridge Street, Boston, Mass.

DEAR MR. SHEA: The passage and implementation of the so called, "Truth-in-Lending" legislation in this Commonwealth has been a matter of great importance to this Commission.

Both historically and as a matter of immediate concern the minority groups of this Commonwealth have constituted a large part of the lowest socio-economic status of our society. It is at this level that the greatest financial abuses and profiteering take place, and it is at this level that it can be least afforded. Lack of education and sophistication make a natural prey of many of our poverty citizens, for the unscrupulous and dishonest.

While not condoning, I do not believe it is by accident that nationally and locally, during the recent riots, there was much burning and looting of loan companies and stores with reputations for unscrupulous business practices.

Since passage of this legislation, we are seeing the beginning of a correction of this situation. The ethical money lender is no longer forced to consider the institution of questionable practices to compete with those who are less scrupulous. The latter person who uses misleading claims and cruel deceptions as a normal business practice, now is in violation of the law and a decline in such practices is apparent.

This legislation, I feel, is of the greatest benefit to those who need it most and I congratulate you on its passage and implementation.

Very truly yours,

MALCOLM C. WEBBER, *Chairman.*

Mr. WILLETT. I would at this time like to add an advertisement that we have to our testimony and leave it here. This advertisement appears in subways, streetcars, and has been published by the Provident Institution for Savings and shows a bank can advertise in Massachusetts, and with this as a chart accompanying it indicating what the percentage rates would be if a finance company advertised in the same manner.

Mrs. SULLIVAN. Without objection this advertisement will be made part of your testimony and part of the record.

(The document referred to follows:)

PERSONAL LOANS AVAILABLE

Compare the Monthly Payments—Anywhere

Amount you receive	12 months	18 months	24 months [1]
$350	$30.91	$21.20	$16.33
$500	$44.17	$30.28	$23.33
Annual percentage rate	11.08	11.37	11.52
$1,000	$87.50	$59.72	$45.83
$1,500	$131.25	$89.58	$68.75
$2,000	$175.00	$119.44	$91.67
Annual percentage rate	9.23	9.47	9.60

[1] Longer terms available—Life insurance included at no extra cost.

THE PROVIDENT INSTITUTION FOR SAVINGS IN THE TOWN OF BOSTON

CALL MR. COFFIN AT 423-9600

36 Temple Pl. 30 Winter St. 90 Federal St. Summer-Washington Subway
15 Prudential Center Plaza 25 State St. Charles River Plaza—1967

ANNUAL PERCENTAGE RATES BASED ON SMALL LOANS RATE PERMITTED BY LAW

If a finance company advertised this some chart it would read as follows under our Truth-in-Lending law:

Amount	Annual percentage rate		
	12 months	18 months	24 months
$350	29.90	30.50	31.11
$500	28.73	29.30	29.84
$1,000	26.36	26.84	27.31
$1,500	23.26	23.67	24.02
$2,000	20.68	21.00	21.26

Mr. WILLETT. Thank you.

Mrs. SULLIVAN. I want to say also that Mr. Klein's statement will also appear in the record in full. Mr. Meade?

STATEMENT OF HON. ROBERT L. MEADE, ASSISTANT ATTORNEY GENERAL FOR THE COMMONWEALTH OF MASSACHUSETTS AND CHIEF OF THE CONSUMER PROTECTION DIVISION OF THE DEPARTMENT OF THE ATTORNEY GENERAL

Mr. MEADE. My name is Robert L. Meade. I am an assistant attorney general for the Commonwealth of Massachusetts and chief of the consumer protection division of the department of the attorney general. In this capacity, I am in charge of all matters relating to consumers' problems, and I have responsibilities in regard to our truth-in-lending law and our Truth-in-Installment-Sales Act, which I will call the truth-in-credit laws. In addition, I serve as the attorney general's representative on the Massachusetts Consumers' Council, an agency in the executive branch of our State government. Between both of these positions, since January of this year, I have come to see our truth-in-credit laws at work and I am convinced that they are of considerable benefit to consumers and that they impose no undue hardship on legitimate businessmen.

They have not stifled trade in Massachusetts nor have they brought about any recession; they have not provided unworkable practice nor have they resulted in the curtailment of consumer finance. Indeed, I can think of few laws on the statute books of Massachusetts that have helped to clear up so many areas of consumer discontent, or that have led to better relationships and understanding between business organizations and those who buy their goods or services. One only has to look back to the years immediately preceding the enactment of this law to see the plethora of complaints regarding credit transactions; persons who thought that the cost of credit was much lower than it actually was; persons who discovered that "easy financing" was not so "easy"; persons misled by typical advertisements of rates and credit.

Even quite sophisticated people were unable to determine the true cost of their credit transactions and many were understandably shocked to discover that what they thought to be 6 percent annual interest turned out in fact to be almost double that rate. Surely if disclosure of the true annual rate of interest would deter anyone from

buying, then that person had no business in buying the item in the first place.

The fears expressed in certain circles prior to the passage of the Massachusetts legislation have not been proven justified. One common complaint involved the alleged difficulty of expressing the true annual rate particularly where revolving credit accounts were involved. The usual complaint was that the buyer, and not the seller, controls the dates of purchases and payments and consequently can vary the rate of interest in accordance with his own schedule. Indeed, in many such accounts, if the buyer should pay his bill in full within 30 days of his purchase, then no interest charges at all would accrue. It seems to me that the buyer is interested in knowing what period he may carry indebtedness before incurring any interest charges and also is interested in knowing what the interest will be when it does accrue. Nothing in the Massachusetts laws prevents any seller from disclosing the first of these items to the buyer although only the second is required to be disclosed by our laws. Surely, if one of the purposes of truth-in-credit legislation is to allow buyers to "shop" on credit—the critical time from the buyers' viewpoints is the point at which a credit charge becomes due; that is the point at which his "shopping" becomes relevant, and at that point he should know the seller's true annual rate from then on so that he could, if he chose, compare that rate with some alternate source of credit. In Massachusetts, on a revolving credit account 1½ percent per month or 18 percent per year is the common rate of interest (after interest begins to run) and if a buyer can do better elsewhere (again at the point when interest begins to run) then he ought to at least be given enough information to enable him to make an intelligent choice. Whether the buyer so chooses or not is up to him and indeed further consumer education is obviously necessary to help buyers make a rational choice. But even if consumers currently were not making such a choice, and I believe they frequently are, it would still be no valid argument against passage of truth-in-lending legislation. Once the facts are known, the consumer can be taught how to use those facts.

In Massachusetts, in my experience, retailers have generally been very cooperative with our office in living up to the letter and spirit of the laws. I have heard no comments from retailers nor have I seen any evidence that their volume of business has dropped off. I have spoken to bankers about the effect of the laws on their business and have been told that there has been absolutely no adverse effect on their business.

These laws are working well in Massachusetts. I think that similar legislation will work well on the Federal level. I think that the public interest requires legislation of this nature.

Thank you.

Mrs. SULLIVAN. Thank you, Mr. Meade.

Those members who have gone to vote will soon be back, I am sure. In the meantime, Mr. Smith, would you like to make your statement now?

STATEMENT OF WILLET SMITH, CREDIT MANAGER, LECHMERE SALES CO.

Mr. SMITH. Madam Chairman and members of the subcommittee, you have asked that I appear before you today in connection with H.R. 11601, the Consumer Credit Protection Act, and other related bills.

Gentlemen, I wish to make it clear that my testimony is based solely and completely upon our actual experience under the Massachusetts truth-in-lending statute.

The Massachusetts credit law became effective November 1, 1966. In order to comply with the act the retailer was obliged to change his credit forms and credit applications. Except for the minor cost of changing these forms and applications, there was no extra expense to the retailer as a result of the passing of this law.

Lechmere Sales does about $45 million volume annually of which approximately $22 million of business is done on credit. Of this amount $20 million is done on revolving credit and the balance on conditional sales contracts. We encountered no problems of any consequence either with our record keeping or our customers as a result of this law.

