There is no need for me to enumerate the various methods of subterfuge used by small loan companies and finance institutions to hide the true annual rate of interest. This committee is by now fully aware of them. As a matter of fact, nearly every member of this committee has introduced a rate disclosure bill. Let me, however, address myself to some areas of controversy.

(1) *Revolving credit plans.*—There is absolutely no reason why the open-end or revolving credit plans should be exempt from coverage of the annual disclosure requirement. Claims have been made by retail associations that the rate can not be translated into annual percentage terms. These claims have been refuted by reliable experts.

Most department stores charge 1½ percent per month on the unpaid balance. This equals eighteen percent a year and the stores should be required to make such a disclosure. The family which is counting its pennies can ill afford to have its income sifted away at rates of eighteen percent a year.

Despite arguments to the contrary, the so-called "free ride" period does not really represent free use of credit. During those periods, the lack of credit charge is reflected in a higher price of the article. Hence, the credit should not be measured from the date of the purchase, but from the date the service charge actually begins. H.R. 11601 rejected the spurious argument of the retailers that revolving credit charges cannot be calculated on an annual basis. We agree.

The bill introduced by Congresswoman Sullivan rectifies the compromise which the Senate (S-5) made on this issue by requiring *annual percentage* disclosure of all charges incurred in these plans. I can concur, surprisingly enough, in the statement of the American Bankers Association that this category of credit should not be exempt from the same requirements which apply to other creditors. According to the A.B.A., a single, nondiscriminatory system of time disclosure should be uniformly applied to all creditors and all types of credit.

The competition which the banks are offering through bank credit cards could be beneficial to the consumer. (See attachment 2). If we are interested in giving the consumer a real opportunity, then there is every reason why we should encourage wholesome competition among these creditors.

Furthermore, the Senate's version could become an escape hatch whereby installment or closed-end credit plans could be converted into revolving credit plans and thereby escape annual disclosure.

The "installment open-end credit plan" wherein the creditor retains a security interest in the property purchased and the borrower does not pay more than sixty percent of the unpaid balance within one year is arbitrarily designed to exempt other open-end or revolving credit plans. We oppose such exemptions and, hence, the need for the above mentioned definition.

(2) *Finance charges.*—We strongly urge that H.R. 11601, which includes credit health and/or life insurance premiums within the definition of a finance charge, be approved. The Senate bill excludes these premiums even though, in most cases, they are incident to the extension of credit. The use of this insurance, in many cases, is a subterfuge for raising the true cost of the loan to the borrower. By quoting a lower interest charge and then requiring the borrower, as a condition for receipt of the loan, to purchase a credit life insurance, the creditor, in reality, may be charging a very high rate of interest.

Moreover, there is growing evidence of a tie-in between the small loan companies and credit life insurance. In testimony before the Senate Antitrust Subcommittee evidence was given that banks, finance companies, and other consumer-loan institutions require their borrowers to take out certain insurance policies for which they are getting kickbacks from the insurers. In such cases, the creditor accepts the highest bid rather than the lowest for this type of insurance because he can receive the difference in a kickback.

In many cases credit companies set up their own insurance companies. In an article which appeared in the *New Republic*, James Ridgeway discloses that the CIT Finance Corporation through a wholly-owned subsidiary, the North American Company, insures its credit life insurance policies wherein there was a gross profit of fifty percent in premiums or $6.8 million in 1965. And this profit is on top of the rate that is already being charged for the loan. (I should like at this point in my testimony to submit two articles for the record dealing with this subject). (See attachment 3.)

(3) *Small installment transactions.*—Unfortunately, the Senate bill exempts from coverage installment sales and loan transactions in which the finance charge is less than $10. The reason for this exclusion defies explanation. In a bill which is admittedly designed to afford the consumer protection, the proponents for this drop-out from coverage claim that the interest rate is so high that, and I quote