

It is also our belief that certain concepts contained in H.R. 11601 would go far to strengthen S. 5. In this regard, we especially commend Mrs. Sullivan and her cosponsors for incorporating the principle of "Truth-in-Credit Advertising" in H.R. 11601 and for the elimination of the exemptions provided in S. 5 for open-end and revolving credit, and first mortgage credit.

Our recommendations for improvement of S. 5 are set forth below.

**1. Exemption for Open-End Credit Plans and First Mortgages.**

One of the basic contentions of proponents of the legislation has been that it would give consumers a uniform yardstick to compare consumer credit costs. Yet, as passed by the Senate, S. 5 exempts most open-end credit plans from the requirement that finance charges be disclosed in terms of an annual percentage rate.

Under S. 5, creditors offering "open-end" credit need disclose an annual percentage rate, basically, only in connection with plans (1) involving a security interest or (2) in which less than 60 percent of the unpaid balance at any time outstanding is repayable within twelve months. This exemption gives a preferred position to a substantial portion of loan credit and the very largest part of the credit extended by the large national merchandising chains, thus placing automobile dealers and other small merchants at a severe competitive disadvantage. To cite but one example, dealers compete directly with many large chain stores in the sale of tires, batteries and accessories, as well as automobile service. In this area of competition, the preferential position given such stores in quoting monthly percentage rates for finance charges would present obvious and potentially disastrous consequences to dealers required to state such charges in terms of an annual percentage rate.

There is no justification for this "special favor" treatment for the fastest growing segment of the credit industry. The exemption in S. 5 of revolving credit plans of large retailers represents outright legislative discrimination against small businessmen such as auto dealers who must compete against giant chains which can afford the complex computer systems, credit departments and the like required for efficient and economical open-end systems—a luxury far beyond the limited means of the small merchant.

H.R. 11601 recognizes this inequity and restores comparability of credit costs by rejecting the Senate bill's exemption for open-end credit.

We fully subscribe to the following remarks of J. L. Robertson, Vice Chairman of the Board of Governors of the Federal Reserve System, on this matter in his statement before this Subcommittee on August 7:

"In eliminating the revolving credit exemption, the sponsors of H.R. 11601 have recognized the importance of providing consumers with a standardized method of comparing credit costs, and have avoided giving one type of creditor an unfair competitive advantage over another."

For similar reasons, we believe that first mortgage credits should not be exempted from the bill, as is done by S. 5, but should be covered, as provided in H.R. 11601.

**2. Treatment of Insurance Premiums.**

Under both S. 5 and H.R. 11601, all insurance charges must be fully disclosed. Section 3(d) of S. 5 expressly exempts from the definition of "finance charge" amounts collected by a creditor or included in the credit for filing fees, taxes and insurance if they are itemized and disclosed to the obligor. Section 202(d)(1) of H.R. 11601 apparently includes in the definition of the finance charge:

"(C) charges or premiums for insurance against loss of or damage to property related to a credit transaction or against liability arising out of the ownership or use of such property; and (D) charges or premiums for credit life and accident and health insurance." (Sec. 3(d)(2)(c) and (d) of S. 5)

The consequences of such inclusion are most serious. The definition of "finance charge" in S. 5 was designed to conform closely to state law concepts because the draftsmen of S. 5 recognized that expansion of the concept of "finance charge" would only confuse consumers.

Differences between applicable state law and the concepts of the bill magnify the issue of Federal preemption and prevent the reconciliation of state and Federal disclosure laws now contemplated by Sections 203(g) and 205(a) of H.R. 11601.

There was no suggestion in the hearings on S. 5 that charges for insurance against loss of or damage to collateral or against liability arising out of its