So far as I have been able to determine the law is informative and fair for the consumer, workable and helpful to the businessman. It prevents tricky selling of credit programs which often call for low monthly payments but include a balloon-ending note which is triple or quadruple of any other scheduled payment, thereby hiding the true cost to the consumer.

It is my feeling that anything that is good for the consumer is good for business. I believe that this law is good for the consumer because it corrects abuses in the extension of credit and eliminates gimmicky selling and advertising of credit.

I know of no instance where Lechmere Sales lost a single sale because the law requiring that the customer be informed of the true interest rate or because of the use of the new credit forms or application for credit.

A national truth-in-lending bill will permit companies doing business in different States to operate under reasonably uniform credit disclosure laws rather than under a completely different set of laws in each State of the United States.

I heartily endorse the law as passed in the Commonwealth of Massachusetts based on the experience of my company and myself as credit manager.

Mrs. SULLIVAN. Thank you, Mr. Smith. We are sorry that Mr. Ledbetter, assistant supervisor of the loan agencies in the Massachusetts Department of Banking, could not leave the jurisdiction because of a trial in which he is a witness, but we are glad that Mr. Meade could come.

We have a letter from Professor Willier of Boston College which will go into the record at this point.

(The letter referred to follows:)

BOSTON COLLEGE LAW SCHOOL,
Brighton, Mass., August 5, 1967.

Representative LEONOR K. SULLIVAN,
Subcommittee on Consumer Affairs, Committee on Banking and Currency,
2128 Rayburn House Office Building, Washington, D.C.

DEAR REPRESENTATIVE SULLIVAN: A prior commitment of considerable importance makes it impossible for me to testify before your subcommittee concerning the consumer protection bill during the week of August 14. This is with the deepest regret because I have been fighting for over five years for such legislation and wish to help in any way now that victory is so close. I am certain, however, that my colleagues from Massachusetts will ably relate our experience over the past nine months with our new laws. The sudden death of Deputy Banking Commissioner Clair, who was our most effective advocate, was most untimely.

Let me say here, with all of the urgency which a letter can impart, that the exemption in the Senate bill for revolving accounts renders its rate disclosure feature virtually useless. Revolving accounts in both consumer sales and consumer loans are catching on fast across the country. A safe guess is that about 80% of all consumer credit transactions in Boston are now under some revolving credit plan. The exemption would have three effects:

(1) There will be no rate disclosure in a majority of credit transactions.

(2) Creditors now using instalment credit will shift where possible to the exempt revolving credit.

(3) Shopping by the consumer for the best price for credit, the major purpose of rate disclosure, will be no more possible than it is now; in fact, rates in some but not all transactions will only add to the present confusion perpetrated by creditors.

The last effect, which is the most important to the consumer, will result as well from exempting real estate transactions and transactions which have a small dollar finance charge.

Thus, I strongly urge your committee and the House itself to retain inclusion of these transactions in H.R. 11601. A "truth in lending" law in name only will not serve well either the consumer or the Congress. It would be the grossest kind of hypocrisy.

I have read H.R. 11601 and must commend your draftsmen for a thorough and well-organized product. The delineation into three credit categories (credit sales, non-sale credit and open end credit) is well done. This is our approach in Massachusetts, but with somewhat less clarity.

In addition to rate disclosure, I suspect that the hardest opposition will come to the advertising, the 18% ceiling and the anti-garnishment provisions. If necessary for Committee and House endorsement, I would suggest compromise of these provisions, but not their omission. For example, by statute and regulation we require annual percentage rate disclosure in advertisements which set out precise terms, but do not otherwise prescribe content; garnishment below a certain sum—say, $100 per week—may be prohibited with power in the Board to escalate that amount according to the cost of living index. If, after your hearings, such changes become necessary or desirable, I shall be most happy to assist in working them out or drafting them. This was my major function in connection with the Massachusetts statutes.

My congratulations on your courageous support of consumer protection legislation. I am personally aware of the nature and tactics of the opponents which require the strongest conviction to resist.

Yours sincerely,

WILLIAM F. WILLIER, *Professor of Law.*

Mrs. SULLIVAN. All three of you gentlemen have performed a fine public service in coming down here to tell us of your experience under the kind of effective truth-in-lending law which is part of H.R. 11601. In my opinion, your experience fully establishes that the fears and alarms expressed by some of our witnesses in previous sessions were based more on a desire to kill effective legislation than to help enact it. That is my opinion and, as I should add, may not necessarily reflect the views of all members of the subcommittee. But you have

operated under just such a law as the disclosure sections of H.R. 11601 and found that it works without any hardship on business except to tell the customer what he has a right to know.

Now, Mr. Smith, as the businessman in this group, as the credit manager on the firing line of truth in lending, will you tell us what the reaction of your customers is when you tell them 1½ percent a month service charge is 18 percent a year, or an installment contract may be 12 percent, or whatever you charge? What is the reaction?

Mr. SMITH. The reaction by the consumer is not of any great importance right now. Because the consumer is asking only one question, how much do I have to pay a month? This seems to be their prime question. However, we believe in full disclosure and when we state that it is 1½ percent a month—equal to 18 percent a year—it seems to be accepted as a way of life and there is no derogatory reaction of any sort whatsoever.

Mrs. SULLIVAN. When this first went into effect was it a shock that it was 18 percent and not 1½ percent?

Mr. SMITH. It took off very slowly—the only people who showed an interest were the professional men—accountants, executives, business people. There was a smile on their faces that they seemed to realize that the moneys had not changed—that they are paying the same amount of money regardless of whether it says 6 or 12 percent simple interest. As a result, there was no shock whatsoever and no sales loss.

Mrs. SULLIVAN. Mr. Smith, do you utilize garnishment in collecting debts from your customers?

Mr. SMITH. We do not.

Mrs. SULLIVAN. Dr. Willett, on Friday, Father McEwen testified before us and noted a very direct relationship between credit abuses and the riots which have occurred in our cities. Your testimony also points to that fact. Would an 18-percent ceiling on finance charges be effective in cleaning up the worst aspects of credit practices?

Mr. WILLETT. I think that it might very well be of considerable help. I am not necessarily agreeing that 18 percent is or is not the best exact number. It seems to me at the present time to be. I think the important point, though, the law does require in Massachusetts that the true interest rate be revealed and that this in itself brings confidence and helps the situation considerably.

Mrs. SULLIVAN. Would either of you gentleman have any idea on a better figure than 18 percent as the ceiling?

Mr. WILLETT. If I may interject, I think that 18 percent is an excellent figure and would be very happy to agree with it. However, I haven't done any work or research into whether some specific number is the best. I think in Massachusetts the outstanding feature of the law is the fact of reviewing the true rate and that this in itself is a tremendous boon.

Mrs. SULLIVAN. Could you give us any idea of what has happened in Massachusetts among the outfits which charged high credit costs? I am not talking about revolving credit now or the legitimate stores that you have dealt with. What happens in some of these other stores where you were never quite sure of the charges for some of the large-ticket items such as refrigerators, TV sets, and so on. Are the consumers getting better deals or are there still sharp practices going on?

Mr. WILLETT. We have had cases up here where action has been forced to be taken. The legitimate businessmen who fortunately does the greater percentage of business similar to Lechmere Sales in his recent testimony, reveals an interest rate which is acceptable—has not been forced to change his methods of doing business or the rates charged.

The unscrupulous businessman has been stopped. Fortunately he is, I believe, a small percentage, but unfortunately a small group can quite often do a great deal in terms of destroying good public relations for all business. He is stopped immediately because of enforced requirements for revealing an interest rate. It is then a fairly difficult matter—a fairly simple matter, I should say, I believe, to regulate and stop this practice happening, although I believe the representative from Attorney General's office could qualify how simple it is in actual practice.

Mrs. SULLIVAN. Mr. Meade, I would like you to answer that, also. I would like to know what enforcement problems you have had in handling these cases. And I would also like to know what has been the reaction among the unscrupulous dealers. We all know them—and I am sure they have them in Massachusetts, just as we have had them in Missouri and other States. He charges more for his merchandise than he should and, in addition, the customer has no knowledge of what interest rate he is paying for credit, except that he is told that he pays so much a month for so many months. Can you give us any examples on what is happening among this group?

