

Mr. STEIGER. You are telling me that under the Truth-In-Lending bill, and regardless of this legislation, you will have to inform that borrower that he is, indeed, paying 15.4 percent?

Mr. GUNTHER. That is effective July 1 of next year we will be required to do that. That is the reason we are coming to you, to clarify something that was left unanswered in the 1901 Code, whether interest can be taken in advance and still not be guilty of usury.

Mr. HARSHA. Will you yield?

Mr. STEIGER. In a moment, I would like to explore a further question. Then what you are saying is that you want us to legalize the 15.4 percent as not being usury, and we are being placed in this position because of the Truth-In-Lending requirement that the borrower be advised that he is, really, paying 15.4 percent?

Mr. GUNTHER. In effect, that is it, correct.

Mr. STEIGER. It occurs to me that, perhaps, we should re-examine this in fairness to both you and the consumer—that we should re-examine the usury law and say that the honorable thing to do is to make it 15.4 percent in the D.C. Code and not eight percent, because that is, indeed, what you are charging. You, by another process, are saying that while we are staying within the eight percent usury law, yet we are charging you 15.4 percent. You are driven to this because of the limits of the usury law. It would seem to me that it would be the responsible and honorable way to do this by saying, “No, Mr. Consumer, there is no eight percent usury law in the District of Columbia. It is 15.4 percent.”

Mr. GUNTHER. If this bill were adopted the interest on the installment loans, other than the real estate loans, may be deducted in advance without violating any of the other provisions of this section—if that were done and that effectively establishes what you are saying.

Mr. STEIGER. I appreciate that, Mr. Gunther. It does put legal sanction on it. What I say to you is that it does it in such a way as to circumvent the usury law. I would like to yield to Mr. Harsha now.

Mr. HARSHA. To carry on this point a step further, you say that you must report to the borrower that he is being charged 15.4 percent interest. Why?

Mr. GUNTHER. Because the Truth-In-Lending law requires that we state in writing to the borrower the simple interest equivalent of the interest that he is paying.

Mr. HARSHA. In other words, you must tell him that he is being charged 15.4 percent interest, because that is what, in effect, you actually are charging him?

Mr. GUNTHER. That is correct.

Mr. HARSHA. And not the eight percent?

Mr. GUNTHER. Yes, sir.

Mr. HARSHA. So that the legislation would provide that as the gentleman is talking about it, of providing or of trying to give the impression to the borrower that he is only being charged eight percent, when you know and I know that he is being charged 15.4 percent?

Mr. GUNTHER. I would like to point out that this would be precisely under the Code of Virginia and the code of a great many other States, which simply provide that interest be taken in advance on installment loans. Competition sets the interest rates. Banks, really, do not set them. In other words, if he can borrow money more reasonably from somebody else, he will not borrow from us.