The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your Committee and that enactment of legislation to provide full disclosure of credit charges would be in accord with the program of the President.

Sincerely yours,

FRED B. SMITH,
General Counsel.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, July, 31, 1967.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request for the Board's comments on H.R. 11601, the "Consumer Credit Protection Act."

Most of title I of the bill is designed to provide consumers with meaningful information concerning the costs and terms of credit. The Board believes that legislation of this kind is needed, and that important social and economic benefits may be expected to flow from its enactment. With one exception, however, we believe that the disclosure provisions of S. 5 are preferable to those of H.R. 11601.

The Board believes that the provisions of H.R. 11601 as to open end credit plans are preferable to those in S. 5 as passed by the Senate. The need for a common standard to facilitate comparison shopping for credit, as well as the desirability of treating all creditors alike, argue against the Senate bill's provisions exempting certain forms of open end credit from the general rule requiring disclosure of equivalent annual rates.

In addition to disclosure provisions similar to S. 5, H.R. 11601 provides for regulation of credit advertising affecting interstate commerce, ceilings on finance charges, controls on commodity futures trading, and prohibitions against particular methods of debt collection. Presumably because of the broad scope of these provisions, section 209 of the bill incorporates authority for their enforcement through administrative proceedings leading to cease and desist orders. The Board has urged that its responsibility as to legislation requiring disclosure of credit terms be limited to prescribing implementing regulations, and that responsibility for enforcement and investigation of complaints be lodged in another agency with a trained investigative staff.

The Senate concurred in our recommendation as to the Board's role in implementing S. 5. As to enforcement, it was decided not to establish "investigative or enforcement machinery at the Federal level, largely on the assumption that the civil penalty section will secure substantial compliance with the Act (S. Report 392, p. 9)." We hope that civil sanctions, supplemented, as they are, by criminal sanctions, will prove to be adequate to assure compliance with disclosure requirements. If experience under the legislation should indicate that compliance is not being achieved, the Board would so indicate in the annual reports provided for in the bill. If, however, the Congress now determines that adequate protection for consumers warrants imposition of the broader controls embodied in H.R. 11601 in addition to the disclosure requirements of S. 5, responsibility for their administration and enforcement should be vested elsewhere than in the Federal Reserve System.

The question of whether certain of the controls added to S. 5 by H.R. 11601 are desirable is now under study by the Government agencies directly concerned. We understand that the Department of Agriculture is now reconsidering its earlier request for standby authority to prescribe margin requirements for trading in the commodity futures markets, pending analysis of additional information which it has recently received. And the President has directed the Attorney General, in consultation with the Secretary of Labor and the Director of the Office of Economic Opportunity, to make a comprehensive study of the problems of wage garnishment. The Board believes that decisions on these questions should be deferred until the results of these studies are available.

A Federal limitation on finance charges, as provided in H.R. 11601, could operate to deny credit to those who need it under certain circumstances, and to raise credit costs in other instances. A single, national statutory ceiling cannot adequately reflect the varying elements—such as risk, costs, and size of transaction—that enter into the determination of finance charges for various kinds of