Mr. MEADE. Well, we have no limitation on what somebody can charge for his goods.

Mrs. SULLIVAN. I realize that.

Mr. MEADE. However, since they are limited in retail installment sales both on ordinary charge accounts and revolving credit accounts—there is a set limitation—competition would serve to keep the price at a competitive level; that is, the cost of goods totally.

The interest rates, then, are generally a maximum that can be charged under the law and the disclosure of these serves this purpose. But if a person decides that he cannot afford to pay 18-percent interest on a revolving credit account, then he has two choices. He can either shop for a better rate of credit—three cases—or he can shop for goods elsewhere and perhaps get a different price or thirdly he can decide that he doesn't need the type of goods that he may be buying. In this way regulation of credit has an indirect effect, I think, upon the total cost of goods that are sold and this in and of itself has helped clear up many problems. We just don't get a great many problems in this area. Most of the complaints that do reach my office really involves—or I think retail centers just by inadvertence forgot to put in some particular item that is required in our retail installment credit agreements. When that happens there are certain penalties in the law, both criminal and civil. I have not yet found it necessary to invoke any criminal penalty. Generally a simple call to the seller reminding him about this particular provision serves to clear it up. I haven't discovered any pattern of abuse by any retailer of this credit law.

Mrs. SULLIVAN. I wondered what enforcement machinery you use in Massachusetts and how it compares with the self-enforcement pro-

vision of S. 5 or the administrative enforcement provision of H.R. 11601.

Mr. MEADE. The administrative enforcement is probably the simplest way in Massachusetts. For example, in the lending laws then either by banks or finance companies, if they abuse the law there—they are licensed—their license is subject to revocation by our banking department through an administrative process. There is—this is in addition to any criminal penalties that could be invoked against them. I think that the administrative sword of Damocles over their head is probably the most effective method, rather than the court proceedings.

Mrs. SULLIVAN. Could you tell me, Mr. Meade, whether S. 5, as now before us in the form in which it passed the Senate, would wipe out the requirements of your Massachusetts statute requiring an annual rate disclosure on revolving charges, first mortgages and items on which the credit charge is $10 or less?

Mr. MEADE. No, I don't believe it would. We would require in Massachusetts and any provisions that go beyond S. 5 would still be included in our law.

Mrs. SULLIVAN. Are you positive of that?

Mr. MEADE. I will certainly take that position before our courts any time.

Mrs. SULLIVAN. The reason I ask that is that the intention of S. 5, as passed, seems to be to have the State laws supersede the Federal law, but only where the requirements of the State laws are "substantially similar" to those required in S. 5 and "not inconsistent" with S. 5. If your State law goes beyond S. 5, would that make it inconsistent with it?

Mr. MEADE. The question was raised whether our State law goes beyond S. 5 and if we were then inconsistent in what we require going beyond. Knowing the legislative history of S. 5, I don't think that is what is meant by the word "inconsistent." We would certainly take the position in Massachusetts, and I think correctly, that all of the requirements, not only of disclosure, but of substantive provisions in our act would still be effective, regardless of S. 5.

Mrs. SULLIVAN. Mr. Meade, what is your State law on confession of judgment notes? Do you permit them as part of the credit transaction?

Mr. MEADE. They are forbidden.

Mrs. SULLIVAN. Mr. Willett, do you think we should have in H.R. 11601 a provision similar to your installment sales law which gives the customer a cooling off period, after signing up for one of these credit deals, to get out of the contract?

Mr. WILLETT. Yes, very much so.

Mrs. SULLIVAN. At this point we will recess until some of the other members come back.

(Short recess.)

Mrs. SULLIVAN. All right, gentleman, let us resume.

Mr. Meade, I asked you about your State law on confession of judgment notes. Would you repeat your answer?

Mr. MEADE. I said confession of judgment clause is a prohibited term in installment credit agreements. This is part of our retail installment credit law that became effective November 1 of last year.

Mrs. SULLIVAN. So you prohibit the confession of judgment note. That is the same thing we do in H.R. 11601.

Mr. MEADE. I will take your word for it. It is prohibited in Massachusetts.

Mrs. SULLIVAN. Are there any other laws bearing on credit recently enacted in Massachusetts that you would like to discuss with us?

Mr. MEADE. Well, I was just telling Mr. Shea, as originally drafted, in fact as originally passed, chapter 255(d), which is the installment credit law, there may have been some question there as to what, in addition to the simple annual interest rate, a seller could disclose or require. There is no question now as of very early, January 1 of this year, an amendment to the act makes it quite clear that as long as the retail seller discloses the simple annual interest rate, there is no reason whatsoever why he cannot also disclose that the rate only applies after the so-called free rider period, 30 days, 59 days, and there is no reason why a retail seller cannot disclose that the rate only applies on balances after credit for payment is made, rather than on the opening balance.

Again this is something that has been referred here earlier. This is not required, that a seller disclose this, but certainly he has that option if he chooses.

Mr. WILLETT. Yes.

Mr. WYLIE. Will the chairman yield?

Mrs. SULLIVAN. Yes.

Mr. WYLIE. Do they have to advertise distinctions in credit practices?

Mr. MEADE. I am not sure I understand the question.

Mr. WYLIE. I am not sure if I know how to phrase this. In order for the buyer to really know if he is getting a good deal, so to speak, or not, the distinction in the differences in the credit arrangement ought to be called to the customer's attention. Isn't this the real purpose of this program? As I understand it, there is a section of your law which prohibits the advertising of distinctions or referring to the practices of another seller—another retail store's credit practices?

Mr. MEADE. That is not so, sir. All that is required by a retail installment credit agreement, if they are charging 1½ percent a month, referring to revolving credit, that they say that this totals out to 18 percent a year. They are not prohibited from, in any way, from saying on the agreement, orally, or advertising in any other way that the 1½ percent only begins, say, after 30 days or 59 days, and if you pay the whole thing off within that period, then there is no charge whatsoever. They are not prohibited from saying that. In fact, it would be entirely to their advantage to do so. But there is nothing which prohibits it.

Mr. WYLIE. I want to pursue this a little more. I am wondering if there is anything in your law which prohibits or requires the advertising of a rate lower than 12 or 14 percent, if that should be the actual charge?

Mr. MEADE. No, they can advertise whatever the true rate is. In fact, that is the requirement of the law, that they have to. If they are going to make an advertisement of a rate it has to be the true annual rate computed according to the formula. But there is nothing prohibit-

ing them from going further and saying that this rate is based on—not on our opening balance, but on your opening balance with a credit for any payment you might have made during the month. So that the distinction that one of the other gentlemen drew between J. C. Penney and Sears, Roebuck, where Sears computes it on the beginning balance—on the opening balance and Penney computes it on the opening balance with a credit for any payment made, that can be disclosed. Nothing prohibiting that. It is not required.

Mr. WYLIE. They cannot disclose in advance—at the beginning of the year what the actual annual rate might be on a revolving account, can they?

Mr. MEADE. Surely. It states very simply that the rate is 1½ percent per month, 18 percent a year. But the 18 percent will only become effective on the amount of credit that you use. For example, if they have a 30-day account, 30-day free rider period, they can put in there—they have to put it in, if it is 1½ percent per month, that it is 18 percent a year. If you pay your account in full in 30 days there is no interest charge.

Mrs. SULLIVAN. What is the status of the Penney lawsuit?

Mr. MEADE. Well, it is pending in our courts. It is sort of cooling for the summer. Penney has filed a complaint, of course, as I assume you know. Our office has filed what we call a demurrer to it as well as an answer to the complaint.

It is our position that Penney's is complaining that they cannot do something and we say they can do it if they want to. It is up to the court.

Mrs. SULLIVAN. Mr. Klein, would Consumers Union regard S. 5 as passed by the Senate as an effective law to guide the consumer, if that were all we could pass?

Mr. KLEIN. It would be better than nothing, Madam Chairman.

