The case for exempting first mortgage real estate lending was well stated by the Federal Reserve on August 10 by Vice Chairman J. L. Robertson. The Federal Reserve, of course, is an independent agency and is obviously not a special advocate of the savings and loan viewpoint.

The Federal Reserve statement says:

"We believe first mortgage loans on real estate should be exempt, as provided in S. 5, because there is already reasonable disclosure in this field and disclosure requirements developed for relatively short-term credit are inappropriate for loans with maturities of 20 to 30 years. To require that the annual percentage rate be recomputed to reflect costs incidental to the extension of credit would involve particularly troublesome questions in first mortgage lending because of the number and variety of the costs assessed at closing, many of which would be incurred, in whole or in part, by a prudent cash buyer if no credit was extended. While it would be possible to spread discounts and other credit-related costs over tLe life of the contract as a part of the annual rate of finance charge, we feel that this might tend to mislead the borrower. Such charges are in the nature of 'sunk cost' and are borne in full by the borrower whether the loan is repaid in 1 year or 30. To require disclosure of total dollar finance charge, including interest payable over the whole life of the contract, might be more misleading than helpful. The present value of a dollar of interest to be paid 20 to 30 years hence is substantially less than one dollar, and relatively few first mortgage contracts appear to be carried all the way to maturity."

Mortgage lending has been the only major type of non-business lending which has traditionally been on a simple annual interest rate basis. The rate stated in the contract to the home buyer is either exactly or within a few hundredths of a point of the actuarially computed interest rate. It would seem most ironic if those who have aleady pioneeded in "truth-in-lending" would be blanketed in the provisions of the bill. There are about 5 million mortgages made each year and the disclosure requirements would unnecessarily place this major burden on the lending institutions and on the Federal Reserve which must administer the program.

Our objection to the 18% Federal usury ceiling is a matter of principle rather than substance. Obviously, no mortgage lenders are charging rates anywhere near 18%. However, we must respectfully raise objection to the concept of any Federal ceiling on interest rates.

State usury laws have generally proved ineffective at protecting the public interest. Where the ceiling is higher than the market rate, it is meaningless. Where the ceiling is lower than the market rate, all lenders with an option to lend in other states will tend to do so, reducing the amount of credit available in the usury state. It does no service to a prospective borrower to protect him against higher interest rates if the result is that he gets no loan at all.

More specifically, it is inevitable that those lenders affected by an 18% ceiling—"small loan" lenders—will argue that it is discriminatory to place an effective ceiling on them without placing an effective ceiling, such as 6% or 7%, on mortgage lenders. The logical conclusion would be for Congress to attempt to set appropriate ceilings on all classes and sizes of loans to which we (and undoubtedly all other lenders) would be unalterably opposed.

We believe that S. 5 or H.R. 11601, with the amendments we have recommended, will do a tremendous job in accomplishing the objectives of "truth-in-lending". Under the provisions of H.R. 11601, loans made on a "discount basis" or on an add-on basis would be converted to an approximate simple interest rate. First mortgage loans are already stated to within a fraction of the true annual interest rate. We urge that the modified bill be passed at this time and if further refinements are necessary they certainly can be made by the Congress upon the basis of experience gained under this legislation.

STATEMENT OF CHAMBER OF COMMERCE OF THE UNITED STATES BY F. TURNER HOGAN [1]

The Chamber of Commerce of the United States presents the following comments on H.R. 11601, the Consumer Credit Protection Act:

It is the view of the National Chamber that consumer credit disclosure legislation is a matter for the states rather than the federal government.

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[1] F. Turner Hogan, Staff Attorney, Banking and Monetary Policy Committee, National Economic Development Group, Chamber of Commerce of the United States.