OTHER LOOPHOLES

The Sullivan bill seeks to close other loopholes in the Senate bill as well, for revolving credit exemption is not its only weak spot. Some others are worth noting here.

First mortgages on houses are exempt from disclosure regulations. It is true that mortgage interest is already stated as a true annual rate. But certain fees are usually left out of the rate picture—such as mortgage placement and appraisal fees, credit report fees and points, or discounts, paid by the purchaser. According to recent figures from the Federal Home Loan Bank Board, just the placement fees and points on conventional new-home mortgages are now averaging almost 1% of the amount of the loan. In effect, the interest rate is higher than you think. It should be fully disclosed.

Premiums for credit life insurance would not be considered as finance charges or included in the annual interest rate. Yet many lenders and credit merchants require you to buy insurance for *their* protection. Unless the option to buy is the borrower's, credit life insurance premiums should be counted as part of the interest rate.

Insurance commissions earned by used car dealers when they sell an accident policy as part of the credit package on a car sale would not be counted in the interest rate. Some dealers have close ties with insurance agencies and pad the price of car financing with overpriced premiums. If accident insurance is part of a car deal, the dealer's take should be included in the interest rate.

There is no regulation of credit advertising. Familiar and phony slogans like "low bank rates" and "no money down—easy monthly payments" would continue to gull the unwary. Massachusetts law requires credit merchants to post the true annual rate in any advertisement making reference to credit terms. Federal law should follow suit.

If the finance charge is $10 or less, the lender doesn't have to disclose his annual interest rate. Example: A vacuum cleaner salesman knocks on the door with an offer of an $80 machine for $10 down and 12 monthly payments of $6.65. The payments total $89.80. The finance charge is $9.80 for $70 of one-year installment credit. The well-concealed true annual interest is 25%. Truth-in-Lending should apply to small deals as well as big ones.

The Senate bill would not go into effect until July 1, 1969. There is no reason, according to testimony at the Senate hearings, why the effective date could not be set for one year after enactment.

Credit sellers could fudge their rate disclosure by stating it as dollars per hundred rather than as a percentage until January 1, 1972.

Confidence in the consumer will be rewarded best if he is given a good yardstick, if *all* credit sellers must adhere to its standard of measurement, and if the standard is invoked as soon as possible. This requires a Federal Truth-in-Lending Bill without holes.

A Dizzying Look at Revolving Credit

Service charges on revolving credit accounts vary widely from store to store and from bank to bank, even though the stated interest rate is usually the same. The explanation for this apparent contradiction is fairly simple. The service charge is the product of the balance due times the monthly interest rate. But different department stores, mail-order houses and credit-card banks have different methods of determining the part of your monthly balance against which a service charge is assessed.

A recent survey conducted by Richard L. D. Morse, professor of family economics at Kansas State University, makes two things quite clear. First, it is next to impossible to tell which revolving credit account offers the best deal. "Methods of figuring service charges were too complex not only for the local management to understand and relay to customers who wanted to know how it would work in practice, but for national [store chain] offices to interpret in terms of an annual percentage rate of service charge," Professor Morse wrote.

Second, store-to-store differences in credit costs can be quite significant. The Morse survey isolated six billing methods, each arriving at a different total of service charges for a given series of hypothetical transactions. The customer