As I said in my opening testimony, both the Senate bill and your bill would tend to open up this large breach and it would tend to encourage many, many lenders to go into a revolving credit type of billing, and I think the purpose of the bill would be defeated. I think we must have revolving credit under the bill, and most preferably in the fashion that I have suggested.

Mrs. SULLIVAN. Thank you.

Mr. Bingham?

Mr. BINGHAM. Thank you, Madam Chairman.

I would like to thank all the witnesses this afternoon, particularly these three who have come down from the State of Massachusetts to tell us about their experience. To them I would just like to address one question, if they have any wisdom for us at all on the proposal in the Sullivan bill for a prohibition of garnishment?

Mr. MEADE. We don't have that in Massachusetts, so I can't speak on the basis of any experience. I am somewhat leery of making a national law that would prohibit it. I don't believe in Massachusetts most reputable retailers do seek this form of relief. But I think that lacking the experience on the State level, I will refrain from giving any off-the-cuff answer to your question, if I may.

Mr. BINGHAM. Thank you. I can understand your position.

Mr. Klein, I devoted quite a considerable time going over your statement in some detail. I must say I am very impressed by it. I hope Mr.

Williams will pay particular attention to the table that you have presented as an exhibit on the way in which the charges work out at Sears, Roebuck and Montgomery Ward. A great deal has been made in these hearings that the average earned or real interest will come out to less than 18 percent.

Mr. WILLIAMS. Will the gentleman yield?

Mr. BINGHAM. You have demonstrated quite clearly that it may come out to more than 18 percent, and in some cases, as your example shows, it may come out to a great deal more than 18 percent.

Mr. WILLIAMS. Will the gentleman yield for a question?

Mr. BINGHAM. I would like to finish if you do not mind.

Mr. WILLIAMS. Not at all.

Mr. BINGHAM. I mentioned your name, so I will yield.

Mr. WILLIAMS. I would like to ask where on this J. C. Penney revolving charge account—what column do the monthly purchases appear?

Mr. BINGHAM. I take it from this statement that these are reflecting a single purchase and that there are no other purchases. But obviously I am not in a position to answer your question.

Mr. WILLIAMS. If the gentleman will yield, if that is simply paying off a set amount of money, then this is a fine example of installment purchasing.

Mr. BINGHAM. I decline to yield further. It is perfectly clear from this and the other examples that you have given, attached to your statement, Mr. Klein, that the actual interest applied on a day-to-day balance of what may be owing at any given time may be more or less than 18 percent, depending on the time purchases and payments are made, whether or not payments are credited, and so forth.

What I do want to ask you is whether you have any proposal to specifically correct this legislation to deal more effectively with this problem than I am afraid our present bill now does. You discuss this on page 14 of your full statement, but you do not come to any conclusion. I am concerned that even under our present bill we are not getting at the possibility that under these revolving charge plans in a given case someone may be paying a lot more than 18 percent and a lot more than 1½ percent a month.

Mr. KLEIN. Let me talk to Mr. Williams' point.

No matter how much you buy, when you buy it, how many new purchases are put on your bill, the rate will still be 18 percent from J. C. Penney. In the Sears-Ward system, the rate will be at least 20 percent and almost always higher than 20 percent because the installment payment which they require varies from 10 percent of your total bill to around 15 percent. In the case where it will be 15 percent, the proportion of payment to actual balance due, you see, is a little larger. The adjusted balance due is therefore lower; yet the service charge remains the same—1½ percent of the opening balance.

Now, as to your question, I have presented three suggestions as to how this might be handled, and I favored the third one, which is that the stores have a gross yield on an annual basis. They know pretty much—they have to know the percentage of revenues from service charges they are going to realize on the accounts outstanding as revolv-

ing credit. That is equivalent to what the consumer should be told is an annual rate.

I would like to point out——

Mr. BINGHAM. If I may interrupt you, that would not correspond to the actual experience with any given consumer, so I do not believe now that would be any better than the 18 percent.

Mr. KLEIN. It has been pointed out that consumers use these revolving charge accounts at random, their times of purchase and payments do vary. But over the course of time the interest rate paid will generally resemble the store's yield. I think this is a workable approach. But I suggest that I am not the person to say that. I am just a journalist. You have people at the Federal Reserve Board who are highly competent to work this out, and it is workable, I am sure.

Mr. BINGHAM. Have you considered the revised language governing this problem, the annual percentage rate on revolving credit, that was proposed by Professor Morse in his memorandum?

Mr. KLEIN. I have not had a chance to study it.

Mr. BINGHAM. Will you study it and give us your comments for the record? I think he has a rephrasing of this that gets around the difficulty of trying to state an annual percentage rate while preserving the essence of what we have in the bill. Would you do this and let us have it for the record?

Mr. KLEIN. I will.

(The material requested follows:)

CONSUMERS UNION,
Mount Vernon, N.Y., August 23, 1967.

Mr. PAUL NELSON,
Committee on Banking and Currency,
Rayburn House Office Building,
Washington, D.C.

DEAR MR. NELSON: At hearings before the Subcommittee on Consumer Affairs August 14, 1967, I had the privilege of presenting the views of Consumers Union on H.R. 11601. The Consumer Credit Protection Act. At that time Congressman Bingham asked us to submit later, for the record, our comments on revised language, as proposed by Dr. Richard L. D. Morse, concerning disclosure of the annual percentage rate on open end (revolving) credit plans. We are happy to comment herewith.

On page 6 of his memorandum, Dr. Morse raises an objection to words in Sec. 203(d)(2)(C) seeming to sanction the use of minimum or fixed finance charges for revolving credit. He notes that the practice can "be treated better by regulatory authority." "The use of minima and fixed charges could be so abusively used as to render the rate insignificant," he states.

Consumers Union concurs and would support Dr. Morse's revision of this subsection.

Also on page 6 of his memorandum, Dr. Morse proposes revised language for Sec. 203(d)(3)(E); this subsection lists items to be disclosed in monthly or periodic billings of revolving credit plans. Dr. Morse would add a requirement that the periodic percentage rate be disclosed at each billing, along with the annual percentage rate.

Although Consumers Union would endorse this proposal, we wish to make clear our belief that it does not solve the disclosure problem for revolving credit charge accounts which we brought to the attention of the subcommittee.

That problem is to disclose the fact that finance charge rates on revolving credit accounts could and would differ from store to store even though all stores were disclosing the same periodic and/or annual percentage rate. We illustrated the problem with a comparison of actual interest charges, the customer would pay to Sears, Roebuck or Montgomery Ward, on the one hand, and to J. C. Penney on the other. The example was of the retirement of a single $100 credit purchase. Paying installments as prescribed, the customer would have paid

$9.01 in service charges to Sears or Wards, but only $7.42 to Penney's. We also showed how the difference in charge might be expressed as a difference in periodic and annual percentage rates.

It might be well to add to our previous testimony the following: We recognize that only one purchase was illustrated, whereas a revolving credit customer could be expected to make additional purchases while paying off the first one. Additional purchases would have the effect of changing percentage rate comparisons to some extent. But assuming the same purchases and payments were made by customers at each store, and assuming each payment was no less than the minimum installment required by the store, the Penney's customer would always pay at least 10% lower service charges than the Sears or Wards customer.

One further observation: Our illustration makes the assumption that each month's service charge is assessed as though the customer had one month's use of the store's credit; actually, a customer may get more or less than one month's credit, depending on one's interpretation of the relation of "free-ride" period to the service charge.

May we here reiterate our view that what the consumer needs in order to shop by price for revolving credit is disclosure, before opening an account and also at each billing, of an annual percentage rate accurately reflecting the differences in service charges resulting from various billing methods. The consumer should be able to compare the price of one store's or bank's revolving credit with the price at other stores or banks and with the price of borrowing the money elsewhere. In our judgment, the best and indeed the only practical yardstick in most situations would be the annual percentage rate. Our proposal is to have H.R. 11601 instruct the Federal Reserve Board to write the appropriate regulations for establishing the yardstick and attaining the objectives.

