

tract to a third party, a licensed financing institution. Mr. Smith gives me a warranty on construction materials and workmanship for three years.

A year and a half later, Mr. Smith has gone out of business and I have holes in my roof. Since I can no longer contact Mr. Smith but I am still making payments to the financing institution, I go to them and seek remedy. The man at the financing institution tells me he is very sorry but handles only the financing and if the workmanship and materials have not performed as promised, there is absolutely nothing he can or will do. I still owe \$2100 for work under warranty which no one will repair for me.

This situation is the most common complaint we face in the New Jersey Office of Consumer Protection. It is my strong belief that if a financing institution is going to make a profit—and they do—out of a transaction, then they should also share the responsibility for that transaction. If such a regulation were in force, we would soon find financing institutions making the same requirements for discounting installment contracts as they now do for personal loans and mortgages. Since they now have absolutely no responsibility for the work performed by the contractor, they buy paper from anyone who has paper to sell. It is a shameful practice which is common among the most respected, upstanding and ethical financing institutions in our country.

I strongly recommend Federal Legislation that will abolish the holder in due course and make the financing institution as responsible as the contractor for the work done.

Seven year installment contracts

While I am on the subject of home improvements, let me also suggest that a national ceiling should be placed on the number of years in which an installment contract can be financed. It is presently common practice in New Jersey and many other states, for home improvement installment contracts to run as long as 7 years. Let's consider for a moment what effect these 7 year contracts have upon the consumer. In the first place, many would never have entered into the contract in the first place if they had understood how much money it would cost them over a seven year period. Mr. Smith is approached by Mr. Jones, a home improvement contractor. Mr. Jones suggests that what Mr. Smith really needs is a finished basement in his house, at a cost of \$4000. Mr. Smith protests that he can not afford such a construction job. Mr. Jones claims that he can. After all, the payments would only be \$70 a month. Using high pressure tactics, Mr. Jones manages to convince Mr. Smith that he can afford to make such improvements to his home. Only after a completely binding and legal contract is signed, does Mr. Smith realize that he is indebted for 7 years at 7% per annum—or total interest cost of 49%. It will cost him \$1960 to finance this home improvement job worth \$4000. If the 7 year contract were not available to him, I am sure Mr. Smith would never have gotten himself so deeply in debt.

Let us now take a look at Mr. Smith five years later. He was given a 48 month warranty on all construction materials and workmanship. The warranty is now expired and now the finished basement needs more work. He still has two years to go, or a total of better than \$1700 to pay on the original job. But the original job is no longer good enough.

I strongly believe that if a man can not afford to pay for work done to his home in 5 years or less, then the work should not be done. I urge that Federal legislation be enacted placing a national ceiling of five years on the length of any installment contract or personal loan.

Indentures

In many cases finance institutions require dealers to obtain signatures of consumers to second mortgages on their homes as security for a loan or installment contract. The title of this piece of paper which they sign is "Indenture." Few consumers know the significance of this document and most are not apprised of the fact that it is actually a second mortgage on their home. I strongly suggest that legislation be enacted to require all mortgages be entitled "mortgage."

Madam Chairman, I want to thank you for the opportunity of submitting testimony expressing my views on H.R. 11601 and future needs. I am sure that Congress will pass this Bill and will soon recognize the need for the other legislation recommendations which I have made. The citizens of New Jersey are extremely gratified with the efforts of you and your committee to enact long overdue reforms in the field of consumer credit.

Thank you very much.