

As you know, closing statements are universally utilized in real estate transactions. They provide a complete dollars and cents disclosure of all charges, and the loan proceeds, for both buyer and seller. The mortgage instruments set forth the simple annual interest rate to apply on the outstanding principal amount of the loan.

In earlier hearings on Truth-in-Lending which were held by the Senate Committee, it was suggested that, despite the completeness of this information, there was still some lack of public understanding of the total costs of mortgage credit. As a result, the Federal Housing Administration asked that mortgagees originating FHA insured loans attempt to provide borrowers with additional information. Mortgage Bankers have cooperated wholeheartedly with this effort and continue to do so.

Perhaps it is worth noting that what this industry is doing in this regard goes beyond any reasonable definition of "disclosure". It constitutes a form of credit counseling which benefits borrower and lender alike. A real estate loan is a good investment only if it is sound, that is to say that it is well related to the value of the property and the borrower's ability to repay. Elaborate procedures to establish the appropriateness of these relationships have been established and are followed in every case. Where deficiencies in these relationships are noted, and cannot be corrected after consultation with the affected parties, credit is not extended.

It is in light of this background that we have considered the proposed legislation.

As we understand it, the objective of this legislation is to provide users of credit with an awareness of its costs so they can make informed judgments before they are committed. Although the Senate has concurred with our belief that we have for many years followed procedures which have achieved this objective, it may be the consensus of this Committee that misunderstandings continue to exist in the minds of mortgage borrowers that might be removed by an improvement in procedures. Real estate credit, however, is so different from other forms of consumer credit that the principal benefits of disclosure lie not in comparing the costs of real estate finance with those of revolving credit or personal loans, but in making comparisons among various real estate lenders.

Real estate loans customarily involve large sums of money. For the majority of people, the home or homes they may purchase involve the largest credit transactions they will experience. Despite the magnitude of the loans, real estate credit is widely extended to people of all income groups. The principal amounts often exceed twice the borrower's annual income. No other form of consumer credit involves such major sums for the borrower, bears such a high relationship of loan to income, or is utilized so infrequently by the average person. We are, therefore, talking about something unique when we discuss real estate finance.

It is almost inconceivable that anyone would make the choice between the purchase of a house and a small item such as a TV set on the basis of relative costs of credit. (We might add that if he did he would probably purchase a house.) If then it is the Committee's judgment that further disclosure of real estate finance charges are needed, we recommend that they be designed to facilitate the borrower's consideration of the relative costs of credit offered by (1) competing mortgage lenders; (2) those providing corollary services; (3) minimum and maximum downpayments; (4) minimum and maximum term; (5) various purchase arrangements, e.g., contract for deed or an FHA-insured mortgage purchase. It is our conviction that the only value of this legislation to the American public will be in further facilitating informed judgment on these five points, rather than in comparing costs of real estate credit, consumer credit, or revolving account credit.

If real estate first mortgage credit is to be covered by full disclosure legislation, we urge that it be covered by in a separate section of the law designed to achieve the above objectives. A suggested amendment to H.R. 11601 which would accomplish this is attached. However, we wish this committee to note that while we have expressed our willingness to make disclosure in accordance with the provisions of this amendment, we sincerely believe the provisions of H.R. 11602 are sufficient to protect borrowers against any abuses which may exist in the real estate credit field. Therefore, we support the enactment of H.R. 11602.

Sincerely,

JOHN A. GILLILAND, *President.*