Respectfully,

ROBERT J. KLEIN, *Economics Editor.*

Mr. KLEIN. Unless the consumer sees a percentage, an annual percentage rate on his contract and on his bill as it comes in, he is going to be hard put to distinguish one store's rate from the other's.

Mr. BINGHAM. He does not get away from it.

If I can just ask one final question. You suggested, I think properly, that in many cases life insurance and so forth should be included in finance charges, but what of the case where insurance is optional to the buyer? Would you still require it to be stated as part of the finance charge where it is optional?

Mr. KLEIN. I don't think I would. I think if it were stated separately on the contract and not made mandatory, I would say no.

Mr. BINGHAM. Thank you.

Mrs. SULLIVAN. Mr. Wylie?

Mr. WYLIE. Thank you, Madam Chairman.

I, too, wish to thank the gentlemen for appearing here and giving us the benefit of their testimony.

I do not want to appear to be argumentative about many of the points that you have made, and I am in favor of the concept of truth in lending—the idea of truth in lending. I am having some difficulty in applying the annual interest rate concept to the revolving charge account, and my questions are along those lines.

I doubt that reciting an interest rate on an annual or monthly basis is very meaningful to too many customers. I have taken the position that it might be better if we can state the charge in dollars and cents so that the customer would, in fact, actually know how much of his payment goes for interest or service charges.

I see Mr. Willett shaking his head. Would you like to comment on that?

Mr. WILLETT. The dollar and cents figure is only important to a relationship in the period of time of the balance borrowed; $50 charged

for credit on a $1,000 loan—how important this is depends on whether you borrow the thousand dollars for 1 month, 10 years, 5 years, and just a statement of the dollar amount itself doesn't reveal enough information.

Mr. WYLIE. The person who borrows or establishes credit will know how long he has the loan, will he not?

Mr. WILLETT. Unfortunately in this type of advertising that I have seen in the past, the competition exists between people selling credit. One will say you borrow a thousand dollars and it only costs you $50 and another says you borrow a thousand dollars and it costs you $40, and both may be using a different time period over which you pay back the loan. The customer looks at the $40 figure and unfortunately, quite often, assumes this is the cheaper loan because it is $40 instead of $50, where actually this one involves a shorter period of time and in the past it seemed to be a very easy system for people who wanted to give a false impression of their advertising.

Now the statement of percentage rate does permit people like you and I—people like me to go to a store and say that if it costs me 18 percent a year to buy a television set on time at the store, I will be better off borrowing it from my local bank and paying an annual interest rate of 9½ percent and I can compare this.

Mr. WYLIE. May I comment on that? That is another question. You have indicated that the Massachusetts law is working very well, in your opinion. What indications or evidence have you seen of this? I am trying to search facts to indicate that the law is working. Have passbook loans been increased? I know in my case, if we get overextended maybe I will get a bank loan and pay off my revolving credit account.

Mr. WILLETT. At the present time, since our law only came into effect really at the beginning of this year, I don't have numerical information to prove statistically that this is true. But in discussing the situation with the stores and with various bankers, as Mr. Meade pointed out in his testimony, the general feeling on the part of the bankers and stores is that neither of them have suffered; that they are still doing business without any increase in difficulty, and that they are doing just as much business with this law as they would without it. It would be difficult until all of the statistics are gathered to prove whether or not passbook loans have increased or decreased. At the present time I don't know. I can only say, comparing us with the national situation, that business in Massachusetts has not suffered.

Mr. WYLIE. Have you heard anybody say that there has been any increased competition for credit in Massachusetts which again would be a natural consequence if it is working?

Mr. WILLETT. We have had savings bank people—bankers loaning money say that customers are now more interested in taking out loans to buy things based on the fact that they realize how much the interest is elsewhere.

Now, I would like to tie two things together here, if I may.

If the bank finds that a customer is borrowing—a passbook loan, because the customer has decided that this is a cheaper way of borrowing money since he now can make a simple comparison, then it is true that the business at that particular moment may be losing a credit customer and turning him into a cash customer. Nevertheless, if it is held that this is not desirable, then it would seem to me that what is being

said is, the business should get a credit customer, even though it is getting him because of ignorance. I think this destroys faith in our system. I think the customer should be informed of many things.

Mr. WYLIE. Are you in favor of a ceiling in the usury statute, 18-percent ceiling?

Mr. WILLETT. Before the Truth-in-Lending Act in Massachusetts went into effect, we didn't have any ceiling on retail installment sales. But now we are limited to 18 percent and there is considerable more evidence, it seems to me again, among the consumers that are asked about this of comparison shopping, where they will comparison shop on the basis of this charge.

Mr. WYLIE. Is there any indication or danger that you feel that the ceiling might become the floor as far as interest rates are concerned?

Mr. WILLETT. I haven't seen any indication that it might become the floor. We needed this because before the act went into effect we had interest rates that were being charged in some of these instances that were substantially higher, and I am talking about 40 and 50 percent. These especially occurred in the poorer neighborhoods, and we had letters from the group leaders in the poor neighborhoods in Boston, in the Boston area, pointing out that since the truth-in-lending law they have had people in that neighborhood come in and question them about a particular piece of merchandise that they were interested in acquiring and have been enabling to substantially help them by suggesting a less expensive source of borrowing the money to buy that article.

Mr. WYLIE. Has there been any change in the credit practices in Massachusetts, would you say?

Mr. WILLETT. At the present time——

Mr. WYLIE. I am referring to revolving charges, I would not think there would be any in the installment field.

Mr. WILLETT. There hasn't been any notable change of credit practices of the large, legitimate organizations in Massachusetts. The large, legitimate store in this area was not mistreating customers in the first place. And the credit practice has not changed. There has been change in the credit practice of the smaller store, especially, it seems to us, in the poorer neighborhoods occupied by what quite often is less well educated segments of the population.

Now, this has been, I think, a very helpful change. This has been required because it is easy to see now what the rate of interest charged is.

Mr. WYLIE. What is the contention of the Penney Co. as far as their lawsuit is concerned, on what theory is it brought?

Mr. MEADE. It is a suit for a declaratory judgment, sir, that is brought on the theory that they are not allowed by the Massachusetts law to state that the customer, buyer, gets in effect a free ride from them and for a certain period of time before an interest charge accrues, and also that they cannot disclose that the buyer only pays the interest charge on the adjusted balance and not on the opening balance.

In other words, they are saying in effect that they are not allowed to tell the truth by our law, and that the purpose of the law, supposedly, is to enable the buyer, consumer, to make an informed choice as to sources of credit, and if that purpose is frustrated by the law itself, then that law is unconstitutional, at least to that extent that it prohibits it.

Mr. WYLIE. What clauses in the constitution?

Mr. MEADE. It would be unconstitutional under our State constitution, and I suppose it would be to a certain extent, they are making the argument that it comes under the first amendment that they are not allowed to tell the truth by Massachusetts law. All I can say is—I don't want to comment too much about it since I represent the banking department in that regard—but what they are saying they cannot do, they can do. There is nothing in this act that prohibits them from saying what they want to say as long as they do not misstate the rate, which is 18 percent a year when the rate is in effect. They can go ahead and say that the rate does not become effective until 30 days or 60 days, or whatever the time period is. Nothing prohibits that.

Mr. WYLIE. Could I just ask one more question? The chairman has indicated my time is up. You have been very indulgent.

Mrs. SULLIVAN. I just want to be sure we can also give the other members time to ask questions.

Mr. WYLIE. I have one and a half more questions.

In the Penney lawsuit they are in effect saying that on the revolving charges where there are purchases during the month where they have these grace periods, if they do state 18 percent, that in fact is not true?

Mr. MEADE. The other half is that they are not allowing—that they are not allowed to go on further to state that, depending on the customer's schedule of payments on purchases, that it may work out to be less or that, in fact, there may not be any credit charge because he may pay within the 30- or 60-day period.

Mr. WYLIE. Are they prevented from doing that?

Mr. MEADE. Yes.

Mrs. SULLIVAN. Mrs. Dwyer?

Mrs. DWYER. Thank you, Madam Chairman. I do not know whether these questions have been asked or not.

