On May 16, James H. Hunt, Vermont's Commissioner of Banking and Insurance, said he doubted that the states, "as a group, are dealing affirmatively and effectively with this problem" 13 years after a previous investigation of abuses by the Senate subcommittee. While he shies away from recommending federal action in a field which Congress has reserved for the states, he said there "would be many advantages to federal regulation" and he would not "worry much" if there were "dual regulation."

"In *most* states," Mr. Hunt testified, "the debtor is paying excessive premiums and needs help . . . Credit insurance is subject to widespread abuse." He claimed that "fantastic profits are being made from the incidental sale of insurance in connection with loans and other transactions."

The real culprits and beneficiaries in this insurance tie-in system are the creditors, not the insurance companies, Mr. Hunt asserted. Since the lenders typically sell the insurance on a commission basis, they push the policies with the highest rates in order to receive the highest rebates. As Mr. Hunt put it, "The crditor accepts the highest bid rather than the lowest because he gets the differences in kickbacks in one form or another." He called this "reverse competition"—competition that pushes rates up rather than down. "The debtors form a captive market for the insurance and have no ability to evaluate the reasonableness of the insurance charge," Mr. Hunt added.

ABUSES

Vermont's commissioner pointed out that in many cases the credit extenders set up their own credit-insurance companies. He said the insurance abuses include failure to refund the unearned insurance premium on refinancing or repayment of the debt, pyramiding of policies when debts are refinanced, excessive coverage, the addition of finance charges to the insurance premium, and failure to refund finance charges on prepayment of a debt due to the death of an insured debtor.

Many of the best insurance companies, Mr. Hunt indicated, are discouraged by the abuses from seeking new business in the credit-insurance field. He said the largest companies "are only modest participants in credit insurance" and "this is a serious indictment of the credit-insurance industry for it tends to breed a myriad of inefficient companies whose administrative and other expenses would choke them if they had to compete on a price basis."

Many of the Vermont commissioner's views were echoed by South Carolina's Chief Insurance Commissioner, Charles W. Gambrell. He described consumer-credit insurance as a "camouflage to obscure from the borrower the actual cost to him of the loan" and as "a devious and costly rigmarole" intended to increase the lender's income.

He related the difficulties his state has been having in coping with this problem. "To urge that this solemn farce which is called consumer-credit insurance be ended or curbed through denying the privileged sanctuary represented by Mc-Carran-Ferguson [the federal law] to these tie-in transactions which pose as 'insurance,' is not to espouse federal regulation of insurance. Indeed, freeing state regulation from the impossible burdens of attempting to reach the real parties in interest, the lenders, through regulating the insurers, who are held in thralldom by the lenders, would enable state regulation to address itself to its true functions of regulating for solvency and protecting the insuring public."

VERTICAL MONOPOLY

Specific federal legislation was proposed by Edward C. Fritz, a Dallas attorney, at the May 17 hearing. He said that credit-insurance sales by lenders is "a type of vertical monopoly whereby the lender prevents the borrower from shopping for insurance of his choice, prevents competition, and restrains trade * * * in violation of the Sherman Antitrust Act." But, he added, under existing law "it is difficult to enforce a prohibition against tied-in sales of credit insurance." The best solution would be a new law that would "separate the creditor from the insurance company and from the insurance income. This can be done by prohibiting the creditor from obtaining any compensation, directly or indirectly, from the insurance except the insurance security for the loan or for the pledged property." Mr. Fritz maintained that a federal law is "the only likely hope for protection to the consumer from the evils of tied-in insurance."

Another state insurance commissioner, testifying before the Subcommittee on May 18, said the consumer-credit insurance field has "become a racket." Massa-