

ment. The annual rate of interest should be stated, so that the buyer can compare. He may discover, to his surprise, that he would be better off getting a bank loan, or that he would be better off buying in a different store. And the buyer should understand when a store will start charging the interest and how the principal amount owed is determined. H.R. 11601 would accomplish these ends. That is a wise aspect of your bill.

Second, your bill extends the requirement of full disclosure to the advertising of credit. This is right, in my judgment. Too many consumers have already made up their mind to buy when they walk into the store in response to an especially captivating advertisement. The ads should state the full truth about financing if they are going to go into it at all.

Third, the bill includes credit charges of under \$10. To people who earn \$10,000 and \$15,000 a year, this point seems less significant, but to a person of modest income the loss of even five dollars to an overcharging seller of credit may mean the loss of a pair of shoes for one of his children. The person who pays a dollar a month for six months while he pays for a \$50 chair is paying 48 percent interest, and he deserves to know that.

Fourth, H.R. 11601 extends the disclosure requirement to mortgages. This is important because of the number of ways in which additional finance charges are added through such devices as discounts and points. The potential mortgagee should know what the effective interest rate is. Your bill would insure that he does.

Fifth, the bill prohibits cognovit notes—that is, agreement by the borrower at the beginning that judgment can be entered against him without full legal process if he defaults on the debt. This provision will end a practice which is an open invitation to overreaching and abuse.

Sixth, H.R. 11601 creates a ceiling of 18 percent on interest charges. This is the one provision about which I have reservations. I believe that an 18 percent ceiling would be constructive if we could be certain that it would only be a ceiling. What worries me is that it will become a floor as well—that lenders will automatically begin charging 18 percent unless state law keeps them from doing so. I urge the committee to weigh carefully whether the need for a ceiling when the bill already requires full disclosure, outweighs the danger that the ceiling will also be the floor.

Finally, and most important, in my judgment, the bill takes a significant new step that will protect thousands of families from harassment and even loss of employment. I refer to the prohibition against the garnishment of wages. Garnishment is really the modern equivalent of imprisonment for debt. Particularly for the low-wage worker, it can spell disaster. He may get to work one day and find most of his pay being taken to satisfy a debt or, worse yet, he may find an employer who doesn't care for the clerical burden involved and therefore simply fires him.

This is not an isolated problem. At one steel plant in Chicago, 2,000 deductions are made every payday to satisfy debts. The company says it pays out \$500,000 a year to its employees' creditors.

And garnishment leads to bankruptcy. As our American postwar credit buying spree has snowballed, so have personal bankruptcies—from 8500 to 176,000 in 20 years. It seems more than coincidence that the three States (Florida, Pennsylvania, Texas) with prohibitions of garnishment number in the lowest six States in rate of bankruptcy; or that bankruptcies declined by 9% in Illinois after the garnishment exemption was liberalized; or that Iowa experienced a 360% rise in bankruptcies after going from a 100% wage exemption to a \$35 a week exemption. In a recent study in Michigan, 75% of bankrupts indicated garnishment was a factor in filing bankruptcy. And you have heard the personal testimony of bankruptcy referees and other experts that the incidence of personal bankruptcy is very much affected by the type of garnishment law which a State has.

Bankruptcies ruin people's lives. They cause permanent psychological damage to family relationships. They cause those creditors who did not hound the debtor to lose everything. They are not very satisfactory for anyone. Ending garnishments would not only protect thousands of individuals, but would protect most creditors as well. The fact is that garnishment is a legal tool often used by the same sellers who sell at unconscionable interest rates in the first place. One study in Milwaukee showed that a third of the over 6700 garnishments in one year were by three establishments. Two stores in Akron, Ohio accounted for twenty percent of the garnishments there.