When was the law passed in Massachusetts? What was the date of the signing by the Governor?

Mr. MEADE. The signing I don't recall—the effective—we have two laws—and perhaps this should be made clear to the committee. We have one law that regulates truth in lending, that is, the loans of money, and we have a separate law that regulates installment loans of goods and services. The Installment Sales and Services Act became effective November 1 of last year and the truth-in-lending law relating to money became effective the first of this year.

Mrs. DWYER. How long was it from the time the bills were signed into law and the effective date?

Mr. MEADE. Normally there is a 90-day period unless the bill has an emergency preamble to it, and this was approved—the truth in lending—the Truth in Installment Sales Act was approved on May 16, 1966, became effective November 1, and the truth-in-lending law was approved on August 31, 1966, and became effective January 1, 1967.

Mrs. DWYER. Do you think that in that short period of time—that it is ample to set up machinery to make the law effective? Would it disrupt anything in the retailer business?

Mr. MEADE. Well, Mrs. Dwyer——

Mrs. DWYER. Or should you offer a timetable?

Mr. MEADE. Mr. Smith could probably answer it as far as Lechmere goes. As soon as this law was passed in the legislature and signed by the Governor, various legal stationers put out forms for our retail installment credit agreements, and they are very simple, things for retail establishments to buy, and I think I recall Mr. Smith saying it was very simple for Lechmere to shift over forms. At any rate, I had heard no criticism of the time period in Massachusetts, at least since I have been handling these matters.

Mrs. DWYER. I asked you that question because we had some witnesses that asked that the timetable be extended beyond the period in the Sullivan bill.

Mr. MEADE. Well, I am not sure that things are quite on a similar parallel. In Massachusetts our truth-in-lending law does not set any rate on loans. The law is tied in with other laws that we previously had as far as the rates on loans go. It does set a maximum rate on installment sales on goods and services, and this rate pretty much followed—or the rates that are in there—they vary—pretty much followed retailing practices in the past and didn't cause any great disruption. If this were to be done—if there were to be one law for the whole country that would set a ceiling on something, that may be another question.

Mrs. DWYER. One more question. In your experience has this law, truth-in-lending, stopped those people who cannot afford to buy this merchandise on credit?

In other words, we are talking about the poor and people who have been buying at high credit rates from unscrupulous merchants. Now that this law is passed, are these people continuing to buy, even though they cannot afford it, seeing the 18 percent set for it by the retailer? Have you had any experience whether these people are continuing to buy, or has this stopped them, knowing that the rate is 18 percent?

Mr. MEADE. I will defer to Mr. Willett on it because that one is out of my line.

Mr. WILLETT. There is evidence through the ABCD, which is the Action for Boston Community Development, and other similar organizations, that the consumer in the poorer neighborhood now has been stopped from purchasing goods from those merchants that were changing unscrupulously high rates. That the organizations such as the ABCD that I mentioned have been able to help these consumers in such instances to obtain money for their purchases, if at all possible, in a more reasonable source.

Mrs. DWYER. In other words, they are purchasing now from legitimate, conscientous merchants?

Mr. WILLETT. Yes.

Mrs. DWYER. And fleeing from the ones who have cost them a great deal more in credit?

Mr. WILLETT. Yes. One of the points that I tried to make in my opening statement, which to me is an extremely important point, is that unfortunately, the business system as well as all kinds of other things quite often suffers from the acts of a very small group, and I think such bills as truth-in-lending actually help the legitimate businessman and help the American business system by preventing unscrupulous competitors from being in the picture, in forcing the legitimate businessman in considering methods to cope with him.

Mrs. DWYER. I am just wondering how many people then are being turned down because they cannot afford this credit or they cannot afford to buy the merchandise—will they then go back to the places they shopped before and continue to buy there when they are turned down because they are a bad credit risk? What happens to these people?

Mr. WILLETT. In some cases it would be my assumption that if the local agency is not able to help them find a place where credit is more reasonable because of the facts that they are a bad credit risk, that that particular person might not now be able to acquire the particular thing he is trying to buy. I am not completely certain—I have a feeling that quite often this is perhaps best for the person trying to buy that article, just as well as it is for everyone else—perhaps he would be better following the advice given to him by the local community group that is trying to help him, postponing the purchase of this article until he has a better credit rating.

Mrs. DWYER. I wonder if the gentleman, Mr. Smith, would comment on that as far as this law is concerned?

Mr. SMITH. If a poor credit risk is turned down by a legitimate businessman due to the fact that he just doesn't want to take the risk on this particular person, and if he has it in his heart that he wants this merchandise, he is going to go back to this person, and while he may pay this same rate of interest, he is going to pay a higher opening selling price.

In other words, the selling price may be $15 or $20 additional to what the ordinary businessman would charge. And this is the way of getting around the finance law and compensating for the greater credit risk and higher losses.

Mrs. DWYER. Thank you.

Mr. SMITH. You just can't regulate a person when they want to have something and desire something. They are going to go for it, and we as credit grantors or credit counselors have advised them against doing so because of the fact that they cannot afford it, their debts are too outstanding—but they simply want this and they will go back to the smaller businessman who will charge them a higher price and still only charge them the maximum of 18 percent, but this is a way of getting around the 18 percent.

Mrs. DWYER. In other words, you cannot legislate against the desires of the people if they want something.

Mr. SMITH. That is correct.

Mrs. SULLIVAN. If the gentlelady will yield, the garnishment laws may also be a factor in determining whether the credit is extended. Under Massachusetts law, I believe, they can collect anything over $50 out of the weekly wages of the debtor.

Mr. SMITH. However, it is very difficult to garnish wages in Massachusetts—very, very few businessmen resort to this. It is better to enter a legal suit and then if the customer so desires, to voluntarily repossess the merchandise and wind up the case.

Mrs. SULLIVAN. Have you found in your business, which I understand is quite extensive, that most of the people want to pay their bills?

Mr. SMITH. 99.99 percent of all the people are honest people. It is a very, very small segment of the buying public who will try to get away from paying their bills.

Mrs. SULLIVAN. Thank you.

Mr. Williams?

Mr. WILLIAMS. Thank you, Madam Chairman.

Mr. Smith, is not what you just described a means of circumventing the Massachusetts law?

Mr. SMITH. The Massachusetts law does not regulate the selling price; that is, the cash selling price of any article.

Mr. WILLIAMS. The unscrupulous businessman does have the means of circumventing this law?

Mr. SMITH. That is correct.

Mr. WILLIAMS. Mr. Meade, I note in your testimony that you speak almost entirely to the Massachusetts law on truth in lending. Have you made a study of this bill that we have before us, H.R. 11601, and compared it with the Massachusetts law?

Mr. MEADE. I wouldn't say I have made an extensive study, Mr. Williams, but I have read it.

Mr. WILLIAMS. I am very much interested in your testimony because you are in a position very close to my heart, and I would like to have you, if possible, if it would not be too time consuming on your part, to make a comparison, to give this committee the difference between these two laws. Because obviously your law does not permit—I should say it does permit garnishments. It does permit garnishments of wages and H.R. 11601 does not, and there are some differences, apparently.

Mr. MEADE. We don't have anything to do with commodity futures in our law, another difference.

Our truth-in-lending law as opposed to our truth-in-installment laws, sets out no rates whatsoever, maximum or minimum, on credit.

Our truth-in-installments sales and services does set maximum rates. I gather H.R. 11601 would set it for both lending—in other words, the credit on the sale of money as well as the sale of goods.

Mr. WILLIAMS. If you could give us a breakdown for the record perhaps we could all have the advantage of whatever differences there are between H.R. 11601 and the Massachusetts law. I know that I am very much interested in it.

Mr. MEADE. Certainly. (The information may be found on p. 891.)

Mr. WILLIAMS. Relative to this *Penney* case, on this 1½ percent a month, I do not believe you are saying that they can do what they are saying they cannot do. I think what you are saying is that they can put some additional explanatory statements on their billings.

Mr. MEADE. That is correct. They do have to put 1½ percent a month, 18 percent a year, and I don't think they are complaining so much about that, per se, except that they say they cannot go further and explain it.

