With respect to the disclosure compliance provision for extensions of credit other than consumer credit sales or transactions under an open-end credit plan, we suggest that at page 11, line 10, the language "in the note or other evidence of indebtdness to be signed by the obligor" be changed to read "in the contract or other evidence of indebtedness, or in the mortgage or other security instrument, to be signed by the obligor". We make this suggestion because it might be inadvisable, for reasons relating to negotiability, for such material to be included in the note or other evidence of indebtedness, as distinguished from the mortgage or other security instrument, which is to be signed by the obligor.

(2) Advertisement of Credit Terms. Subsection (j) of the proposed new section 203 of the Federal Reserve Act would prohibit any creditor (which term is defined in subdivision (e) of the proposed new section 202) from advertisement in or affecting interstate commerce that specific credit terms are available unless they are set forth as provided in the bill. Subsection (k) of said section 203 contains similar provisions as to open-end credit plans. The Board would favor such provisions.

(3) Usury. Subsection (1) of the proposed new section 203 would provide that no creditor may demand or accept any finance charge in connection with any extension of credit to a natural person which exceeds (1) the maximum rate or amount permitted under applicable State law or (2) 18% per annum, whichever is less. The base to which the 18% rate is to be applied (original amount, declining balance, or otherwise) is not clear, and no account is taken of minimum charges which might be perfectly legal under applicable State law but might produce a rate higher than the 18% rate. In the light of the foregoing, and without undertaking to consider the arguments which might be made for or against usury laws as a general matter, the Board recommends against enactment of this provision.

(4) Confession of Judgment. Subsection (m) of the proposed new section 203 provides that no creditor may demand or accept in connection with any extension of credit any note or other document authorizing the confession of judgment against the debtor. A ban on provisions for confession of judgment could cause difficulties in mortgage foreclosure in some jurisdictions. The Board recommends that this provision not be enacted.

(5) Control of Consumer Credit. The proposed new section 208 which the bill would add to the Federal Reserve Act would authorize the Board of Governors of the Federal Reserve System, whenever the President determines that a national emergency exists which necessitates such action, to issue regulations to control, to such extent as the Board of Governors deems appropriate, (1) the extension of consumer credit is specified respects, including among others the amounts, purposes, and maximum maturity, and such other elements "as may, in his [sic] judgment, require regulation in order to carry out the purposes of this title", (2) the extension of credit to finance directly or indirectly the extension of consumer credit, which controls "may be related to the borrower's financial history, or to the lender's other loans and investments, or to such other factors as the Board may deem appropriate", and (3) in the case of any lender engaged both in the extension of consumer credit and in other types of financing, the proportion of such lender's assets which may be devoted to the extension of any type of consumer credit.

The Federal Home Loan Bank Board expresses no view as to the need for or advisability of the enactment of this section.

(6) Garnishment of Wages. Title II of the bill would provide that no person may attach or garnish wages or salary due an employee, or pursue in any court any similar legal or equitable remedy which has the effect of stopping or diverting the payment of wages or salary due to an employee, and would provide criminal penalties for violation. The Board recommends against the enactment of any garnishment provision until the inter-agency study of garnishment is completed and recommendations are developed.

The Bureau of the Budget has advised that there is no objection to the submission of this report, and that enactment of legislation to provide full disclosure of credit charges is in accord with the program of the President.

With kindest regards, I am

Sincerely,

JOHN E. HORNE,
Chairman.