

ADMINISTRATION

The third shortcoming of this bill concerns the provisions for administration and is, if possible, even more important. What good is a law if the agency chosen to administer it has neither the staff nor the consumer experience necessary for fair and efficient enforcement. As this bill is presently constituted, a consumer can obtain the allowed civil penalties only by hiring an attorney and filing suit in a United States District Court. The Board of Governors of the Federal Reserve System can issue regulations and can serve orders requiring persons not to engage in the violation, but they have no authority to prosecute for criminal penalties. Criminal penalties are enforced by the Attorney General.

Would it not be far simpler and much more effective for Congress to establish a national Office of Consumer Protection within the Department of Justice? The staff of this office would be devoted not to banking interests but to consumer interests and consumer interests alone. They would have the expertise in consumer credit needed for fair and efficient administration and all of the criminal and civil penalties could be enforced by one agency. I am not suggesting that the civil jurisprudence system be abolished, but I'm suggesting that this office have the authority to file civil suit on behalf of indigent complainants.

The effects of administration by one agency are readily apparent. There would be no mounds of infamous Washington red tape for the average consumer to be bogged down in. There would be created an effective one-stop agency to which the consumer could go with his credit problems. If this measure is totally intended to aid and protect the consumer, then the present provisions for administration must be changed.

FUTURE LEGISLATION

I began this statement by calling the Consumer Credit Protection Act a beginning. Let me now enumerate a few of the many other steps which it is necessary to take before credit can truly be a useful tool for the consumer.

Computation of interest rates

It has been our experience in the New Jersey Office of Consumer Protection that even where the consumer knew full well the annual interest rate and dollars and cents cost of his loan, he experienced great difficulty in checking the accuracy of the monthly calculations made by the finance company for each payment. Let me illustrate this problem. Recently a new small loan act went into effect in the State of New Jersey. It requires disclosure of interest stated in annual terms and dollars and cents. A member of my staff, who is expert in such calculations, put herself in the position of a consumer who goes to one of the finance companies covered by this new act and borrows \$1000 for two years. The manager of the company informs her that the interest rate is calculated monthly and that the total unpaid balance can be paid at any time. Monthly payments are quoted at a figure of \$52.57 without creditor life insurance. As an average consumer, she would like to know whether this is the proper monthly payment so she sits down and attempts to compute it herself. After six hours of work with the computer she was still \$17.24 in error. I ask you, gentlemen, if any of you, educated and intelligent men, could compute the accuracy of the quoted monthly payment? If you can not and if my staff member could not, how do we expect the average consumer to be able to do so. H.R. 11601 provides that the United States rule of actuarial method be used to calculate the normal annual rate. It is my contention that in order to ensure that the borrower not be cheated when his payments are calculated, that he be given a copy of this actuarial computation at the time his loan is transacted.

I can not emphasize how important these calculations are. The majority of complaints handled by our Office of Consumer Protection against finance companies concern the computation of interest and clearly reveal that almost no consumer could make such calculations himself.

Holders in due course

A major problem faced by consumers in credit transaction comes because of the lack of legislation regulating holders in due course. A holder in due course is a third party to a transaction who handles nothing but the financing of an installment contract.

Let us assume that I, as a consumer, contract for home improvements to my house. Mr. Smith, the contractor and I enter into a credit agreement. Unknown to me, Mr. Smith thereupon turns around and discounts this installment con-