Mr. WILLIAMS. In their testimony before the Senate committee, I believe it was, and I made it a part of this record last week, they are claiming that they object to saying they are charging 1½ percent a month, 18 percent a year, because it does not amount to that—what they are saying is that they are being forced to make an untruthful statement.

Mr. MEADE. I don't think they are saying that in their suit. They are saying they are being forced to make an untruthful statement because they cannot say the whole truth which is their way of thinking that

from the date of purchase for the next 364 days that it does not figure necessarily to make 18 percent because they have this particular free ride in there. In fact, they are saying it never would work out to be 18 percent.

Mr. WILLIAMS. I think you will find the way I stated it, is what their case avers. I am not positive but from the testimony I have seen—I have not actually read the case itself—I think that their contention is that if they are forced to say 18 percent a year and it does not come out to that, and that is the very point they are objecting to, and if they are forced to say it, then in your answer, I do not think you have said they do not have to say 18 percent a year.

Mr. MEADE. They do have to say 18 percent a year. All I am saying is that that is in fact true, that from the time that interest begins to run on any one of their accounts, it is at 1½ percent a month, and if you multiply that by 12 you come out to 18. Now, the purpose of the law is to allow a customer to do some shopping for credit, an informed customer, if he wants to.

If the informed customer knows, and there is nothing to prevent his knowing on the agreement that he has a 30-day free ride period, he gets that anyway, it is at the end of the free ride period when interest begins to accrue. It is at that point that he can shop around, and if he can get a bank loan for 12 percent a year, pay off J. C. Penney account at the end of the 30 days, then he is doing better from that point on. He gets the 30 days anyway.

Mr. WILLIAMS. Let me say after your explanation and my somewhat limited knowledge of this case, you are talking about interest-free periods, other adjustments that are being made where it does not add up to 18 percent, then I do think some merit exists in the J. C. Penney argument. I do not think we are going to develop more information while pursuing that subject.

Mr. Smith, what business is the Lechmere Sales engaged in?

Mrs. SULLIVAN. Would the gentleman yield a moment? I have the wording of the Penney testimony in the truth-in-lending hearings before the Senate this year, and let us see if Mr. Meade could just answer this statement by the Penney board chairman, Mr. Batten.

He says:

> Our attorneys have advised us that we cannot run this ad in Massachusetts. It would violate the truth-in-lending act which prohibits any statement in advertising other than the one prescribed in the law. In other words, the law requires us to lie to our customers, then prevents us from telling them we cannot tell them the truth. To us the entire situation is intolerable and we are therefore challenging the law in the Massachusetts courts.

Mr. WILLIAMS That is the part. I think after that it has an exact statement as to what they are averring, this does appear.

Mr. Smith, in what business is the Lechmere Sales Co.?

Mr. SMITH. We are hard-line merchandisers, retail distributors, TV's, refrigerators.

Mr. WILLIAMS. You are a distributor?

Mr. SMITH. Retailer—hard-line merchandising.

Mr. WILLIAMS. What could be referred to as big ticket items?

Mr. SMITH. That's correct.

Mr. WILLIAMS. You are not talking about the kind of thing we would have, say, in a normal department store?

Mr. SMITH. We have no clothing whatsoever.

Mr. WILLIAMS. No what?

Mr. SMITH. No clothing whatsoever.

Mr. WILLIAMS. What do you believe would be a break-even point on interest charges on revolving credit accounts?

Mr. SMITH. The national average as computed and so stated in the Wall Street Journal of 2 months says 10 to 12 percent is the break-even point in revolving charge accounts.

Mr. WILLIAMS. For your kind of business?

Mr. SMITH. Yes.

Mr. WILLIAMS. What do you think it would be in a department store?

Mr. SMITH. I could not give you that answer because I'm not familiar with it.

Mr. WILLIAMS. Do you retain title to what you sell until it is paid for?

Mr. SMITH. On a conditional sales contract we do, sir.

Mr. WILLIAMS. As far as this revolving charge account exhibit, Mr. Klein, I do not regard these as revolving charge accounts. You do not say any purchases made during the month for an 11-month period, and this certainly cannot conceivably be any type of typical revolving charge account. What you really have here is an installment plan where you are paying off on an article for which $100 has been paid, and I will appreciate actually adjusting these charts to show typical revolving charge accounts where purchases are being made during the month so we can have a better idea of how these charge accounts actually work out in actual practice.

But I do have one question.

Mr. KLEIN. May I answer that one?

Mr. WILLIAMS. Of course.

Mr. KLEIN. The only difference between what I have shown you and what you have asked for is a succession of other purchases, in different months, of course.

Mr. WILLIAMS. That is the essence of the revolving charge account.

Mr. KLEIN. I have extracted one of the transactions from a revolving charge account, and I maintain, sir, that all other transactions will fall within this same pattern of percentage rates, never being other than 18 percent at Penney's and never being less than 20 percent—but usually more—at Sears or Wards.

Mr. WILLIAMS. I don't want one purchase extracted.

Mr. KLEIN. Let me go on a bit. What you have in mind, I think, is the fact that people buy their items on different days, and there is a certain difference in the number of days before they get their bill——

Mr. WILLIAMS. Some months it is paid off.

Mr. KLEIN. In 30 days. It doesn't matter how much is paid off. The only variable you have to address yourself to, and I want to make the point that you don't have to address yourself to it, is the timing of the purchase or payments, on the theory that you then use a different period of time in credit.

Mr. WILLIAMS. This eliminates not one variable but a number of variables. I want to see how this thing works in actual practice with Sears, Roebuck, Montgomery Ward, and J. C. Penney, and we just cannot extract one purchase and treat that purchase separately in view

of the fact that the person is only paying off $10 a month. This again, as I say, I think this is almost exactly an illustration of an installment purchase or purchasing.

Mr. KLEIN. No, sir, it is not. I have the Sears bill right before me, account balance of $10.01 to $100 a month, make a payment each month of $10.

Mr. WILLIAMS. How do Sears and Montgomery Ward adjust their financing or interest rate or service charges in order to meet the Massachusetts law after it was passed, or is this what they are still doing?

Mr. KLEIN. The Massachusetts law recognizes 18 percent.

Mr. WILLIAMS. You are showing 23.8.

Mr. KLEIN. I think the Massachusetts law allows a bit of variance from the truth.

Mr. WILLIAMS. You mean to tell me that under the Massachusetts law somebody can charge 5.8 percent more interest a year and get away with it? You are showing a monthly interest rate of 1.67, 1.82, 1.92. What kind of law is this?

Mr. KLEIN. Well, it is not good enough. It is a pioneering piece of consumer legislation and, as such, we at Consumers Union have praised it highly. But, like most innovations, it needs to be further improved.

Mr. WILLIAMS. Thank you, Madam Chairman.

Mrs. SULLIVAN. Mr. Klein, in our bill if life insurance is optional, is it not counted as a part of the annual rate?

Mr. KLEIN. In your bill I think it is; yes.

Mrs. SULLIVAN. Mr. Willett, do you set a ceiling of 50 cents per $100 on life insurance without counting it as part of the finance charge?

Mr. WILLETT. Yes.

Mrs. SULLIVAN. How did you arrive at the 50 cents?

Mr. WILLETT. The banking department suggested this 50-cent figure as being the correct one, and I would have to rely on them to give you the reasoning that they used to derive this particular figure, unless someone else here knows more about the history than I do.

Mr. MEADE. I understand that they took the national average—I understand it came out to the cost of credit life, 39 cents per $100, the difference between the 39 and 50 allows the company a reasonable return on this particular type thing.

Mrs. SULLIVAN. We have not had much information on average insurance charges, and yet this is a big part of the finance charges in many credit transactions. I think before the week is out we will have someone scheduled to come in and explain this because we need more information on that particular item.

Is the advertising of credit terms included in the Massachusetts law?

Mr. MEADE. Yes; it is, Madam Chairman.

I might also say that I think you asked me a question previously that I never did answer about J. C. Penney's ad that they wanted to run.

The banking department in Massachusetts and I, as a representative of the attorney general's office, have seen this ad, and if they had gone to the banking department or the attorney general's office we would have given the ad our blessing. They could have run it. They can run it.

Mr. BINGHAM. Madam Chairman?

Mrs. SULLIVAN. Mr. Bingham?

Mr. BINGHAM. May I ask one more question of Mr. Klein to try to clarify a little further this problem of what can happen under this Sears, Roebuck, and Montgomery Ward type of account?

Could I ask you to make a quick calculation, Mr. Klein? Supposing on April 1, a given month, you have a balance of $100 in the account. Five days later, on April 5, you make a payment of $75 and then 20 days later, on the 25th of the month you make a purchase of $75. At the end of the month your balance will be back up to $100, but for 20 out of the 30 days you actually only have a balance of $25.

Mr. KLEIN. Yes.

Mr. BINGHAM. You are going to pay under the Sears and Montgomery Ward plan, you are going to pay 1½ percent of the $100 balance. But actually on the basis of your average daily outstanding balance the rate is much higher than that, is it not?

Mr. KLEIN. Yes. If you don't confuse it in the future with what is on the bill when the bill opened, I think you will be a little clearer in your mind as to what is going on. These stores allow you 30 days to pay your bill in full without any service charge. Now, those new payments are on a new 30 days. But you must pay the whole bill in full, the new payments, and balance, to get rid of the service charge. What we are looking at is the previous month's transactions when you had a balance due, you paid a fair share of it. Because you wanted to be thrifty.

Mr. BINGHAM. It seems to me that the Penney system of using the current month's balance is a much fairer system—current month as far as payments are concerned—it is much fairer and much less likely to mislead the consumer than the Sears and Montgomery system. Would you agree with that?

Mr. KLEIN. I would make no characterization of fairness on either of these systems. The Penney system is less expensive. That is all we want to know, which is the least expensive. But both can be expressed as an annual rate, and that will give us the dope.

Mr. BINGHAM. It is interesting that you say it is less expensive, because they both say they are charging the same interest.

Mr. KLEIN. Which they are not.

Mrs. SULLIVAN. If you do not pay the balance due—that is, the purchase price plus service charge—then when they figure the service charge for the next payment date, do they charge a service charge on the previous service charge that is not paid?

Mr. KLEIN. Yes, they do. Penney's comes right out and says it in their contract, but others do, too.

Mrs. SULLIVAN. That is like compound interest.

Any other questions?

Mrs. DWYER. I have just one more.

I believe this could be directed to Mr. Meade on your Massachusetts law. Is the annual rate for revolving credit as contained in the Massachusetts law working because (*a*) it is accomplishing a worthwhile purpose, or (*b*) because it is minimus and consumers pay no attention to it and simply causes no one any trouble? What positive evidence do you have that many Massachusetts customers use annual rate as a yardstick to shop around and get the cheapest form of credit?

Mr. MEADE. Well, I have spoken—my information comes to me somewhat hearsay from conversations with certain retailers and certain bankers. My family are in banking, and particularly the banking I suppose is more appropriate the aspect here—they are in competition with finance companies which, under our small loans law in Massachusetts on certain small loans can charge as high as 33 percent a year on a sliding scale, whereas banks almost never go that high.

I am told that certain people who can meet the requirements of loans from banks and credit requirements, but who formerly went to loan companies because they didn't think they could get a loan at the bank, or because they felt it was more convenient to go to the loan company on the corner—when they discovered they were being charged an effective annual rate of 30 percent, say, decided they would at least check with the bank and see if they couldn't do a little better, and the banks in Massachusetts—I think that the ad that the Provident Institution for Savings had that Dr. Willett introduced here has drawn business to lenders from people who in effect are shopping for credit, and this is the purpose of the Massachusetts legislation.

Mrs. DWYER. I have been hearing so many hearsay reports from many rank and file retailers in Massachusetts, that the law, as far as it involves annual rate for revolving credit, is working primarily because consumers ignore the erroneous 18-percent figure. Have you ever taken a scientific poll?

Mr. MEADE. No; I haven't. I wouldn't be surprised that it might be true in many instances, that the persons are saying that they are really only interested in dollars they have to spend rather than the rate. But part of the effort that is necessary in the area is consumer education, and once the facts are available to the people, that is, the rates are sent out and disclosed to them, then the other facet of the job is to educate them in the use of these particular rates. The law doesn't do this. But this is part of the problem.

Mr. KLEIN. May I comment on that?

Mrs. DWYER. Yes; you may.

Mr. KLEIN. For more than a generation consumers have had to buy their installment credit without any knowledge of the annual rate. You cannot expect them suddenly to take cognizance of it. But, I referred to a study in my oral statement—I think it is in my written testimony, too, a random selection of Consumers Union subscribers, in a poll, were asked the details about their recent credit dealings and the poll showed that a certain number of them, despite all the difficulties, because they are wily people, otherwise they wouldn't read Consumer Reports, had accurately determined the interest rate on their credit. These people are sensitive to credit rates. The population, or a fair percentage of it, will become sensitive to interest costs—and shop accordingly—as they are told the rates. Hardly anybody can really be sensitive to those costs now.

Mrs. DWYER. Are you advocating the sale of Consumer Reports?

Mr. KLEIN. Any time.

Mrs. DWYER. One quickie for Mr. Smith.

Even though your store is mostly installment contracts, have you noticed very many customers going to their banks or credit unions since the law was passed?

Mr. SMITH. We do offer a bank plan to the consumer if the consumer desires it. We act as an agent for the bank at bank rates. But

there has been no great demand for the bank plan. The average revolving charge doesn't usually run the length of the contract. It is usually paid off in advance and the customer is concerned with how much he will have to pay monthly, and as a result he stays with the revolving charge plan. While with a bank plan he is charged a minimum fee for setting up the contract, and if he pays it off early under the rule of 78's, which is a long and complicated formula, he will get very little back as a rebate, so they tend to stay with the revolving charge.

Mrs. DWYER. I cannot envision many people going to the savings and loans and finding if they take out the money at the savings and loans they could save some money.

Mr. SMITH. It is not convenient for them.

Mrs. DWYER. It is not. Thank you.

Mrs. SULLIVAN. In looking at the ads the banks are putting in the buses, or wherever they are placing them, I think the banks would be rather proud to advertise their rates at 9.23 for a 12-month loan, or 9.47, or 9.60 for 18 or 24 months when other plans for credit have to advertise around 18 percent or more.

Mr. WILLETT. May I say at this point, there is an accompanying table there indicating what the finance company will have to charge for the same loan, and for 12 months, $350 loan, it would be 29 percent. This is computed by the State banking department to show the comparison of the finance company ad with the bank advertisement that you have.

Also, I wanted to bring up the point at this time, when people ask, is this law affecting anyone or not, that it surprised me and many others that one of the first groups to discover that they had been paying more than they knew for interest on loans were some of the leading universities in the Boston area that discovered that they had been recommending tuition loans to parents of students which were much higher than they could have obtained from a local bank, and they have now changed over to recommending loans at the local bank.

Mr. WILLIAMS. I have one question.

Mrs. SULLIVAN. Mr. Williams?

Mr. WILLIAMS. Once this Massachusetts law became effective, did the banks and finance companies raise their interest rates on loans other than passbook loans?

Mr. WILLETT. No.

Mr. WILLIAMS. The only other suggestion I have is to Mr. Meade, and I think if you are going to continue with this *Penney* case, I would make an effort to suppress Mr. Klein's testimony to the effect that even though they both quote 18 percent annual rates on their statements, actually Sears, Roebuck and Montgomery Ward are charging more.

Mr. MEADE. Mr. Klein is saying we don't have—we have Sears—as to what the rate is based on—what fees, for example, are included in that base, and whether or not you include credit life insurance and that sort of thing. This would make a considerable difference.

Mrs. DWYER. I have a concluding question because this has bothered me ever since Mr. Smith's statement. The unscrupulous merchant who previously charged 25 and 50 percent credit now recoups his credit loss by increasing the price of his product; does he not?